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Baltic States:
squashed hopes in the realm of depression

Latvia: a sovereign meltdown scenario

Latvia is hit by an extraordinary economic depression which put pressure on the Latvian government in May and June to abandon the euro peg of the lats and to devalue. In the first quarter of 2009 GDP fell by 18% year-on-year, and the rate of unemployment jumped to 18.3% in April compared to 6.3% in the same period a year earlier. Short-term indicators of economic activity show that the deterioration of internal and external demand has even aggravated in the second quarter of 2009. The additional austerity measures approved by the Latvian government, which were demanded by the IMF and the EU in order to deliver the second tranche of the rescue package, may allow to keep the euro peg, but will lead to deflationary developments, a prolongation of the economic crisis and severe social consequences for the Latvian population.

The effects of the worldwide financial and economic crisis were aggravated in Latvia due to two particularities: The first one is the Baltic bust following the boom period, which was characterized by an enormous inflow of credits from predominantly Nordic banks. This triggered an enormous increase of private consumption and of investment in the real estate sector. Now that housing and credit bubbles have burst due to the credit crunch, the downturn is sharper than in other countries in the Central and East European region. Given the fact that the inflow of capital together with the fixed exchange rate regime led to a sharp rise of inflation in the boom period, the subsequent rise in the real exchange rate has resulted in ballooning current account deficits and a loss of external competitiveness.

The second distinctive reason for the Latvian slump is the liquidity crisis of Parex Bank, the second largest institute of the country, which had to face substantial withdrawals of non-resident deposits in the second half of 2008. In order to prevent bankruptcy, Parex Bank was nationalized. This resulted in a deterioration of the refinancing situation of the Latvian government and a sharp rise of the RIGIBOR indicating the increased probability of the Latvian currency to be devalued alongside the fall of foreign currency reserves of the Bank of Latvia.

In December 2008 the IMF, the EU Commission and Nordic countries approved a rescue package for Latvia, worth EUR 7.5 billion, equalling one third of Latvia's GDP in 2008. The credit is to be delivered in several tranches, from end-2008 until mid-2011. About half of the money is envisaged for covering the budget deficits, another third for financing the government debt and the rest for further bank recapitalization and loans to enterprises. In return, the Latvian government committed itself to curb government expenditures and reduce the fiscal deficit to 5% of GDP. In order to limit the expected fall of government revenues, the standard VAT rate was increased from 18% to 21% on 1 January 2009 alongside an increase of excise taxes. The announcement of spending cuts, however, led to riots in the streets of Riga in January and in the following to the demise of the government. The new five-party coalition government led by Valdis Dombrovskis, taking power in March 2009, imposed pubic wage cuts of 15%. On 16 April the EBRD signed an agreement with the government of Latvia to take over 25% plus one share of the total share capital of Parex Bank thereby alleviating the public recapitalization burden. The EBRD furthermore announced that it plans to acquire a minority share of about 10% in two other Latvian banks, but details have not been published up to now.

The looming of an immediate currency crisis

However, by the end of April it was obvious that the fall in government revenues was more dramatic than expected; in particular, the income from VAT declined by about 30% in the first quarter, year-on-year. The Minister of Finance announced that the GDP deficit is expected to amount to at least 9% of GDP in 2009, even when taking into account the planned additional, drastic expenditure cuts. The reaction of EU Economic and Monetary Affairs Commissioner Almunia and the IMF was to refuse the release of the second tranche of the rescue package, worth about EUR 1.7 billion (when adding the contributions of the Nordic neighbours), which was envisaged for end of May. Hence, during the first two weeks of June, the rumours of a looming currency crisis amplified. Suddenly managers of Swedish parent banks, Latvian politicians and e.g. Bengt Dennis, a former governor of Sweden’s Riksbank and economic advisor of the Latvian government, began to question the euro peg, which had become a dogma not only in Latvia but also in its Baltic neighbours in the years of high growth rates. By the end of May forex reserves of the Bank of Latvia had dropped by almost 40% year-on-year and were dwindling day by day. In the first week of June the sovereign default of Latvia was looming, when the authorities failed to sell any Treasury bills in a public debt auction. In the following week the development of the overnight Rigibor, escalating to more than 20%, showed that interbank lending was drying up and in forward markets the Latvian lats was traded for 50% of its nominal value.

