

BOX 3

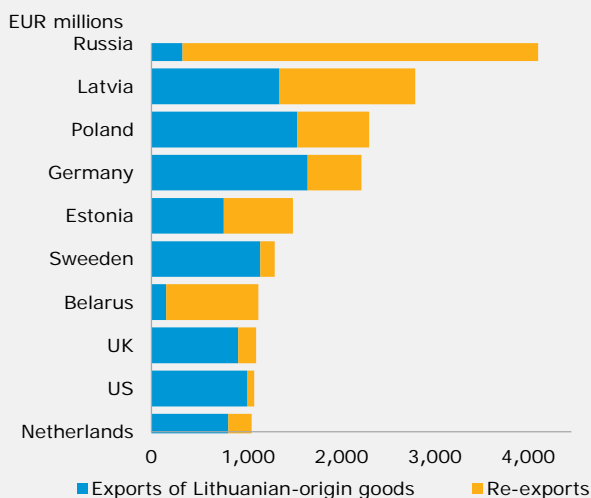
ECONOMIC TIES BETWEEN LITHUANIA AND BELARUS

Trade in services is one of the strongest ties between Lithuania and Belarus. The largest volume of imports of services to Lithuania comes from Belarus – in 2019, it amounted to €0.68 billion (10% of total imports of services). During the same period, Lithuania exported services worth €0.72 billion to Belarus (6% of total imports of services) and, as per this indicator, the neighbouring country was surpassed only by Germany, Russia and France. As transport services account for the bulk of bilateral trade, they are most likely to be affected by the Belarusian economic problems. Some of the largest exporters in the transport sector are Lietuvos Geležinkeliai (Lithuanian Railways) and Klaipėdos Uostas (Port of Klaipėda), thus Belarus uses services of these companies to transport goods. In 2019, almost 12% of rail freight loaded in Lithuania was unloaded in Belarus, and as much as 75% of total rail freight unloaded in Lithuania was loaded in Belarus. In the cargo turnover of the Port of Klaipėda, cargo from Belarus comprises up to a third of its total cargo. Belarus is also important to Lithuania in terms of the tourism sector. Most of the tourists that came to Lithuania in 2019 with an overnight stay were from Belarus. Belarusians are keen on Lithuania not only for tourism, but also for shopping – their spending share here is some of the largest. Last year, visitors from Belarus spent more than €130 million in Lithuania, which comprises 14% of its total tourist spending.

As regards trade in goods, Lithuania for Belarus is a transit country through which machinery, equipment and vehicles are transferred from the West. Although in 2019 Lithuania's exports of goods to Belarus increased by only 6.4% (to €1.1 billion), 86% of them were re-exports. It was mostly investment goods: machinery and equipment, automatic data-processing machines and boilers (20%). Land vehicles are also largely re-exported to Belarus – they amounted to around 11% of all exports in 2019. Although the share that re-exports take in total trade with Belarus points to the importance of Lithuania as a transit country in Belarus' trade with the West, they do not generate much added value for Lithuania's economy. Due to this, a drop in exports from Lithuania to Belarus would not have a significant direct effect to Lithuania's GDP. Still, some indicators will show significant changes. With the Belarusian economy losing momentum, demand for foreign goods, which often reach Belarus through Lithuania, is set to decrease as well. This will in turn affect exports of services and re-exports of goods in Lithuania's foreign trade statistics.

Belarus is one of the key export directions for Lithuania's goods.

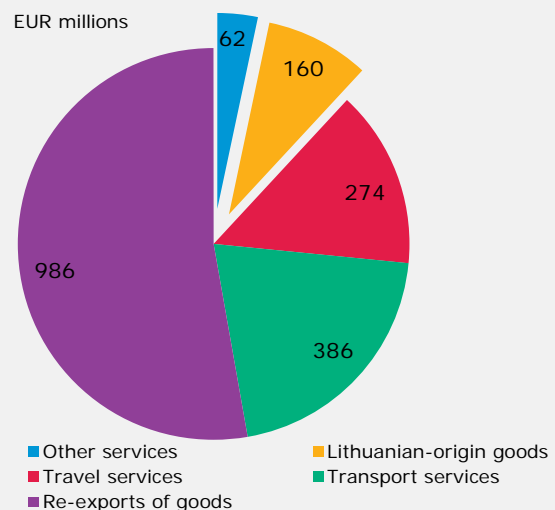
Chart A. Main directions of exports of goods in 2019



Sources: Statistics Lithuania and Bank of Lithuania calculations.

In terms of trade of goods, Lithuania is a transit country for Belarus.

Chart B. Structure of Lithuania's exports to Belarus in 2019



Sources: Statistics Lithuania, Bank of Lithuania and Bank of Lithuania calculations.

