



Economic Outlook for Lithuania

27 February 2014

The growth of Lithuania's economy is rather stable. Real GDP grows slightly more than 3 per cent over the year; the number of employed is markedly increasing and unemployment is gradually decreasing. **Nevertheless, economic development across the economic sectors is very uneven. After growing previously quite strongly, now the volume of industrial production sold is no longer increasing.** Particularly the production of petroleum products is dropping, affected by unfavourable global oil refining market conditions. The output of many other branches of industry is not changing much; therefore it does not outweigh poor performance of petroleum products production. **Construction activity is developing quite differently. Having dropped in previous years, activity in construction is now increasing.** This is related to a recovery in investment, particularly investment in civil engineering structures. The latter decreased greatly several quarters ago, especially investment in road construction, but now the road construction indicator is the one that hiked. Construction activity is increased also by growth in the construction of non-residential buildings.

Economic development in various economic sectors will also differ in the near future. It is projected that this year demand in foreign trade partners, especially in the European Union (EU) countries, will increase more than last year. This is likely to positively affect Lithuania's manufacturers, because about two thirds of their output is exported, mainly to the EU countries. **The economic outlook for transport activity should be assessed with more caution.** A rather large share of transport services is related to transportation of products to Russia. This country's economic development for some time has been slowing down, while projections for economic development are worsening. **The development of economic activities, related to domestic demand, is likely to be about the same as is being currently observed.** It is likely to be fuelled by both significantly rising private consumption (driven by a gradual recovery in the employment, the increase in wages and consumer-friendly price changes) and recovering investment.

Such economic development is in line with earlier assessments. Therefore, the projected development of the real sector for the coming years remains almost unchanged. Real GDP, which grew by 3.2 per cent last year, is projected to increase by 3.6 per cent this year and 3.8 per cent next year. Such projections indicate that real GDP in the projected period should come close to the potential GDP without causing imbalances in economic development. It is expected that domestic demand will increase gradually, driven by income developments. With the growth in domestic demand, net export will deteriorate, but its negative effect on economic growth is likely to be small.

Inflation projection is changing more. With the lack of clear pressure in the labour market and with commodity prices continuing to drop, consumer prices are rising only slightly and less than expected. At the end of last year, fuel prices dropped more than was projected, while food and market service prices rose much less than was projected. Price changes are likely to continue to be favourable to consumers. With economic activity only nearing the potential level, unemployment is coming closer to the natural unemployment level; therefore changes in the labour market are likely to be small. The number of employed is likely to grow less than previously, the unemployment rate is likely to drop less, and wage growth most likely will outpace labour productivity only slightly. Therefore, price pressures related to domestic economic development are unlikely. Prices driven by external factors are also likely to be favourable to consumers. It is projected that global prices of food, energy and other commodities will continue to decrease, and this will have a dampening effect on the prices of products made from these commodities. Decrease in inflation will also be driven by lower than a year ago administered prices — electricity, gas and heat energy. **It is now expected that average annual inflation, which last year was 1.2 per cent, this year will amount to 0.9 per cent, and next year — to 1.5 per cent.**

Outlook of Lithuania's economy in 2013–2015

	February 2014 projection			November 2013 projection		
	2013*	2014*	2015*	2013*	2014*	2015*
Price and cost developments (annual percentage changes)						
Average annual inflation, based on HICP	1.2	0.9	1.5	1.3	1.5	–
GDP deflator	1.6	1.1	1.3	1.0	2.1	–
Wages (compensation per employee)	4.8	3.5	4.1	4.6	3.4	–
Import deflator	–1.5	0.1	0.8	–1.2	0.7	–
Export deflator	–1.4	0.5	1.0	–1.0	0.7	–
Economic activity (constant prices; annual percentage changes)						
Gross Domestic Product	3.2	3.6	3.8	2.8	3.5	–
Private consumption expenditure	4.3	3.5	3.6	4.3	3.3	–
General government consumption expenditure	2.1	1.7	1.7	1.6	1.9	–
Gross fixed capital formation	12.3	6.7	7.7	7.8	6.4	–
Exports of goods and services	9.3	6.3	6.7	7.1	6.3	–
Imports of goods and services	9.4	7.2	7.4	7.6	7.0	–
Labour market						
Unemployment rate (annual average as a percentage of labour force)	11.8	10.4	9.2	11.9	10.5	–
Employment (annual percentage change)	1.3	1.1	1.0	1.3	1.3	–
External sector (as a percentage of GDP)						
Balance of goods and services	0.9	0.4	0.0	0.6	0.1	–
Current account balance	0.9	0.1	–0.6	0.3	–0.6	–
Current and capital account balance	3.1	1.9	1.3	2.3	1.1	–

* Projection