Nevertheless, Prime Minister Valdis Dombrovskis and the Governor of the Bank of Latvia Ilmars Rimsevics have been reiterating on a daily basis that the currency peg will be maintained until the introduction of the euro, now envisaged for 2013. The government opted for further austerity amendments to the budget for 2009, fixing a cut of government expenditures by 40% in 2009 as compared to 2008, in nominal terms. Public wage bills will be reduced by another 20% nominally (i.e. in total by 35% year-on-year, taking into account the cuts already approved in March), pensions by 10% for non-working pensioners, for those working by 70%. Expenses for health and education are cut severely, two-thirds of the nation's 73 inpatient hospitals and dozens of schools are announced to be closed. The non-taxable minimum for the personal income tax is reduced by 60% and child benefits by 10%, to name just a few of the harsh measures, which even Dominique Strauss-Kahn identified as disputable due to their impact on the country's poor. The amendments will be implemented from 1 July 2009 onwards, and in addition the government announced the plan of additional cuts in public expenditures by about 15% for 2010. Nevertheless the government deficit is expected to soar to 10% in 2009, since the procyclical fiscal policies will further dampen internal demand and thus tax revenues.

Devaluation or deflation?

The question arises why the Latvian government prefers to push through those drastic austerity measures, which have already passed the parliament on 16 June, in order to keep the euro peg – a decision that is bound to hamper a revival of growth. To opt for devaluation of the obviously overvalued currency would have been more straightforward. One argument cited time and again by Latvian representatives is that the economy is highly 'eurorized', about 70% of deposits and 90% of loans are denominated in foreign currencies and the foreign debt burden, being mostly private, reaches close to 150% of GDP. A devaluation of, e.g., 30% would result in external debt rising to about 250% of GDP and in the default of many private borrowers. Therefore not only the Latvian government, but especially Swedish bank representatives as well as the Swedish National Bank have always been eager to argue that maintaining the euro peg would be the best option for Latvia, also in order to guarantee further inflows of capital through the banking system.

However, given the depth of the depression in Latvia, it is likely that the outcome of the 'peg and deflate' scenario will be the same or even worse compared to the devaluation scenario. If GDP falls by 30%, with nominally lower incomes of employees and unemployment rates surpassing 20%, which can reasonably be expected, then the debt burden will exceed 200% of GDP respectively, i.e. Latvian creditors are in the same position as if a devaluation had been executed. The development of the share of overdue (and non-performing) loans, which has already soared to 13% by the end of March 2009, underlines the argument. Yet, an important difference between the devaluation and the 'peg and deflate' scenarios is that, in the case of the latter, the hardships will last longer and will be higher for the unemployed and the poorer part of the population. However, since the higher income group of the society has a higher debt to income burden than the households with lower income, but is hit to a lower extent by unemployment if the euro peg is kept, the devaluation scenario is less attractive for those with higher incomes, for whom the articulation of their interests is obviously easier.

Moreover, the envisaged exit option of euro adoption in 2013 is still far away and it is highly questionable if and how the aim of reducing the budget deficit to 3% as well as keeping the public debt level below 60% of GDP, as laid down in the Maastricht treaty, can be achieved by 2012. Apart from probabilistic arguing, the path chosen by the public authorities means that Latvia will face another three years of austerity packages to adjust government expenses to nominally shrinking public revenues. It may well be, therefore, that public pressure leads to a devaluation in late 2010, since the parliamentary elections in October next year could end in a landslide of the political sphere. The same may already happen in autumn 2009, when Latvia will have to ask the IMF and EU for the next instalment of the rescue package. Considering not only the high external debt burden, but also the short-term foreign debt as a share of foreign reserves exceeding 200%, the roll-over of debt will be a task permanently difficult to fulfil.

The main reason for the EU to support Latvia in sticking to the questionable dogma of the currency peg seems to be the Commission's fear of contagion and an Asian-style financial crisis. A devaluation of the lats would without much doubt force Estonia and Lithuania to follow suit. The Swedish banks, which are highly exposed in all three Baltic countries, would suffer most from the defaults; however, according to a stress test recently performed by the Swedish financial supervisory authority, banks should be able to cope even with a loss of a third of Baltic credits (in addition to further defaults of credits in the region). In order to provide for the looming dangers, the Swedish National Bank propped up its currency reserves by 50% at the beginning of June, funded by a EUR 3 billion credit by the ECB, and the Swedish government announced that, if necessary, it would even be prepared to nationalize banks to prevent them from bankruptcy. Apart from the Baltics and a possible contagion of Sweden, Bulgaria, which operates a currency board regime like Estonia and Lithuania, could be under considerable strain in the case of the Baltics devaluing; the same holds for Hungary and Romania, both on an EU/IMF rescue package lifeline – a hair-raising scenario for bankers engaged in Eastern Europe. It is likely therefore that the EU may even supplement the Latvian rescue package, which is relatively small in total, should the danger of a currency crisis or sovereign default prevail or loom in the following years.

