

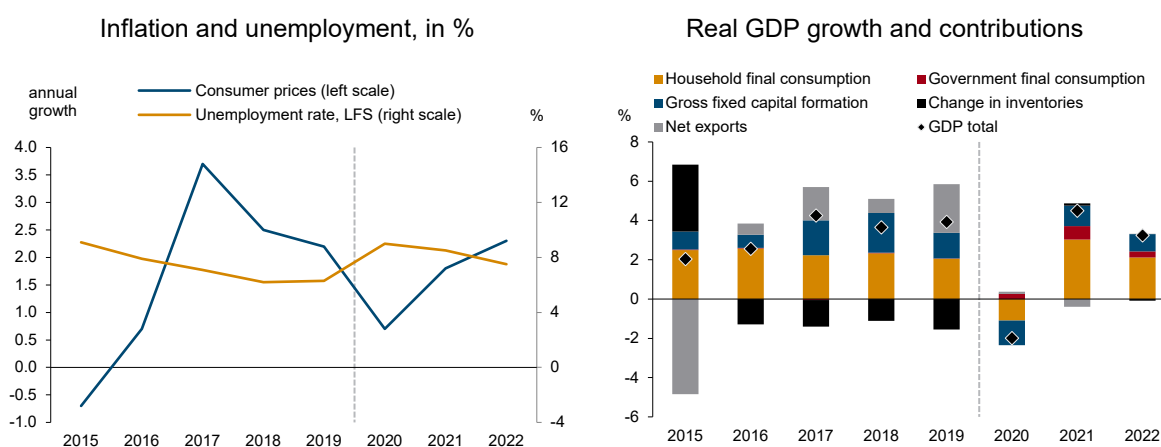


## LITHUANIA: Rather a dip than an economic crisis

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The Lithuanian economy experienced only a short-lived and contained recession in the second quarter of 2020, with GDP declining by 4.2% year on year. Within the European Union, only Ireland was hit less hard. A better-than-expected export performance and swiftly rebounding household consumption in the months thereafter is likely to result in a decline in the Lithuanian economy of only 2% over 2020. The government undertook substantial fiscal stimulus measures, and the public investments announced will support recovery over the next two years. For 2021, we expect real GDP to grow by 4.5%, followed by a somewhat slower upswing of 3.2% in 2022.

Figure 4.12 / Lithuania: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**Goods exports slumped in the second quarter, although matters improved in the following months.** In particular, there was a substantial decline in demand for refined petroleum products, the Lithuanian economy's most important category of export goods. At the same time, trade increased in many other commodities, such as food, chemicals and furniture. Similarly, total industrial production rebounded strongly in June and July. Goods imports, however, declined by substantially more than exports in the first half of 2020, since companies are cautious and ran down their stocks of imported inputs. Trade in services also declined strongly in the second quarter of 2020. However, the fairly low share of tourism meant that the Lithuanian economy was hit less hard than its Baltic neighbours. In the most recent months, trade in services has thus recovered to a similar level as in the corresponding months of 2019. As a result, the current account surplus will likely jump to an unprecedented 7% of GDP for the year 2020, and the contribution of net exports to GDP growth will be positive.

**The political tensions in neighbouring Belarus prompted the Lithuanian government to support the opposition, offer asylum to dissidents and impose sanctions on 118 Belarusian officials, including Alexander Lukashenko, whom Lithuania does not regard as the legitimate president.**

The economic ties between Lithuania and Belarus are smaller than one might expect: about 4% of exports from Lithuania go to that neighbouring country, but only about 10% of those goods are of Lithuanian origin. In the event of a disruption in trade between the two countries, as far as Lithuania is concerned, the biggest effect would be felt in the port of Klaipeda and in the country's transit trade services generally. However, the impact would be more severe for the Belarus economy, since transit costs would rise substantially. Moreover, in recent years more and more Belarusian citizens have become labour migrants in Lithuania: the number of work permits granted has more than tripled over the past five years.

**The Lithuanian government imposed quite a strict lockdown from March to May 2020: non-essential shops, schools, cultural and recreational establishments were closed and public events cancelled.** The rate of infection thereafter was quite low. Since mid-September, recorded cases of COVID-19 have increased substantially, and the containment measures have been tightened; in October, the Raseiniai district in central Lithuania was placed in quarantine.

