Box 1. Effects of AB bankas SNORAS bankruptcy on key economic indicators of Lithuania

Bankruptcy proceedings initiated against AB bankas SNORAS on 7 December 2011 was an important event for the Lithuanian financial system and economy, thus it will influence economic development in the coming quarters. On the scale of the entire economy, the amount of uninsured deposits held with AB bankas SNORAS is not large, thus the direct impact of this bank’s bankruptcy on private consumption and investment will be insignificant. In order to assess the maximum likely effects of this bankruptcy, one should also take into account the indirect influence related to weakened confidence. A deterioration in household expectations is likely to increase saving and decrease consumption. As a result of loss of confidence and poorer expectations, enterprises are likely to reduce investment or postpone it, review recruitment plans, suspend wage revisions, etc. Assessing the highest direct and indirect effects of AB bankas SNORAS bankruptcy on the Lithuanian economy, in 2012 the growth of private consumption may be smaller by about 1 p.p., that of investment – by 2 p.p., and the impact on GDP growth may amount to 0.5 p.p.

AB bankas SNORAS bankruptcy is likely to have an impact on Lithuania’s labour market too. Unemployment may rise both on account of dismissal of the employees of the bank under bankruptcy and the possible bankruptcy or lower activity of enterprises that suffered because of the termination of the bank’s operations. Nevertheless, the impact on the scale of the entire economy is insignificant, thus the unemployment rate in Lithuania because of this event may rise by approximately 0.2 p.p. Weaker economic growth and higher unemployment level will affect wages: due to AB bankas SNORAS bankruptcy compensation per employee is estimated to grow by 0.3 p.p. less.