

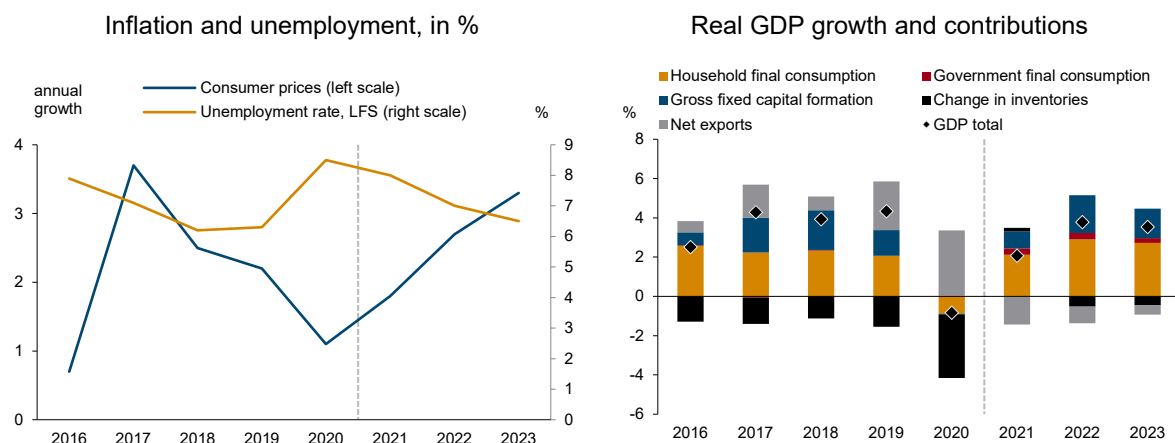


LITHUANIA: Recession prevented, revival delayed

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The Lithuanian economy experienced a short-lived recession in the second quarter of 2020, recovering quickly and experiencing just a small GDP decline of 0.8% for the full year 2020. Better-than-expected export performance and swiftly rebounding household consumption were coupled with a slump in imports. In 2021 the ongoing restrictions due to the second and third wave of infections will keep the economic revival subdued. The government continues to deliver substantial fiscal stimulus, and the announced public investments will support recovery over the next two years. For 2021 we expect real GDP to grow by 2.1%, followed by a faster upswing of 3.8% in 2022 and 3.1% in 2023.

Figure 4.12 / Lithuania: Main macroeconomic indicators



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

Following strong rises in infection figures in autumn the Lithuanian government had to reintroduce a lockdown at the beginning of November. The measures were tightened in December, including the closure of non-essential shops, restrictions on movement between regions of the country, home-teaching in schools, etc. The pick-up in infections and the resurgence of high figures in February resulted in an extension of the lockdown, with some gradual easing from the beginning of March onwards. However, following the appearance of the ‘South African’ virus mutation in mid-March the Lithuanian government announced that more stringent lockdown measures may have to be reintroduced. At the same time progress with vaccinations was relatively successful in Lithuania in comparison with other European countries. With about 14 vaccination doses administered per 100 persons, Lithuania was in sixth place within the EU and in line with Estonia and other Nordic countries.

Goods exports recovered strongly in the second half of 2020 after the slump experienced in the second quarter of last year. Following the upswing in the EU economy, demand also rebounded for refined petroleum products, the Lithuanian economy's most important category of export goods. At the same time, trade increased in many other commodities, particularly food, chemicals and furniture. Similarly, total industrial production rebounded strongly; from January to February 2021 developments continued to be promising with a growth rate of 6.4% in real terms year on year. Goods imports, however, declined substantially, by almost 10% in nominal terms in 2020 on average, since companies were cautious and ran down their stocks of imported inputs. Trade in services also declined strongly last year, particularly transport services. However, the fairly low share of tourism meant that the Lithuanian economy was hit less hard than its Baltic neighbours. For this year we expect trade in services to rebound to almost the same levels as experienced in 2019. Due to strongly declining imports, the current account surplus jumped to an unprecedented 8% of GDP last year. This year and in 2022 we expect the surplus to remain above 4% of GDP.