**With the public support initiatives taken and the additional measures planned, the budget deficit is expected to amount to 8.5% this year and 5% in 2021.** As early as mid-March, the government announced a fiscal package worth 5% of GDP, which contained wage subsidies for affected firms, additional public investment, loan guarantees and support for the health sector and agriculture. A couple of further measures were implemented later. A business support fund started operating in October to provide liquidity to medium and large enterprises. Sectoral support has been provided for travel and accommodation services. Another 2% of GDP has been earmarked for wage subsidies and support for persons returning from unemployment, along with increased social benefits and additional funds for the self-employed and for vocational training. In June, an investment plan was approved with 4.5% of new public expenditure in human capital, the digital economy, infrastructure, climate change, innovation and research; moreover, public investment of about 10% of GDP is to be front-loaded and implemented by the end of 2021.

**We expect overall employment to decrease only slightly in 2020 and to recover in the next two years.** Jobs were lost in the first half of 2020 year on year, particularly in accommodation, food services, real estate and agriculture (though only to a small extent in manufacturing and construction). The unemployment rate increased somewhat and is likely to amount to 9% in 2020 on average. Over the next two years, we expect this rate to fall again slightly – to 8.5% in 2021 and 7.5% in 2022.

**A 9.4% rise in the minimum wage (to EUR 607 a month) from January 2020 has resulted in gross salaries keeping on growing, by 6% in real terms this year.** Labour taxation has been reduced, and next year the non-taxable income threshold will be raised further to EUR 500. Another rise in the minimum wage of 5.8% for 2021 has recently been under discussion in the tripartite council of government, trade unions and employers' organisations. In addition, parliament is debating a proposal to increase the purchasing power of pensioners by introducing a 13th monthly pension payment from next year. We expect household consumption to decline only slightly in 2020 and to become a substantial driver of growth again in 2021. The generosity of the government is related to the parliamentary elections, which took place in October. The main opposition party, the conservative Homeland, won

additional support and is likely to head a new coalition government, together with one or two smaller liberal parties.

**Although import and producer prices collapsed, consumer prices will still increase by 0.7% in 2020.** We expect a further slight increase to 1.8% in 2021 and 2.3% in 2022. While the price of fossil fuels has declined, core inflation has remained positive due to rapidly increasing wages. Moreover, excise duties have been raised.

**Since our interim forecast in May, we have become much more optimistic and have increased our forecast for real GDP growth from -6.5% to -2% in 2020.** In terms of both external and domestic demand, the contraction in the second quarter was more moderate than expected, and growth picked up much faster than anticipated. At the same time, however, imports slumped considerably. Thus, we expect exports to decrease only slightly compared to last year. Public investment in particular will pick up strongly – not only in 2020, but also in coming years. Sentiment indicators show improved confidence levels among both businesses and consumers. Strongly rising household incomes – pushed upwards by increases in the minimum wage and by tax cuts – will help private consumption to grow steadily again. Thus, we expect GDP growth to bounce back strongly to 4.5% in 2021, and to continue in 2022 at the somewhat slower pace of 3.2%.