However, the fact that the private debt burden of Latvia is too high to be serviced by borrowers is obvious. A restructuring and writing-off of a substantial part has to be arranged, irrespective of how and if the currency peg can be sustained or not. Keeping the lats pegged to the euro only defers the problem until better times that will not come. In the end a feasible solution in this respect, which would be of utmost importance for the future development of Latvia's economy, is not only an economic but also a political question. Sweden and the Baltic countries must, with the help of the EU, come to an agreement concerning which one of the acting parties is able and due to bear which part of the expenses of reckless lending by Swedish banks and imprudent borrowing by Baltic households based on implausible expectations of future income growth in the phase of the Baltic boom. Waiting until households, enterprises and in the end banks or even states default on non-performing loans is to turn a blind eye to an obvious problem. If steps in that direction had been taken already at the end of 2008 in the course of the negotiations on the IMF/EU rescue package, this report would have a much rosier outlook.

Economic development in the near to medium-term future

The forecast scenario chosen is that Latvia will, most likely with the need of additional aid from the international community, maintain the euro peg and push through the austerity packages necessary to remain solvent. However, as described above, the level of probability that this plan will fail remains high throughout the next couple of years. The defence of the peg together with the slump of the economy has already brought forth a fall of all monetary aggregates; in particular, M1 fell by more than 16% year-on-year in the first quarter of 2009, after a reduction of nearly 10% already in 2008. The simultaneous fall of monetary supply and demand will lead to a deflationary period starting in the second half of this year and lasting for at least two years.

The choke-off of demand by the government is accompanied by a slump in investment and private consumption, which is due to the current credit crunch, the reduction of household incomes and the lack of any light at the end of the tunnel for entrepreneurs and households. Taken together this will lead to a GDP contraction of not less than 20% in 2009 – although considering the circumstances described above, this still has to be seen as the 'optimistic' scenario. Also in 2010 and 2011 Latvia will face substantial recession, since the refinancing situation of private agents and the state are not going to ameliorate particularly under deflationary conditions and further public expenditure cuts.

Since external demand is in general very sluggish these days, it is questionable how 'internal devaluation' can help a lot in triggering export growth. Moreover, as some of Latvia's main trading partners (such as Sweden, Poland, Russia, Ukraine and other CEE countries) have devalued and export prices of Latvian goods still have grown until recently, Latvia's real effective exchange rate has appreciated until April 2009. Therefore only a revival of growth in the EU countries, which could effect also a revaluation of the currencies of CEE countries, may provide for a gain in Latvia's external competitiveness. However, with or without devaluation, a modification of the Baltic growth model from import-oriented (capital-inflow-induced) to a more export-oriented one will, if possible, bring along years of slow growth. In the course of transition Latvia has become an almost de-industrialized country, with manufacturing accounting for less than 10% of GDP in 2008 and an export structure that is oriented towards labour- and resource-intensive goods (e.g. wood products). Due to the lax inflow of FDI into industrial sectors already in former times and apparent difficulties of entrepreneurs to finance investments, an accelerated restructuring of the economy towards the tradable goods sector is unlikely. The prospects of the services export sectors, which have performed quite well in the past several years, will not only depend on the economic development of the neighbouring Baltic countries and the Baltic Sea region in general, but to a substantial extent also on the quality of the relationship with Latvia's Eastern neighbour Russia, a delicate matter during the whole transition period.

As mentioned above, unemployment has already tripled year-on-year; therefore, we expect an overall annual LFS rate of 18% in 2009, and a further rise in 2010. In view of the fact that youth LFS unemployment rates have already surpassed 30%, an increase in migration is most likely in the years to come. This development is highly unfavourable to Latvia's further growth prospects in the medium- to longer-term future.