Although some companies may be negatively affected by the deteriorating relations between Lithuania and Belarus, a decline in bilateral investments would not have a significant impact on Lithuania's economy. Although a number of large Lithuanian companies have branches in Belarus (e.g. Kauno Grūdai, Audimas, Vakarų Medienos Grupė), in 2011–2017 the turnover of Lithuanian companies operating in Belarus amounted only to an average of 5% of the total turnover of Lithuanian companies carrying out their activities abroad (€208 million per year). Based on Lithuania's cumulative FDI in 2019, Belarus was the 7th amongst all foreign countries, with 3.4% of Lithuania's total FDI directed to this country. The largest investments were related to wholesale and retail trade as well as vehicle and motorcycle repair – in 2019, this activity was attributed to more than half of Lithuania's FDI accumulated in Belarus. Last year, foreign enterprises invested €18.2 billion in Lithuania, with less than 1% of these investments coming from Belarus. In 2019, the neighbouring country, which mostly invested in manufacturing as well as acquisition and sale of RE, ranked 18th in terms of the cumulative FDI in Lithuania. These numbers show that, although part of Lithuania's FDI has gone to Belarus, deteriorating bilateral relations would not have a devastating impact on Lithuania's investors.

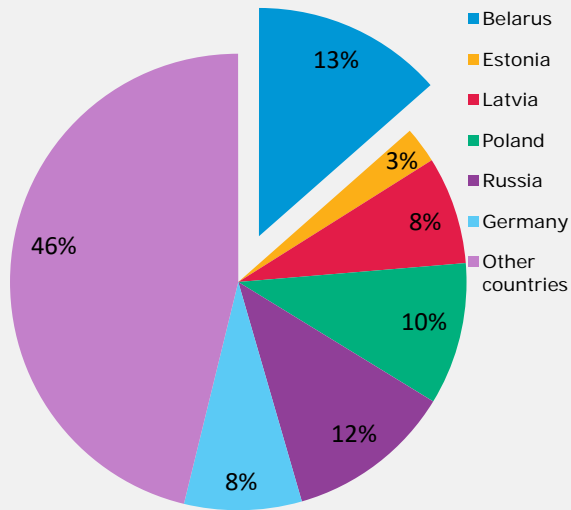
Immigrants from Belarus comprise one-fifth of foreigners residing in Lithuania, yet this year's immigration trends may possibly be limited by the restrictions put in place due to the COVID-19 pandemic and changes in the transport sector caused by the EU Mobility Package. The number of immigrants from Belarus Lithuania is further growing, having doubled since 2016. Most often, such migrants found work in the construction and transport sectors. The development of the transport sector in recent years resulted in new jobs and staff shortages, thus the immigration rates from the neighbouring country that offers lower wages have increased. This trend is now changing due to the implementation of the EC's Mobility Package²⁵ which poses quite a few challenges to the development of the Lithuanian transport sector. Migration flows from the country with three times more residents compared to Lithuania were also limited by the closed borders between Lithuania and Belarus after the introduction of lockdown measures. Although movement between countries was later renewed, foreigners were once again forbidden to enter Lithuania from Belarus in early September. Having removed travel restrictions, immigration to Lithuania during the second half of the year could also be motivated by political reasons in addition to the economic ones: with the deteriorating crisis in Belarus, its residents may seek asylum in Lithuania. In 2020, COVID-19 containment measures have been affecting not only immigration, but also tourist flows which may not recover due to the current political and economic crisis in Belarus.

Declining Belarus' orders for Lithuanian goods and services may cost 0.3% of Lithuania's GDP in 2020–2021. Such impact is estimated by calculations with an assumption that not all exports to Belarus would cease to exist. It is assumed that due to the already made orders, signed agreements and current prices of goods and services, only part of exports to Belarus would be lost. If the country loses 25% of exports of services and Lithuanian-origin goods as well as 25% of re-exports of goods (around 1.2% of Lithuania's total exports), the real GDP growth will shrink by around 0.1 percentage point in 2020 and 0.2 percentage point in 2021. The analysis includes a shock due to which the mentioned exports would decrease in the fourth quarter of this year.

²⁵ The EU Mobility Package is a collection of 3 initiatives concerning governance of commercial road transport in the EU. It represents the biggest change to the EU road transport rules, covering many aspects of the industry's activities ([online source](#)).

Belarusian tourists are some of the top spenders in Lithuania.

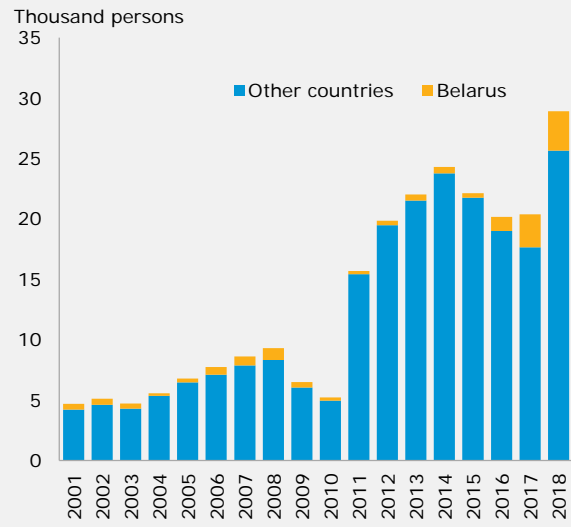
Chart C. Tourist spending in Lithuania by country in 2019



Sources: Statistics Lithuania and Bank of Lithuania calculations.

Due to the growing staff shortages, immigration from the eastern neighbours, including Belarus, has been increasing.

Chart D. Immigrants to Lithuania from Belarus and the rest of the world



Sources: Statistics Lithuania and Bank of Lithuania calculations.