Table 4.12 / Lithuania: Selected economic indicators

	2017	2018	2019 <sup>1)</sup>	2020 1Q	2020 2Q	2020 1-2Q	2020 Forecast	2021 Forecast	2022
Population, th pers., average	2,828	2,802	2,794	2,794	2,794	2,794	2,760	2,740	2,730
Gross domestic product, EUR mn, nom.	42,276	45,491	48,797	11,218	11,572	22,790	48,200	51,300	54,200
annual change in % (real)	4.3	3.9	4.3	2.4	-4.6	-1.2	-2.0	4.5	3.2
GDP/capita (EUR at PPP)	23,120	24,500	25,720	.	.	.	.	.	.
Consumption of households, EUR mn, nom.	26,198	27,903	29,445	6,939	6,804	13,743	.	.	.
annual change in % (real)	3.6	3.8	3.3	1.6	-9.3	-4.1	-1.8	5.0	3.5
Gross fixed capital form., EUR mn, nom.	8,504	9,531	10,429	2,203	2,418	4,620	.	.	.
annual change in % (real)	8.9	10.0	6.2	3.0	-10.6	-4.6	-6.0	5.0	4.2
Gross industrial production (sales)									
annual change in % (real)	7.0	4.8	3.4	-1.1	-1.2	-4.3	-3.0	4.5	3.7
Gross agricultural production									
annual change in % (real)	2.6	-10.0	11.2	.	.	.	.	.	.
Construction industry									
annual change in % (real)	8.9	13.8	8.4	10.0	-7.3	-0.7	.	.	.
Employed persons, LFS, th, average	1,355	1,375	1,378	1,386	1,352	1,369	1,370	1,375	1,378
annual change in %	-0.5	1.5	0.3	0.9	-2.2	-0.7	-0.6	0.4	0.2
Unemployed persons, LFS, th, average	103	90	92	106	126	116.1	135	128	112
Unemployment rate, LFS, in %, average	7.1	6.2	6.3	7.2	8.6	7.9	9.0	8.5	7.5
Reg. unemployment rate, in %, eop <sup>2)</sup>	8.7	8.9	8.7	9.8	12.1	12.1	.	.	.
Average monthly gross wages, EUR <sup>3)</sup>	840.4	924.1	1,296.2	1,370.2	1,387.6	1,378.9	1,380	1,460	1,550
annual change in % (real, gross)	4.7	7.1	6.0	3.2	2.2	7.3	6.0	4.0	3.5
Average monthly net wages, EUR <sup>3)</sup>	660.2	720.0	822.0	873.1	883.0	878.1	880	930	980
annual change in % (real, net)	5.7	6.2	11.6	6.9	7.5	7.5	6.0	3.5	3.5
Consumer prices (HICP), % p.a.	3.7	2.5	2.2	1.7	0.9	1.5	0.7	1.8	2.3
Producer prices in industry, % p.a.	5.1	5.6	0.0	-9.0	-11.5	-8.8	-8.0	1.0	1.0
General govern.budget, EU-def., % of GDP									
Revenues	33.6	34.5	34.9	.	.	.	35.5	34.8	34.8
Expenditures	33.2	33.9	34.6	.	.	.	44.0	39.8	34.5
Net lending (+) / net borrowing (-)	0.5	0.6	0.3	.	.	.	-8.5	-5.0	-3.0
General gov.gross debt, EU def., % of GDP	39.1	33.7	35.9	.	.	.	46.0	50.0	50.0
Stock of loans of non-fin.private sector, % p.a.	4.5	6.0	3.3	3.4	-0.6	-0.6	.	.	.
Non-performing loans (NPL), in %, eop	3.1	2.4	1.6	.	.	.	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	0.00	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	231	137	1,632	905	758	1,663	3,400	2,100	2,400
Current account, % of GDP	0.5	0.3	3.3	8	6.5	7.3	7.1	4.1	4.4
Exports of goods, BOP, EUR mn	22,763	24,552	25,954	6,276	5,400	11,676	24,750	26,000	27,500
annual change in %	16.9	7.9	5.7	1.4	-15.7	-7.3	-4.6	5.1	5.8
Imports of goods, BOP, EUR mn	24,815	27,333	28,303	6,566	5,469	12,035	25,500	28,100	30,200
annual change in %	16.2	10.1	3.6	-2.6	-24.6	-14.0	-9.9	10.2	7.5
Exports of services, BOP, EUR mn	8,350	9,678	11,841	2,800	2,408	5,208	11,400	11,800	13,600
annual change in %	22.5	15.9	22.3	10.6	-20.6	-6.4	-3.7	3.5	15.3
Imports of services, BOP, EUR mn	5,319	6,055	6,949	1,588	1,241	2,828	6,500	6,900	7,900
annual change in %	14.6	13.9	14.8	4.4	-29.5	-13.8	-6.5	6.2	14.5
FDI liabilities, EUR mn	1,192	1,096	1,402	426	-209	217	500	.	.
FDI assets, EUR mn	359	866	486	313	-162	151	700	.	.
Gross reserves of NB excl. gold, EUR mn	3,509	4,831	4,273	4,474	3,934	3,934	.	.	.
Gross external debt, EUR mn	34,940	35,542	33,047	31,171	34,240	34,240	32,800	33,300	33,600
Gross external debt, % of GDP	82.6	78.1	67.7	64.7	71.0	71.0	68.0	65.0	62.0

1) Preliminary. - 2) In % of working age population. - 3) Including earnings of sole proprietors. From 2019 income tax reform and transfer of the employer's social security contribution (28.9%) to employees; real growth in 2019 estimated by wiiw. - 4) Official refinancing operation rate for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.