Estonia and Lithuania: Baltic Tigers in agony

The current economic situation of Estonia and Lithuania is only marginally less depressing when compared to neighbouring Latvia. The plummeting of investment and household consumption resulted in a severe contraction of GDP in the first quarter of 2009 (-15.1% in Estonia and -13.6% in Lithuania). For the following quarters of 2009 even an aggravation of the downturn is expected. Nevertheless, there are two significant differences when comparing those countries' situation with the turmoil in Latvia. The former two Baltic States did not have to rescue one of the major banks in the region from going bankrupt and, in the case of Estonia, the fiscal policies conducted in the boom period were more prudent. As a consequence, for the Estonian and Lithuanian governments the refinancing situation is more favourable than that of Latvia. In addition, the pressure on the Estonian kroon and the Lithuanian litas, both pegged to the euro in the arrangement of a currency board, was much less pronounced in previous months, despite the discussion on contagion due to a possible devaluation of the lats.

However, the fall in government revenues caused by the depression forced also the Estonian and Lithuanian authorities to agree on further cuts in public expenditure, in addition to the ones already implemented at the beginning of the year. In the case of Lithuania, the parliament already adopted budget revisions in May, cutting expenditure by 3% of GDP. On 17 June the government approved a further reduction of the budget of about 1% of GDP for 2009, comprising a cut in public wages by 10% as well as parental benefits by 50%. Moreover, it announced an increase in the VAT rate from 19% to 21% from 1 July 2009 onwards. Those new budget amendments are driven by the wish of the Lithuanian authorities to keep the budget deficit below 6% in 2009, in order to reach their goal of entering the eurozone in 2012. Besides, the government wants to avoid having to approach the IMF and EU for a rescue package. As for Estonia, the government ran budget surpluses in the years of the Baltic boom and built up a reserve fund of about 10% of GDP, which would allow them to balance some of the falling revenues in 2009 as well as next year. Nevertheless, the austerity package of the Estonian authorities to be implemented on 1 July is also quite severe, with cuts of 2.5% of GDP or 5% of public expenditures, including a further cut in state salaries, an increase in the VAT rate from 18% to 20% and a reduction of payments into the pension system. The reason for this second package of 2009 (at the beginning of the year expenditure plans have already been reduced by 10%) is that Estonia is eager to keep the deficit below 3% of GDP to allow for adopting the euro as early as 2011. Obviously, the procyclical reduction of public demand will both in Estonia and Lithuania amplify the slump of GDP not only in 2009 but also in the following two years, when deflation will further enforce the fall of government revenues in nominal terms. However, particularly in Estonia future budget cuts – which may be necessary if the goal of euro adoption is to be reached – will be more difficult to implement. After falling out with the former Social Democratic coalition partner, who opposed the proposed austerity package and the planned liberalization of employment laws, Prime Minister Andrus Ansip leads a conservative minority government.

In both Estonia and Lithuania GDP is expected to decline by at least 16% in 2009. In both countries this reduction is driven by all components of internal demand. Due to imports falling more substantially than external demand, the current accounts are even in surplus this year and future deficits will remain much lower than seen in previous years, owing to low growth of GDP and therefore also of imports. Moreover, the inflow of capital, financing the trade deficits in former years, has ceased and doubts arise how the foreign debt burdens built up in times of high growth can be serviced in the near to mid-term future. In Estonia foreign debt (mostly private) amounted to more than 130% of GDP at the end of March 2009, in Lithuania with a ratio of 70% of GDP the situation is less severe. However, with GDP declining this and the next year by 20-30% in the Baltic States, the roll-over of the debt burden may well exceed the means of Estonia and Lithuania, as seen in the case of Latvia.

After the inflation rate spiked at more than 10% in 2008, Estonia and Lithuania are now heading for deflation, which is also driven by the dramatic wage cuts imposed by the government. Although salaries in the private sector will fall less substantial, deflation will reach 5%. In Lithuania the period of falling prices is expected to end already at the beginning of 2010, after the shutdown of the Ignalina nuclear power plant as agreed upon in the country's EU accession treaty. From thereon a substantial part of Lithuania's electricity consumption will have to be covered by imports, which will lead to an increase in the current account deficit.

