11. LITHUANIA

Lithuania's economy weathered 2020 better than most, as GDP fell relatively little thanks to the resilience of its exports. A large stimulus package helped to maintain jobs and preserve incomes despite some employment losses. In 2021, support measures planned to address the challenges of the COVID-19 pandemic will keep the general government deficit elevated. Overall, GDP growth is expected to strengthen over the forecast horizon, driven by a pick up in domestic demand.

Strong export performance

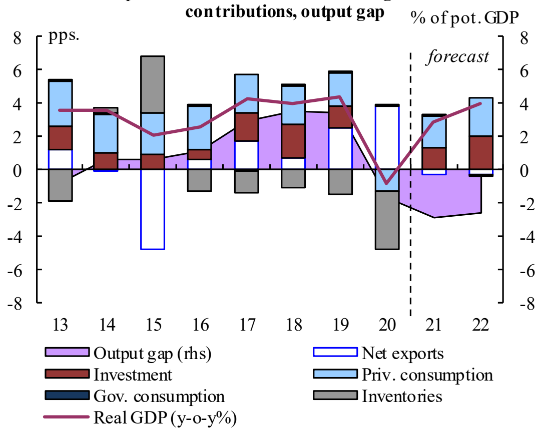
Lithuania's economy contracted by 0.9% in 2020, significantly less than the EU average. A sizeable positive contribution to growth came from net exports (3.8 percentage points). Considerable increases were recorded in exports of pharmaceutical and tobacco products, cereals, and computer services. A drop in exports of petroleum and petroleum products went hand in hand with a contraction in imports. Although tourism, accommodation and catering activities suffered, they constitute a relatively small part of Lithuania's economy. At the same time, gross fixed capital formation decreased slightly in 2020, with investment in transport vehicles contracting the most. Private consumption declined, mainly due to limited opportunities to spend and a rise in precautionary saving.

Recovery picking up

The lockdown introduced at the end of 2020 was extended into 2021 and is set to weigh on the economy in the first half of the year. With the vaccination campaign gaining pace and the assumed consequential re-opening of the economy, domestic demand is forecast to support the overall recovery. This concerns predominantly private consumption. Record-high savings and more opportunities to enjoy goods and services are expected to spur private consumption over the coming years. Investment growth is projected to accelerate towards the end of the forecast horizon as uncertainty decreases and government investment is boosted by the RRF.

Exports, especially of pharmaceutical and petroleum products, are expected to put in strong performance in 2021, but a dynamic recovery is also anticipated for imports. Overall, net exports are forecast to be slightly negative. Lithuania's real GDP already returned to its pre-pandemic level in the first quarter of this year and is forecast to grow by 2.9% in 2021 and 3.9% in 2022.

Graph II.11.1: **Lithuania - Real GDP growth and contributions, output gap**



Population growth supporting labour supply

Preliminary data show that the average annual population in Lithuania grew in 2020, interrupting a long-standing decline. The main factor behind this was an almost doubling of net migration, which contributed to labour supply growth. However, preliminary data for the first quarter of 2021 suggest that the outlook for net migration has turned slightly negative again.

In January 2021, the unemployment rate stood at 9.6%, markedly higher than the rate of 6.2% one year ago. Gradual relaxation of various restriction measures imply a slow decrease in labour market slack. Therefore, the unemployment rate is forecast to remain elevated in 2021 before decreasing to 7.1% in 2022. Despite a jump in unemployment, wage growth remained strong in 2020, with wage growth in the public sector outpacing the rest of the economy. The improving economic situation should continue to support further increases in salaries in 2021 and 2022.

Higher inflation as energy prices rebound

HICP inflation moderated from 2.2% in 2019 to 1.1% in 2020 as sharp decreases in energy prices partially counterbalanced increases in other categories. Higher oil prices combined with the envisaged rebound in consumer demand and overall economic activity is set to push inflation close to 2% over the forecast horizon.

Continued support

In 2020, the fiscal response to the COVID-19 pandemic interrupted Lithuania's track record of general government surpluses and pushed the deficit to levels unseen for almost a decade. The general government balance worsened from 0.5% of GDP in 2019 to -7.4% in 2020. The deficit was mainly driven by government spending to cushion the economic fallout due to the pandemic. Subsidies and benefits, additional funding for healthcare and investment accounted for approximately 5.4% of GDP.

