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Economic Outlook for Lithuania

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This year Lithuania's economic growth is mainly driven by domestic demand. Having accelerated in the beginning of the year, domestic demand should continue to grow noticeably in the entire projected period. **Economic growth is particularly related to private consumption**, which is affected by the improved financial situation of households due to an increase in labour and property income. This income includes increased minimum wage, which has affected the incomes of around a fifth of the employees. Due to a change in minimum wage, average wages increased by almost 2 per cent. The small rise in prices also had a positive effect on private consumption, as real disposable income growth is close to nominal. **A significant expansion in private consumption is expected over the whole projected period** — it will continue to be favourably affected by growing real household income. However, next year private consumption should not grow as much as it is increasing this year, because changes in minimum wage are not expected, thus wages should grow less.

For several years the increasing economic activity has encouraged firms to invest. The need for investment is being felt in industry, where the production capacity utilisation rate continues to rise and has surpassed the average level of this indicator, calculated over the whole period for which data is available. **This year investment in machinery and equipment increased, and this contributed to the rise in aggregate spending. Since there is a need, this investment should increase in the nearest future.** Some other types of investment grew as well; however, not all of them are expected to continue growing. For example, investment in transport equipment, which has been increasing by almost 40 per cent this year, may cease to grow or even decrease. Its growth rate this year is partly related to the expectations of transport companies that next year, with more stringent environmental regulations entering into force, the prices of vehicles will increase. **The overall development of investment should be noticeably affected by general government investment.** For some time they did not grow, but if expenditure on such investment, as is foreseen in the public investment programme, would grow, investment would increase.

Influence of export on economic expansion is decreasing. Exports are still higher than a year ago, but the seasonally adjusted data shows that exports have stopped growing recently. Such export development is influenced by the fact that the economic situation is not improving in the key export partners — this year their real GDP growth is slower than last year. Export is no longer stimulated by last year's abundant harvest; it only contributed to export growth in the first half of this year. According to various estimates, this year's crop is not much different from last year; therefore it will not have an effect on export growth. **It is projected that in the nearest quarters export volumes will not significantly change.** Constraints in trade with Russia should have only a minor effect on the total export. **It is projected that exports will noticeably increase again next year, when foreign demand growth will be higher.**

The real GDP growth only slightly differs from the projected growth, so the growth prospects for both 2013 and 2014 is unchanged. Real GDP is projected to grow by 2.8 per cent this year and 3.5 per cent next year. However, a slightly different GDP component growth is projected for 2013. It is expected that both private consumption and investment will increase more than previously forecasted. However, inventories are expected to decrease more than previously projected and to balance out the positive effect of domestic demand. The projections of GDP components for 2014 remain essentially unchanged.

Annual inflation is now much lower than the long-term inflation average. Such inflation developments are related to favourable external and domestic environment. Inflation was reduced most by food, administered, and fuel price trends. These prices are related to external factors, i.e. to changes in the global commodity markets. Both oil and global food prices recently have been lower than a year ago. In Lithuania, goods and services related to commodity prices constitute a larger share of the consumer basket than in developed countries, therefore inflation decreased especially rapidly. It was slightly reduced also by the part of inflation more dependent on the domestic situation — core inflation, showing changes in prices for industrial goods and market services. Core inflation decreased, because domestic factors did not put significant pressure on it. Even with the increase in minimum wages (at the beginning of the year), the growth of unit labour costs was limited. It is expected that global commodity prices will be favourable to consumers in 2014 as well. This, along with the moderate growth in unit labour costs, suggests that inflation will remain low.

Projected average annual inflation is almost the same as was expected in previous forecasts: in 2013 it should stand at 1.3 per cent, and in 2014 — at 1.5 per cent.

Outlook of Lithuania's economy in 2013–2014

	November 2013 forecast			August 2013 forecast		
	2012	**2013***	**2014***	**2012**	**2013***	**2014***
Price and cost developments (annual percentage changes)						
Average annual inflation (based on HICP)	3.2	1.3	1.5	3.2	1.4	1.5
GDP deflator	2.6	1.0	2.1	2.8	1.2	2.5
Wages (compensation per employee)	3.3	4.6	3.4	3.4	4.1	3.2
Import deflator	4.2	–1.2	0.7	4.2	–1.2	0.3
Export deflator	3.5	–1.0	0.7	3.5	–1.0	0.6
Economic activity (constant prices; annual percentage changes)						
Gross domestic product**	3.7	2.8	3.5	3.7	2.8	3.5
Private consumption expenditure	3.9	4.3	3.3	4.3	2.9	3.3
General government consumption expenditure	0.6	1.6	1.9	0.4	1.6	2.1
Gross fixed capital formation	–3.6	7.8	6.4	–2.5	4.0	6.4
Exports of goods and services	11.8	7.1	6.3	11.9	7.1	6.3
Imports of goods and services	6.1	7.6	7.0	6.6	7.5	7.0
Labour market						
Unemployment rate (annual average as a percentage of labour force)	13.4	11.9	10.5	13.2	11.6	10.3
Employment (annual percentage change)	1.8	1.3	1.3	1.8	1.3	1.4
External sector (as a percentage of GDP)						
Balance of goods and services	1.0	0.6	0.1	0.6	0.5	0.0
Current account balance	–0.2	0.3	–0.6	–0.5	–0.1	–0.6
Current and capital account balance	2.0	2.3	1.1	1.7	1.7	1.1

* Projection.
** Changes in inventories are not included in GDP components.