The budget cuts and especially the increase in indirect taxation are due to curb household consumption even more than seen up to now, not only in the second half of 2009 but also in 2010 and the following year. Public consumption will be curbed by further austerity measures and investment will remain sluggish in a phase of deflationary depression. Therefore we expect an upswing of economic activity to take place in Estonia and Lithuania not earlier than 2012. However, growth prospects will to a large extent depend on the development of external demand from West European countries and Scandinavia. In the case of Lithuania, also Russia and other CIS countries are important trading partners whose economic performance will influence the southernmost Baltic state.

In both Estonia and Lithuania the unemployment rate doubled year-on-year to almost 12% in the first quarter of 2009 and is expected to increase substantially in the rest of the year and in 2010. At the end of this year, when unemployment benefits are due to phase out for those having lost their jobs recently, the governments will have to face not only looming fiscal problems, but also an upswing of resistance against their 'peg and deflate to adopt the euro' plan, which will require further austerity packages and raise (especially youth-) unemployment even further. Without good chances to find a job abroad nowadays, due to sluggish labour demand in all EU member states, social unrest will intensify as the crisis will throw the Baltic economies several years back. Therefore it may well be that the end game of the currency boards and hard pegs of the Baltic currencies is decided not only on the financial markets but on the streets of first and foremost Riga, but also Tallinn and Vilnius.

Table LV

Latvia: Selected Economic Indicators

	2005	2006	2007	2008 [1]	2008	2009	2009	2010	2011
					1st quarter		Forecast		
Population, th pers., average	2300.5	2287.9	2276.1	2266.0	2269.1	2259.4	.	.	.
Gross domestic product, LVL mn, nom. [2]	9059.1	11171.7	14779.8	16243.2	3742.0	3286.8	13300	11000	10200
annual change in % (real) [2]	10.6	12.2	10.0	-4.6	0.5	-18.0	-20	-12	-2
GDP/capita (EUR at exchange rate)	5700	7000	9300	10200	.	.	.	.	.
GDP/capita (EUR at PPP)	10900	12400	14400	13800	.	.	.	.	.
Consumption of households, LVL mn, nom. [2]	5578.2	7184.2	9104.3	9360.0	2332.6	2119.6	7500	6000	5600
annual change in % (real) [2]	11.3	21.4	14.8	-11.1	-0.5	-17.4	-21	-15	-2
Gross fixed capital form., LVL mn, nom. [2]	2773.8	3644.1	4975.1	4911.4	1000.8	662.9	3500	3000	2800
annual change in % (real) [2]	23.6	16.3	7.5	-13.2	-7.2	-34.1	-30	-8	-1
Gross industrial production [3][4]									
annual change in % (real)	5.9	5.3	0.7	-6.7	-0.1	-23.8	-20	-5	2