At the beginning of 2021, the measures planned to support the Lithuanian economy amounted to approximately 2% of GDP. However, as assumed in the Stability Programme, the 2021 stimulus package is expected to expand to 3% of GDP. Additional spending concerns subsidies, wages and benefits, and healthcare needs. Together with increases in pensions and wages in the public sector, this is expected to push the general government deficit above 8% of GDP. Assuming that temporary stimulus measures are withdrawn, the general government deficit is expected to fall to 6% of GDP in 2022.

For 2021 and 2022, the fiscal forecast also takes into account revenues and expenditures linked to the implementation of Lithuania's Recovery and Resilience Plan. As indicated in the 2021 Stability Programme, costs to be funded from the RRF are expected to be 0.3% of GDP in 2021 and 0.8% of GDP in 2022.

The debt-to-GDP ratio grew from 35.9% in 2019 to 47.3% in 2020 due to a surge in the general government deficit. In 2021 and 2022, the general government debt is expected to stand at 51.9% and 54.1% of GDP, respectively. The projected increases in the debt-to-GDP ratio are somewhat lower than expected deficits over the forecast horizon, as current cash reserves are envisaged to contract, including due to an upcoming bond redemption in 2022.

Table II.11.1:

Main features of country forecast - LITHUANIA

		2019		01-16	Annual percentage change					
	bn EUR	Curr. prices	% GDP		2017	2018	2019	2020	2021	2022
GDP		48.8	100.0	4.1	4.3	3.9	4.3	**-0.9**	**2.9**	**3.9**
Private Consumption		29.5	60.5	4.3	3.5	3.7	3.4	**-2.0**	**3.1**	**3.8**
Public Consumption		8.2	16.8	1.0	-0.3	0.2	0.1	**0.6**	**0.1**	**-0.5**
Gross fixed capital formation		10.4	21.4	5.5	8.9	10.0	6.2	**-0.2**	**6.2**	**9.1**
of which: equipment		3.4	7.0	7.5	9.2	8.0	3.6	**-5.1**	**7.9**	**9.8**
Exports (goods and services)		37.8	77.4	8.9	13.5	6.8	9.5	**0.0**	**6.5**	**6.0**
Imports (goods and services)		35.3	72.2	8.5	11.1	6.0	6.3	**-5.3**	**7.9**	**7.1**
GNI (GDP deflator)		47.1	96.5	3.9	4.2	4.5	4.0	**-1.0**	**2.9**	**4.9**
Contribution to GDP growth:	Domestic demand			4.3	3.9	4.3	3.4	**-1.2**	**3.2**	**4.2**
	Inventories			0.2	-1.3	-1.1	-1.5	**-3.5**	**0.0**	**0.0**
	Net exports			-0.3	1.7	0.7	2.5	**3.8**	**-0.3**	**-0.3**
Employment				-0.1	-0.7	1.4	0.5	**-1.5**	**0.4**	**0.8**
Unemployment rate (a)				11.2	7.1	6.2	6.3	**8.5**	**8.3**	**7.1**
Compensation of employees / head				7.2	9.5	7.9	10.2	**8.2**	**6.0**	**4.6**
Unit labour costs whole economy				2.9	4.3	5.2	6.1	**7.5**	**3.5**	**1.5**
Real unit labour cost				0.1	0.0	1.6	3.2	**6.3**	**1.5**	**-0.6**
Saving rate of households (b)				3.2	0.1	0.2	4.1	**11.9**	**9.3**	**5.6**
GDP deflator				2.7	4.2	3.5	2.8	**1.1**	**2.0**	**2.1**
Harmonised index of consumer prices				2.4	3.7	2.5	2.2	**1.1**	**1.9**	**1.9**
Terms of trade goods				0.6	0.4	-1.0	1.3	**1.5**	**-1.4**	**-0.8**
Trade balance (goods) (c)				-8.2	-4.9	-6.1	-4.8	**-0.6**	**-1.9**	**-3.1**
Current-account balance (c)				-4.5	0.5	0.3	3.3	**7.6**	**6.0**	**5.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.4	1.8	1.9	5.2	**9.7**	**8.2**	**8.2**
General government balance (c)				-2.7	0.5	0.6	0.5	**-7.4**	**-8.2**	**-6.0**
Cyclically-adjusted budget balance (d)				-2.6	-0.7	-0.8	-0.9	**-6.7**	**-7.0**	**-5.0**
Structural budget balance (d)				-0.8	-0.7	-0.8	-1.0	**-6.7**	**-7.0**	**-5.0**
General government gross debt (c)				28.3	39.1	33.7	35.9	**47.3**	**51.9**	**54.1**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.