After a slump in the second quarter of 2020, investment activity rebounded shortly thereafter and the total of 2020 amounted to the 2019 level. Business started to spend again strongly in machinery and equipment. Looking ahead, we expect a slight increase in overall investments, however enterprises will remain somewhat reluctant until restrictions are lifted and longer-term planning is possible. Investment by households – i.e. spending on private housing – is likely to increase this year, based on dwelling construction and building permit figures. House prices have continued to grow from October 2020 onwards. After a slump in the second quarter, new mortgage loans have also continued to rise. Although unemployment increased last year, mass incomes are rising strongly, thus robust demand for real estate is likely to continue.

The government's substantial fiscal support initiatives have resulted in an 8% budget deficit in 2020 and 7% forecast by the government for 2021. The measures comprise wage subsidies for affected firms, additional public investment, loan guarantees and support for the health sector and agriculture. 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. The budget of the general government foresees additional discretionary expenditure measures for 2021 including an increase in old-age pensions amounting to 0.7% of GDP, expenditures for short-time work schemes (0.6% of GDP), further subsidies to companies (0.5% of GDP), and a rise in public sector wages (0.6% of GDP).

The parliamentary elections in October 2020 resulted in a change of government from a centre-green to a conservative-liberal coalition. We expect no major changes in economic policy by the new government. The government has to deliver a National Recovery and Resilience Plan to the Commission by the end of April this year, defining concrete projects to apply for funds from the facility created in response to the COVID crisis last year. Through 2026 an additional amount of about 4% of GDP will be available for the Lithuanian government to invest in the areas of green transition, digital transformation, health, science and innovation, education and social issues.

We expect overall employment to recover slightly in 2021 following a decline of 1.5% in 2020. Jobs were lost in hospitality services, real estate and agriculture (while only to a small extent in manufacturing, domestic trade and construction). However, the overall vacancy rate is still high, showing that growth prospects are good in those parts of the economy that are not affected directly by COVID

measures. The unemployment rate increased by about 2 percentage points to 8.5% in 2020 on average. Over the next two years, we expect this rate to fall again slightly – to 8% in 2021 and 7% in 2022. Net migration towards Lithuania was increasingly positive in 2020. Apart from immigration from the Ukraine and Belarus, an increasing number of Lithuanian citizens returned from the UK last year.

A 6.6% rise in the minimum wage (to EUR 642 a month) from January 2021 will result in gross salaries growing by another 6% in real terms this year. Lithuania thus has the highest minimum wage within the EU CEE countries, except for Slovenia. Labour taxation was reduced in 2020, and this year the non-taxable income threshold has been raised to EUR 500. We expect household consumption to recover substantially and grow by 3.5% in 2021, after having declined slightly last year.

Although import and producer prices collapsed last year, consumer prices kept growing; inflation will again reach 1.8% in 2021. After a slump in the oil price during the first lockdown, it revived to a longer-term normal of USD 65 per barrel. Core inflation will be pushed upwards by rapidly increasing wages. Moreover, excise duties have been raised for tobacco. We expect a further increase in consumer price inflation to 2.7% in 2022 and 3.3% in 2023.

Since our previous forecast in autumn, the decline of GDP turned out to be with 0.8% much milder than expected. For 2021, however, we have reduced our GDP growth forecast from 4.5% to 2.1%. In terms of both external and domestic demand, growth picked up in the second half of 2020 much faster than anticipated. For 2021, we expect exports to increase, albeit only slightly, since the COVID induced restrictions are curtailing demand by most trade partners in the first half of this year. Imports however will revive faster this year given that entrepreneurs ran down their stocks in 2020. Public investment will pick up strongly – not only in 2020, but also in the coming years. 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 to 1.8% in 2021, and to continue in 2022 at a higher pace of 3.8%.