Gross agricultural production									
annual change in % (real)	11.8	-1.9	10.8	0.1	.	.	.	.	.
Construction industry [4]									
annual change in % (real)	15.4	13.3	13.6	-3.1	11.1	-29.7	.	.	.
Employed persons - LFS, th, average	1033.7	1087.1	1118.0	1124.5	1137.8	1046.7	.	.	.
annual change in %	1.6	5.2	2.8	0.6	4.9	-8.0	.	.	.
Unemployed persons - LFS, th, average	101.0	79.5	71.3	90.5	79.7	168.8	.	.	.
Unemployment rate - LFS, in %, average	8.9	6.8	6.0	7.5	6.5	13.9	18	22	20
Reg. unemployment rate, in %, end of period	7.4	6.5	4.9	7.0	4.9	10.7	.	.	.
Average gross monthly wages, LVL	246	302	398	479	453	469	.	.	.
annual change in % (real, net)	9.7	15.6	19.9	6.1	11.5	2.0	.	.	.
Consumer prices (HICP), % p.a.	6.9	6.6	10.1	15.2	16.3	9.0	3	-5	-4
Producer prices in industry, % p.a. [4]	7.8	10.3	16.1	11.5	10.9	4.2	.	.	.
General government budget, EU-def., % GDP [5]									
Revenues	35.2	37.7	35.5	35.5	.	.	.	.	.
Expenditures	35.6	38.2	35.9	39.5	.	.	.	.	.
Net lending (+) / net borrowing (-)	-0.4	-0.5	-0.4	-4.0	.	.	-10	-7	-4
Public debt, EU-def., in % of GDP [5]	12.4	10.7	9.0	19.5	.	.	.	.	.
Refinancing rate of NB, % p.a., end of period	4.0	5.0	6.0	6.0	6.0	5.0	.	.	.
Current account, EUR mn	-1610.1	-3603.0	-4754.0	-2925.0	-893.1	53.6	100	300	400
Current account in % of GDP	-12.4	-22.5	-22.5	-12.7	-16.8	1.1	0.5	1.9	2.8
Exports of goods, BOP, EUR mn	4313.1	4929.0	6020.0	6476.0	1585.5	1160.7	4700	4600	4800
annual growth rate in %	27.1	14.3	22.1	7.6	12.0	-26.8	-27	-2	4
Imports of goods, BOP, EUR mn	6753.5	9032.0	11074.0	10400.0	2576.3	1661.0	6900	6500	6800
annual growth rate in %	19.9	33.7	22.6	-6.1	1.4	-35.5	-34	-6	5
Exports of services, BOP, EUR mn	1743.0	2121.0	2682.0	3100.0	677.1	679.1	3100	3000	3200
annual growth rate in %	21.8	21.7	26.4	15.6	25.1	0.3	0	-3	7
Imports of services, BOP, EUR mn	1255.6	1586.0	1974.0	2174.0	508.3	382.1	1600	1500	1600
annual growth rate in %	32.5	26.3	24.5	10.1	22.3	-24.8	-26	-6	7
FDI inflow, EUR mn	567.9	1339.0	1656.0	921.0	371.1	23.5	150	.	.
FDI outflow, EUR mn	103.0	136.0	237.0	144.0	4.8	-16.0	50	.	.
Gross reserves of NB excl. gold, EUR mn	1901.8	3346.2	3859.9	3739.0	3988.9	3163.7	.	.	.
Gross external debt, EUR mn	12807.7	18127.7	26826.6	29619.4	26953.9	28760.4	.	.	.
Gross external debt in % of GDP	98.4	113.1	126.4	129.2	117.5	152.0	.	.	.
Average exchange rate LVL/EUR	0.6962	0.6962	0.7001	0.7027	0.7027	0.7027	0.7027	0.7027	0.7027
Purchasing power parity LVL/EUR	0.3605	0.3932	0.4506	0.5184	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (FISIM adjusted). - 3) Enterprises with more than 20 employees. - 4) Quarterly data and forecasts according to NACE Rev. 2. - 5) According to ESA'95, excessive deficit procedure.

