

Lithuania's economic development and outlook

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Global economic development has slowed down. It is estimated that in 2015 the global economy grew by approximately 3 per cent — this is its most modest growth rate since 2010, when economic activity started to recover after the global financial crisis. In recent years, the economic development of emerging market and developing countries particularly decelerated. This was driven by indebtedness in some countries, e.g. China, which was creating tension in the financial sector and uncertainty regarding further economic development. Changes in global commodity markets and issues related to public finance in countries exporting commodities also had an impact on this. It is estimated that last year the economy of emerging market and developing countries grew by approximately 4 per cent, i.e. less by a quarter compared with its average annual growth in the recovery period (since 2010).

In recent years, the global economy was characterised not only by lower growth but also declining commodity prices, primarily — energy prices. Within less than two years, the price of oil in US dollars fell by more than 70 per cent in total. A major contribution to such price developments stemmed from more abundant investments in the sector producing this commodity, which made it possible to increase oil extraction. These changes in the supply occurred when global economic development and, as a result, demand for various commodities started to increase at a slower pace. Since the stocks of oil produced are large and the prospects of the global economy are improving only slightly, it is believed that the price of oil should not rise substantially in the near future.

External environment has a strong impact on export indicators of Lithuania. Last year, real GDP in Russia — an important Lithuania's trade partner — decreased by 3.7 per cent. It is estimated that the economy of other CIS countries (they are closely related to the economic growth in Russia through financial and economic ties) contracted by approximately 2 per cent. These developments and trade restrictions imposed by Russia led to merchandise exports to CIS countries being smaller by EUR 2.2 billion (almost a third) in 2015, whereas export of services to this region during the first three quarters of 2015, year on year, dropped by EUR 0.3 billion (almost a fourth). Loss of markets in the Eastern region encouraged exporters to be more active in other regions, first of all, in countries where demand for imported goods and services has been increasing. In 2015, export of both goods and services to the EU countries saw significant recovery. Increased exports to the US, Saudi Arabia, the United Arab Emirates, South Korea, India, Ukraine, etc. also contributed to export growth. Despite the deterioration of the international environment, the performance of exports last year was not disappointing — over the year, real exports of goods and services increased somewhat.

So far weaker development of the exporting sector has no evident impact on the development of domestic demand. At the beginning of the previous year, consumer expectations were lower; however, later they improved and now are much higher. Expectations of industrial and trade enterprises fluctuated significantly, however, last year they did not decline, while the perception of prospects for service sector enterprises improved. As measures of expectations were not deteriorating, enterprises continued to recruit more employees, while an increasingly higher number of enterprises of some economic activities expressed concerns with regard to the lack of staff. This contributed to the rise in wages. The increase of the minimum monthly wage was also a contributing factor in this growth. Since prices did not rise, higher labour income enabled households to consume more. Similar trends were also seen in the field of investment. Despite the deterioration of the international environment and slower economic development, there were more investments into machinery and equipment, as well as buildings and structures. Such investment developments stemmed from the need to expand production capacity, observed for quite some time, the recovery in the real estate market, and the use of EU funds, which intensified last year when the time for using funds from the previous EU financial perspective was running out. However, in the second half of the year, investment in the means of production posted the largest increase, whereas investment in buildings and structures were less frequent, which limited the construction economic activity.

Over the projected period, i.e. in 2016–2017, domestic demand will continue to rise significantly. Moreover, export should grow more than last year, since the international environment should improve as well. A more active export sector should result in better performance of the whole economy. It is projected that in 2016 Lithuania's real GDP will increase by 2.6 per cent, i.e. more than last year. However, such growth rate of the economy is lower than previously projected, as the economic development at the end of last year was somewhat weaker than expected, whereas the anticipated economic outlook for the main trading partners,

especially Russia, is now assessed more cautiously. In the following period, i.e. 2017, economic development, supported by positive economic developments in many regions across the world, should further accelerate and approach the pace that was observed throughout several previous years.

Consumer prices are significantly lower. 2015 was the first year of negative average annual inflation after more than a decade (2003 was the last year when inflation was negative). Prices dropped due to external factors, especially the worldwide price decrease of oil. As a result of this, the prices of energy in Lithuania fell significantly, which led to negative inflation. It is projected, however, that this situation will not last, i.e. this year and in 2017 inflation should be positive. Forecasts show that this year inflation will amount to 0.5 per cent, while in 2017 — 1.8 per cent, albeit it is now believed that in 2016 inflation will be significantly lower than previously expected. These changes in projections are also related to oil: over recent months, its price was lower than expected, hence this year energy prices to consumers should also drop more than was expected. Projection for other — non-energy — prices remains basically unchanged: prices will continue to rise; however, the rise will not be rapid.

Prospects for development in Lithuania's economy in 2015–2017

	March 2016 projection ^a			December 2015 projection		
	2015 ^b	2016 ^b	2017 ^b	2015 ^b	2016 ^b	2017 ^b
Price and cost developments (annual percentage changes)						
Average annual inflation, as measured by the HICP	-0.7	0.5	1.8	-0.6	1.4	-
GDP deflator ^c	0.1	0.8	2.0	-0.3	1.2	-
Wages	5.1	5.3	5.3	4.8	5.0	-
Import deflator ^c	-6.4	-3.1	1.4	-4.8	0.2	-
Export deflator ^c	-3.8	-2.7	1.4	-2.9	0.1	-
Economic activity (constant prices; annual percentage changes)						
Gross domestic product ^c	1.7	2.6	3.4	1.7	2.9	-
Private consumption expenditure ^c	4.9	4.2	4.0	4.6	4.1	-
General government consumption expenditure ^c	2.1	0.9	1.2	1.8	0.9	-
Gross fixed capital formation ^c	9.6	2.4	7.4	7.5	2.6	-
Exports of goods and services ^c	1.0	2.9	4.8	0.8	3.3	-
Imports of goods and services ^c	6.9	3.2	5.7	7.3	3.6	-
Labour market						
Unemployment rate (annual average as a percentage of labour force)	9.1	8.6	8.3	9.4	9.0	-
Employment ^d (annual percentage change)	1.2	0.2	0.1	1.2	0.2	-
External sector (as a percentage of GDP)						
Balance of goods and services	-0.5	-0.5	-1.2	-1.5	-1.9	-
Current account balance	-2.1	-1.9	-2.7	-2.5	-3.5	-
Current and capital account balance	0.9	0.2	-0.1	0.2	-1.6	-

^a These projections of macroeconomic indicators are based on information made available by 15 February 2016

^b Projection

^c Adjusted for seasonal and workday effects

^d National accounts data; employment in domestic concept