



Economic Outlook for Lithuania

5 November 2009

The first GDP estimate of the third quarter announced by the Department of Statistics revealed a substantially slower than expected – 14.3 per cent – annual GDP decline, and on a quarterly basis GDP expanded by 6 per cent (seasonally and working day adjusted). According to the data, the economy reached its turning point and started to recover. Although signs of economic stabilization are noticed, the recovery reflected in the data should be assessed cautiously for the present. Firstly, the data shows different trends for real and nominal GDP: with the increase of real GDP, nominal GDP was decreasing further. This was entailed by abrupt GDP deflator changes that were not in line with the developments of producer, consumer and other prices within recent quarters. Secondly, other macroeconomic indicators also do not show more apparent recovery. For example, although exports and industrial production stepped up in the third quarter, imports of investment goods remained at the level of the second quarter and the drop in the retail trade, which indicates household consumption developments, was even more profound than earlier.

In comparison with the July forecasts, the general assessment of the economy improved due to a smaller than announced earlier GDP decrease in the second quarter, more favourable consumer and producer confidence indicators, and substantially more optimistic expectations of the global recovery. The outlook of foreign countries for the coming years has been improving recently. More rapid recovery is expected in the US and Japan, as well as in the majority of EU states, which are the main trading partners of Lithuania. This should form a more favourable environment for the Lithuanian exporters and soften a negative impact of the closure of Ignalina Nuclear Power Plant on GDP. The planned consolidation of public finances will also reduce GDP; however, it is important for sustainable economic development and for the assessment of the economic prospects and risk in global financial markets.

In 2009 and 2010, Lithuania's GDP will contract by 15.2 per cent and 1.5 per cent, respectively. The level of real GDP will broadly stabilise and an upturn in economic activity should start in the first half of 2010. The recovery should be driven by positive shifts in the tradable sector and by gradually increasing investments. A more favourable investment development is expected to result from investments into capital goods in the context of enterprises anticipating better prospects for the demand of their production. However, private consumption will remain subdued. The recovery of consumption will be hampered by a further deteriorating situation in the labour market and the planned cuts of the government expenditure.

The unemployment rate is expected to stand at 13.9 per cent in 2009 and 17.7 per cent in 2010. In the second quarter of 2009, the level of unemployment was approximately three times higher than a year ago, whereas wages and the number of vacancies declined. The private sector reacted to the changes in economic conditions most flexibly; wages in it were lower than a year ago from the first quarter. Developments in the public sector were substantially slower; the annual decrease of wages is expected only in the third quarter due to administrative decisions. Wages are expected to increase only when the economic growth gathers momentum.

Compared with the July forecasts, the assessment of price developments remained stable – average annual inflation is expected to stand at 3.9 per cent. The deflation of 0.8 per cent is forecasted for the next year. In September 2009, consumer prices increased due to a higher VAT and excise duty on tobacco. However, they will fall when heating energy becomes cheaper. After the closure of Ignalina Nuclear Power Plant, electricity will become more expensive in the beginning of 2010. Nonetheless, the decline in disposable income should restrain the prevalence of inflationary sentiment.

ECONOMIC OUTLOOK FOR LITHUANIA IN 2009–2010

	November 2009 projection			July 2009 projection		
	2008	2009*	2010*	2008	2009*	2010*
Price and Cost Developments (annual percentage changes)						
Average annual inflation (based on HICP)	11.1	3.9	-0.8	11.1	3.9	-2.0
GDP deflator	9.7	-2.0	-2.3	10.3	-3.4	0.0
Wages (compensation per employee)	16.4	-5.7	-6.2	18.0	-9.8	-8.1
Import deflator	8.4	-11.8	3.2	8.1	-11.9	1.8
Export deflator	11.9	-11.9	4.0	12.2	-13.3	1.8
Economic Activity (constant prices; annual percentage changes)						
Gross Domestic Product**	2.8	-15.2	-1.5	3.0	-19.3	-5.2
Private consumption expenditure	3.6	-15.1	-1.6	4.7	-18.2	-7.0
General government consumption expenditure	7.9	-2.4	-7.4	4.3	-2.7	-4.6
Gross fixed capital formation	-6.5	-38.4	-0.5	-6.1	-42.2	-5.8
Exports of goods and services	12.2	-18.9	4.4	11.3	-19.3	2.4
Imports of goods and services	10.5	-30.1	3.0	10.0	-32.9	-0.9
Labour Market						
Unemployment rate (as a percentage of labour force)	5.8	13.9	17.7	5.8	15.7	19.3
Employment (annual percentage changes)	-0.9	-7.2	-5.4	-0.9	-10.2	-7.0
External Sector (as a percentage of GDP)						
Balance of goods and services	-11.4	-1.4	-0.3	-11.2	-0.2	1.7
Current account balance	-12.5	0.0	0.6	-12.2	0.2	1.9
Current and capital account balance	-10.7	4.7	5.1	-10.5	4.7	6.6

Note: due to GDP revision, data for 2008 may differ in November and July forecasts.

* Projection.

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