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

Table EE

Estonia: Selected Economic Indicators

	2005	2006	2007	2008 [1]	2008	2009	2009	2010	2011
					1st quarter		Forecast		
Population, th pers., average	1346.1	1343.5	1341.7	1340.6	.	.	.	.	.
Gross domestic product, EEK mn, nom. [2]	173530	205038	238929	248149	59100	52229	206400	176500	167800
annual change, % (real) [2]	9.2	10.4	6.3	-3.6	0.2	-15.1	-16	-10	-2
GDP/capita (EUR at exchange rate)	8200	9700	11400	11800	.	.	.	.	.
GDP/capita (EUR at PPP)	13700	15400	16900	16300	.	.	.	.	.
Consumption of households, EEK mn, nom. [2]	94112	110497	128533	135973	33402	28632	110400	94400	88800
annual change in % (real) [2]	9.7	12.8	7.9	-4.0	0.1	-17.6	-18	-10	-3
Gross fixed capital form., EEK mn, nom [2]	53281	69440	77556	70457	17276	12410	50200	42000	39500
annual change in % (real) [2]	8.3	20.1	7.6	-10.4	0.6	-26.6	-28	-12	-3
Gross industrial production [3]									
annual change in % (real)	11.0	9.9	6.6	-6.5	-0.2	-28.7	-28	0	5
Gross agricultural production									
annual change in % (real)	6.6	-2.1	12.3	-9.9	.	.	.	.	.
Construction industry [3]									
annual change in % (real)	23.0	27.8	13.6	-12.0	-5.4	.	.	.	.
Employed persons - LFS, th, average	607.4	646.3	655.3	656.5	656.5	612.1	.	.	.
annual change in %	2.0	6.4	1.4	0.2	-6.8	-6.8	.	.	.
Unemployed persons - LFS, th, average	52.2	40.5	32.0	38.4	28.7	79.0	.	.	.
Unemployment rate - LFS, in %, average	7.9	5.9	4.7	5.5	4.2	11.1	15	18	18
Reg. unemployment rate, in %, end of period	2.7	1.4	2.2	4.7	2.7	13.2	.	.	.
Average gross monthly wages, EEK	8073	9407	11336	12818	12337	12147	.	.	.
annual change in % (real, gross)	6.4	11.6	13.0	2.4	7.6	-4.5	.	.	.
Consumer prices (HICP), % p.a.	4.1	4.5	6.7	10.6	11.3	3.7	0	-4	-2
Producer prices in industry, % p.a. [3]	2.1	4.5	8.3	7.2	8.3	2.0	.	.	.
General governm. budget, EU-def., % GDP [4]									
Revenues	35.5	37.1	38.2	37.9	.	.	.	.	.
Expenditures	34.0	34.2	35.5	40.9	.	.	.	.	.
Net lending (+) / net borrowing (-)	1.5	2.9	2.7	-3.0	.	.	-5	-3	-3
Public debt, EU-def., in % of GDP [4]	4.5	4.3	3.5	4.8	.	.	.	.	.
Money market rate, % p.a., end of period [5]	2.5	3.8	7.0	7.0	5.8	6.2	.	.	.
Current account, EUR mn	-1110.3	-2193.0	-2758.0	-1463.0	-618.0	-0.1	150	200	-100
Current account in % of GDP	-10.0	-16.7	-18.1	-9.2	-16.4	0.0	1.1	1.8	-0.9
Exports of goods, BOP, EUR mn	6280.1	7761.0	8076.0	8544.0	2033.1	1512.9	6400	6400	6500
annual growth rate in %	32.8	23.6	4.1	5.8	5.7	-25.6	-25	0	2
Imports of goods, BOP, EUR mn	7822.6	10159.0	10761.0	10376.0	2529.6	1682.1	7500	7300	7500
annual growth rate in %	23.5	29.9	5.9	-3.6	-2.2	-33.5	-28	-3	3
Exports of services, BOP, EUR mn	2571.1	2787.0	3199.0	3476.0	756.7	680.0	3100	3000	3100
annual growth rate in %	12.1	8.4	14.8	8.7	16.3	-10.1	-11	-3	3
Imports of services, BOP, EUR mn	1733.7	1938.0	2237.0	2324.0	525.9	451.5	2000	2000	2100
annual growth rate in %	23.5	11.8	15.4	3.9	5.8	-14.1	-14	0	5
FDI inflow, EUR mn	2302.2	1432.0	1963.0	1365.0	584.1	167.3	400	.	.
FDI outflow, EUR mn	556.0	883.0	1152.0	664.0	302.6	117.7	500	.	.
Gross reserves of NB excl. gold, EUR mn	1643.6	2115.0	2233.8	2900.0	2365.2	2651.7	.	.	.
Gross external debt, EUR mn	9553.3	12802.4	17165.6	19060.2	19101.6	18400.5	.	.	.
Gross external debt in % of GDP	86.1	97.7	112.4	120.2	120.4	139.5	.	.	.
Average exchange rate EEK/EUR	15.6466	15.6466	15.6466	15.6466	15.65	15.65	15.65	15.65	15.65
Purchasing power parity EEK/EUR	9.3775	9.8833	10.5251	11.3313	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) Quarterly data and forecasts according to NACE Rev. 2. - 4) According to ESA'95, excessive deficit procedure. - 5) TALIBOR 1 month interbank offered rate.

Source: wiiw Database incorporating national statistics; Eurostat; wiiw forecasts.