Table 4.12 / Lithuania: Selected economic indicators

	2017	2018	2019	2020 ¹⁾	2021	2022	2023
					Forecast		
Population, th pers., average	2,828	2,802	2,794	2,795	2,780	2,770	2,760
Gross domestic product, EUR m, nom.	42,276	45,491	48,797	48,794	50,700	54,000	57,800
annual change in % (real)	4.3	3.9	4.3	-0.8	2.1	3.8	3.5
GDP/capita (EUR at PPP)	23,180	24,640	26,030	26,170	.	.	.
Consumption of households, EUR m, nom.	26,198	27,903	29,445	29,262	.	.	.
annual change in % (real)	3.6	3.8	3.3	-1.5	3.5	4.8	4.5
Gross fixed capital form., EUR m, nom.	8,504	9,531	10,429	10,585	.	.	.
annual change in % (real)	8.9	10.0	6.2	-0.2	4.0	9.0	7.0
Gross industrial production (sales)							
annual change in % (real)	7.0	4.8	3.4	-1.8	3.5	4.0	3.8
Gross agricultural production							
annual change in % (real)	2.6	-10.0	10.1	7.1	.	.	.
Construction industry							
annual change in % (real)	8.9	13.8	8.4	-1.6	.	.	.
Employed persons, LFS, th, average	1,355	1,375	1,378	1,358	1,363	1,370	1,375
annual change in %	-0.5	1.5	0.3	-1.5	0.4	0.5	0.4
Unemployed persons, LFS, th, average	103	90	92	126	119	103	96
Unemployment rate, LFS, in %, average	7.1	6.2	6.3	8.5	8.0	7.0	6.5
Reg. unemployment rate, in %, eop ²⁾	8.7	8.9	8.7	16.1	.	.	.
Average monthly gross wages, EUR ³⁾	840.4	924.1	1,296.4	1,421.2	1,530	1,650	1,820
annual change in % (real, gross)	4.7	7.1	6.4	8.3	6.0	5.0	6.5
Average monthly net wages, EUR ³⁾	660.2	720.0	822.1	908.9	980	1,060	1,160
annual change in % (real, net)	5.7	6.2	11.6	9.3	5.5	5.0	6.0
Consumer prices (HICP), % p.a.	3.7	2.5	2.2	1.1	1.8	2.7	3.3
Producer prices in industry, % p.a.	5.1	5.6	0.0	-9.0	1.0	3.0	4.0
General governm.budget, EU-def., % of GDP							
Revenues	33.6	34.4	34.9	34.9	34.0	34.8	35.0
Expenditures	33.2	33.8	34.6	40.9	40.0	37.8	36.5
Net lending (+) / net borrowing (-)	0.5	0.6	0.3	-6.0	-6.0	-3.0	-1.5
General gov.gross debt, EU def., % of GDP	39.1	33.7	35.9	46.9	52.0	50.0	47.0
Stock of loans of non-fin.private sector, % p.a.	4.5	6.0	3.3	-2.4	.	.	.
Non-performing loans (NPL), in %, eop	3.1	2.4	1.6	1.5	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR m	231	137	1,632	3,880	2,600	2,400	2,300
Current account, % of GDP	0.5	0.3	3.3	8.0	5.1	4.4	4.0
Exports of goods, BOP, EUR m	22,763	24,552	25,954	25,479	26,000	27,000	28,300
annual change in %	16.9	7.9	5.7	-1.8	2.0	3.8	4.8
Imports of goods, BOP, EUR m	24,815	27,333	28,303	25,681	27,800	29,700	31,500
annual change in %	16.2	10.1	3.6	-9.3	8.3	6.8	6.1
Exports of services, BOP, EUR m	8,350	9,678	11,841	10,292	11,700	13,200	14,800
annual change in %	22.5	15.9	22.3	-13.1	13.7	12.8	12.1
Imports of services, BOP, EUR m	5,319	6,055	6,949	5,626	6,600	7,500	8,700
annual change in %	14.6	13.9	14.8	-19.0	17.3	13.6	16.0
FDI liabilities, EUR m	1,192	1,096	1,402	798	.	.	.
FDI assets, EUR m	359	866	486	434	.	.	.
Gross reserves of CB excl. gold, EUR m	3,509	4,831	4,273	3,662	.	.	.
Gross external debt, EUR m	34,940	35,542	33,047	38,000	40,600	40,500	40,500
Gross external debt, % of GDP	82.6	78.1	67.7	77.9	80.0	75.0	70.0

1) Preliminary and wiiw estimates. - 2) In % of working age population. - 3) Including earnings of sole proprietors. From 2019 the employer's social security contribution (28.9%) was transferred to the 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.