

Lithuania



There were some significant changes not only in Lithuania's economy but also in its political scene during 2008. The conservative Homeland Union-Lithuanian Christian Democrats won the parliamentary elections in October to form the ruling coalition with three other parties, excluding the Social Democratic Party that had led the country for the previous eight years. Also, the convincing victory of Dalia Grybauskaitė, the former EU budget commissioner, in the presidential election held in May 2009 is likely to lead to a more active presidential role in the economic life of the country.

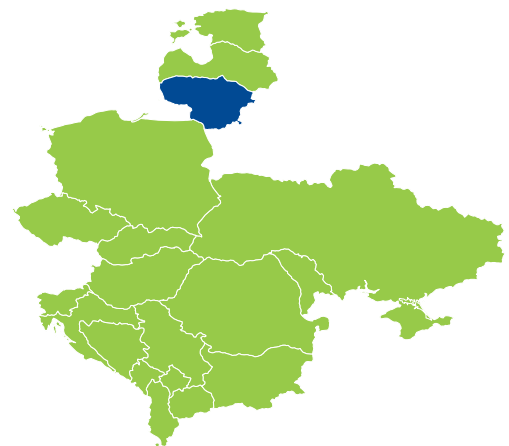
The country has a population of approximately 3.6 million, of which 84% are Lithuanian, 6.1% Polish and 4.9% Russian. The average monthly gross wage in 2008 was EUR 672, up by 13% on the previous year. Unemployment also began to rise in 2008, rising by 3.7 percentage points during the year to 7.9% and reaching 11.9% at the end of the first quarter of 2009.

After several years of impressive economic growth, Lithuania descended into recession as the economy decelerated more rapidly than anticipated. Its recovery appears to be highly dependent on the recovery of the global economy and its internal fiscal policy.

The gradual economic decline in the first three quarters of 2008 was replaced by a rapid drop in the fourth, which in turn preceded a double-digit decline in GDP during early 2009. Responding to the economic downturn, the new government took action at the end of 2008 with a crisis-management plan, which among other measures included fiscal reforms.

These included a VAT increase from 18% to 19% (alongside the abolition of almost all VAT exemptions) while corporate income tax was increased from 15% to 20% and certain excise duties were also increased. From September 2009 VAT will be increased to 21%.

The Lithuanian government is confident that the country does not need the support of the IMF and sees no need to devalue the Lithuanian Litas which is currently pegged to the Euro, although there is persistent speculation as to the sustainability of the currency. Instead of IMF support, the government aims to cut spending and boost revenue to narrow the budget deficit. The first budget cut was introduced in May 2009 when spending was reduced by EUR 870 million (some 2.9% of projected GDP). The government acknowledged that this spending cut alone would be insufficient and more action may need to be taken later in the year.



A rapid decline in demand from Lithuania's main export markets in March 2009 saw a year-on-year fall of about a quarter. A simultaneous collapse in domestic demand, however, reduced imports to substantially cut the trade deficit.

Consumer price inflation peaked at 12% in June 2008 (averaging 8.5% in the year as a whole) and the first months of 2009 saw prices rise only slowly, reflecting the increase in excise duties and higher value-added tax. However, considerably reduced household consumption resulted in monthly deflation during the second quarter of 2009, recorded at 0.8% in July 2009. Yearly inflation decreased to 3%. This elimination of inflationary pressures may ease the route to Euro adoption by 2012, although this will require strict budgetary control.

The weakening of domestic demand and the contraction of export markets have both hit manufacturers.

Companies are facing insolvency problems as banks cut lending and tighten their borrowing conditions. The government has therefore prepared an economic stimulus package (of approximately 5% of GDP) which aims to stimulate the credit market, promote exports and foreign direct investment (FDI), and accelerate the assimilation of EU funds.

Energy policy has been a controversial issue in Lithuania since 2004, when as part of its deal to join the EU it agreed to close its ageing Ignalina nuclear power plant by the end of 2009. While this is an unpopular step due to the high levels of employment the plant provides, decommissioning of the plant's one remaining unit is still expected to take place on 31 December 2009. The economic crisis has now placed in doubt the future of a project to replace the plant with a modern equivalent at nearby Visaginas, which was planned to be built in partnership with Poland, Latvia and Estonia.



Lithuania	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	-0.3	-0.3	3.6
Average monthly gross wage (EUR)	18.8	13.0	671.7
EUR Exchange rate vis-à-vis	0.0	0.0	3.5
USD Exchange rate vis-à-vis	-1.6	4.4	2.5
	Real change (%)	Real change (%)	EUR mil.
GDP	8.2	3.0	32,292
Private consumption	11.7	4.7	21,054
Public consumption	3.5	4.3	6,180
Gross fixed capital investments	17.1	-6.1	7,994
Exports (goods and services)	11.4	11.3	19,305
Imports (goods and services)	13.9	10.0	22,921
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-941	346	-4,957
Current account balance	-919	412	-3,738
General government balance	50	-292	-390
General government gross debt	408	73	4,649
External debt	361	-22	3,222
Foreign currency reserves	862	-708	4,457
	Percentage point change	Percentage point change	%
Economic activity rate	-0.4	0.4	56.7
Unemployment rate	-2.1	3.7	7.9
CPI rate (previous year = 100%)	1.7	0.4	8.5
Central bank interest rate	0.7	-2.0	3.0
1-year yield on Treasury Bill	0.7	1.3	5.8
10-year yield on Treasury Bond	0.4	8.9	14.0

Sources used: Reuters EcoWin Pro

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