Table LT

Lithuania: Selected Economic Indicators

	2005	2006	2007	2008 [1]	2008	2009	2009	2010	2011
					1st quarter		Forecast		
Population, th pers., average	3414.3	3394.1	3375.6	3358.4	3363.1	3345.6	.	.	.
Gross domestic product, LTL mn, nom. [2]	72060.4	82792.8	98138.7	111498.7	24461.0	20652.5	96900	81800	78600
annual change in % (real) [2]	7.8	7.8	8.9	3.0	7.0	-13.6	-16	-13	-3
GDP/capita (EUR at exchange rate)	6100	7100	8400	9600	.	.	.	.	.
GDP/capita (EUR at PPP)	11900	13100	14800	15200	.	.	.	.	.
Consumption of households, LTL mn, nom. [2]	46312.0	53268.6	63237.8	72697.0	16986.0	15520.1	61700	52700	50600
annual change in % (real) [2]	12.3	10.6	12.3	4.7	11.1	-15.1	-18	-12	-3
Gross fixed capital form., LTL mn, nom. [2]	16405.0	20840.8	27453.9	27600.8	5728.2	3510.8	20000	16900	16900
annual change in % (real) [2]	11.2	19.4	20.8	-6.1	1.6	-37.1	-30	-13	1
Gross industrial production (sales) [3]									
annual change in % (real)	7.1	7.3	4.0	2.7	9.7	-13.8	-18	-10	3
Gross agricultural production									
annual change in % (real)	10.5	-4.1	8.2	0.7	.	.	.	.	.
Construction industry [3]									
annual change in % (real)	11.5	21.2	21.6	1.4	.	.	.	.	.
Employed persons - LFS, th, average	1473.9	1499.0	1534.2	1520.0	1510.3	1433.1	.	.	.
annual change in %	2.6	1.7	2.3	-0.9	0.2	-5.1	.	.	.
Unemployed persons - LFS, th, average	133.0	89.4	69.0	94.3	77.5	193.9	.	.	.
Unemployment rate - LFS, in %, average	8.3	5.6	4.3	5.8	4.9	11.9	15	19	18
Reg. unemployment rate, in %, end of period	4.1	3.7	4.3	5.7	4.7	8.2	.	.	.
Average gross monthly wages, LTL	1276.2	1495.7	1802.4	2174.0	2151.3	2193.1	.	.	.
annual change in % (real, net)	6.8	15.0	17.0	11.2	14.2	-5.2	.	.	.
Consumer prices (HICP), % p.a.	2.7	3.8	5.8	11.1	10.9	8.4	4.5	-2	0
Producer prices in industry, % p.a.	11.5	7.4	6.9	18.2	21.9	-10.0	.	.	.
General goverm.budget, EU-def., % GDP [4]									
Revenues	32.8	33.1	33.9	34.0	.	.	.	.	.
Expenditures	33.3	33.6	34.9	37.2	.	.	.	.	.
Net lending (+) / net borrowing (-)	-0.5	-0.4	-1.0	-3.2	.	.	-7	-4	-3
Public debt, EU-def., in % of GDP [4]	18.4	18.0	17.0	15.6	.	.	.	.	.
Money market rate, % p.a., end of period [5]	2.5	3.7	6.8	7.8	4.5	3.1	.	.	.
Current account, EUR mn	-1481.3	-2551.0	-4149.0	-3737.0	-1324.1	23.5	200	-500	-600
Current account in % of GDP	-7.1	-10.6	-14.6	-11.6	-18.7	0.4	0.7	-2.1	-2.6
Exports of goods, BOP, EUR mn	9490.0	11262.0	12509.0	16068.0	3643.8	2731.3	12000	12000	12400
annual growth rate in %	26.9	18.7	11.1	28.5	30.3	-25.0	-25	0	3
Imports of goods, BOP, EUR mn	11849.0	14600.0	16788.0	19817.0	4897.3	2874.1	13000	13500	14000
annual growth rate in %	26.1	23.2	15.0	18.0	30.6	-41.3	-34	4	4
Exports of services, BOP, EUR mn	2502.8	2879.0	2931.0	3302.0	673.2	551.6	2300	2300	2400
annual growth rate in %	27.1	15.0	1.8	12.7	14.8	-18.1	-30	0	4
Imports of services, BOP, EUR mn	1655.3	2018.0	2471.0	2959.0	629.6	441.0	2100	2100	2200
annual growth rate in %	26.0	21.9	22.4	19.7	30.6	-30.0	-29	0	5
FDI inflow, EUR mn	826.0	1448.0	1473.0	1223.0	236.0	190.2	200	.	.
FDI outflow, EUR mn	277.7	232.0	437.0	229.0	67.2	78.0	50	.	.
Gross reserves of NB excl. gold, EUR mn	3135.7	4307.5	5165.1	4457.0	4426.2	4181.5	.	.	.
Gross external debt, EUR mn	10586.5	14441.8	20547.2	23045.2	21185.5	22683.4	.	.	.
Gross external debt in % of GDP	50.7	60.2	72.3	71.4	65.6	80.8	.	.	.
Average exchange rate LTL/EUR	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45
Purchasing power parity LTL/EUR	1.77	1.86	1.96	2.18	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) Quarterly data and forecasts according to NACE Rev. 2. - 4) According to ESA'95, excessive deficit procedure. - 5) VILIBOR 1 month interbank offered rate.

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