



Economic Outlook for Lithuania

5 May 2011

The development of macroeconomic indicators shows the strengthening of economic recovery in Lithuania. In addition to rising activity in the main foreign trade partners, the recovery of domestic demand is starting to exert favourable influence on the economy. The real GDP is growing largely due to the increase of the value added created in the manufacturing; however, activities oriented towards domestic demand, such as construction, trade, financial intermediation, are also starting to improve. Domestic demand, especially private consumption, is recovering slightly stronger than expected; therefore, more favourable economic developments are anticipated: real GDP is foreseen to grow by 5.6 per cent in 2011 and by 4.8 per cent in 2012.

Real private consumption, which declined by more than a fifth during the downturn, is starting to recover. Larger household consumption expenditure contributed to the GDP growth already at the end of last year, whereas available information shows that it continues to rise. Private consumption growth has been partly determined by more favourable expectations of households, whereas in the nearest future it will also expand due to better situation in the labour market. As the private consumption is growing more than expected, outlook for this indicator is more favourable over the whole forecast horizon: it will increase by 5.3 per cent and 4.8 per cent in 2011 and 2012, respectively.

With the rise of economic activity, the situation in the labour market is improving gradually. Although the unemployment rate was high in 2010, it started to decline in the second half of the year. The number of newly unemployed has been decreasing and the number of vacancies has been growing for some time already. Employment started to increase in some activities, such as information and communication, transport, accommodation and food service, financial and insurance activities. It is expected that, with the acceleration of the economic recovery, the situation in the labour market continues to improve; however, it should be noted that labour market efficiency will also have its impact on further labour market developments. The situation will get better, if those in search for a job are capable of meeting market demands, determined to change their qualification and ready to take on a job in those locations of the country where jobs are created. If the labour market is less efficient, the situation may be worse than currently projected.

In the context of growing domestic demand, the real import of goods and services is starting to increase slightly faster than the export. Still, export performance is very good. Favourably affected by foreign demand, at the end of the previous year export of goods and services exceeded the highest level observed in 2008. Noticeable growth has been observed both in goods produced and services provided by domestic economic entities and in the overall export of Lithuania. The economic development prospects of the key Lithuanian foreign trade partners remain favourable; therefore, export is expected to increase further, albeit at a lower rate.

In the beginning of 2011, annual inflation in Lithuania declined due to the base effect; however, it remained higher than in the EU and the euro area. Annual inflation in Lithuania is mostly determined by the rise in food, fuel and administered prices, the development of which is closely related with the global price trends. The prices related to the external factors are rising faster than anticipated. Therefore, higher average annual inflation is projected in Lithuania: it should be 3.8 per cent in 2011 and 3.9 per cent in 2012. As domestic demand is just starting to recover, its pressure on prices has not been observed yet, however, it may emerge when economic recovery matures.

ECONOMIC OUTLOOK FOR LITHUANIA IN 2011–2012

	May 2011			February 2011		
	2010	2011*	2012*	2010*	2011*	2012*
Price and Cost Developments (annual percentage changes)						
Average annual inflation (based on HICP)	1.2	3.8	3.9	1.2	2.8	3.4
GDP deflator	2.1	5.5	3.4	1.3	2.9	3.0
Wages (compensation per employee)	-0.1	2.9	5.4	1.4	1.9	4.7
Import deflator	9.2	11.4	2.5	9.6	6.0	4.5
Export deflator	10.9	11.8	2.3	10.3	6.3	4.3
Economic Activity (constant prices; annual percentage changes)						
Gross Domestic Product**	1.3	5.6	4.8	1.3	3.3	4.1
Private consumption expenditure	-4.5	5.3	4.8	-4.2	3.1	4.4
General government consumption expenditure	-3.4	-1.1	2.5	-3.1	-1.5	2.5
Gross fixed capital formation	0.0	17.9	11.3	0.1	14.4	9.7
Exports of goods and services	17.4	11.1	5.0	17.0	11.6	4.1
Imports of goods and services	17.9	13.9	5.5	16.9	12.6	5.0
Labour Market						
Unemployment rate (annual average as a percentage of labour force)	17.8	15.5	13.2	17.8	16.2	13.9
Employment (annual percentage changes)	-5.1	2.7	2.6	-5.4	1.6	2.4
External Sector (as a percentage of GDP)						
Balance of goods and services	-0.7	-2.7	-3.2	-1.0	-1.9	-2.8
Current account balance	1.8	-1.2	-1.8	2.0	1.0	0.1
Current and capital account balance	4.5	1.2	0.4	4.4	3.4	2.4

* Projection.

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