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## **Lithuania: GDP growth to reach record level**

In 2003, the Lithuanian economy once again displayed a very high rate of growth: 9% as against 6.8% in 2002. On the supply side, economic growth was predominantly attributable to strong performance in the industry and construction sectors. On the demand side, a marked rise in domestic demand was the decisive factor. Owing to a rise in employment, a sharp increase in real wages and strong growth in household lending, private consumption recorded impressive growth: over 11%. Gross fixed capital formation grew by 11.4%; public consumption by 6%. The contribution of foreign trade to GDP was also positive.

After near stagnation in 2002, consumer prices declined by 1.2% in 2003. Producer prices have also declined over recent years, but less so in 2003 than in 2002 (0.5% compared to 2.8%). Deflationary tendencies continued in the first quarter of 2004; however, they should diminish or completely vanish in the second half of the current year owing to the tax and price adjustments in the context of EU accession.

The current account deficit expanded from 5.2% of GDP in 2002 to 6.6% of GDP in 2003, the reason being a considerable deterioration in the income balance following an increase in dividend payments. At the end of 2003, FDI stock overall totalled some EUR 4 billion or somewhat over EUR 1000 per capita. The key investor countries were Denmark, Sweden and Germany. For the most part, privatization projects provided the backdrop for FDI. In 2003, delays in a large number of additional privatization projects attracted only a meagre inflow of FDI: EUR 160 million compared to EUR 772 million in 2002.

Lithuania's exports (customs statistics) outstripped imports in 2003 (9% versus 6%); the trade deficit dropped correspondingly to EUR 2.3 billion. Within exports, the share of the EU-15 countries declined sharply from 50% to 43%, whereas the share of the accession countries rose to 19%. The most important export markets were Switzerland (12%), Russia (10%) and Germany (10%). Mineral fuels played an increasingly important role in this context, their share in total exports rising to 20%. The next most significant export items were transport equipment (15%), together with textiles and textile products (14%). In terms of imports, the EU-15 share dropped slightly to 44%, while the share of the accession countries reached 12%. Russia accounted for 23% of Lithuania's imports. Within imports, machinery and mineral fuels were the largest commodity groups.

Lithuania's public debt fell following the drop in government-backed loans and the national currency's appreciation against the US dollar.

In 2004, domestic demand (primarily investment activity) is expected to emerge once more as the engine of growth. Thanks to EU co-financed projects, construction will play a major

role in terms of investment. Economic growth of around 10% is considered likely in 2004. It is hoped that the budget deficit in 2004 will remain just below 3% of GDP, thus not impinging on the requirements set in the Stability and Growth Pact. A similarly high budget deficit can be expected for 2005, as the government plans to lower the personal income tax rate from 33% to 26%. Lithuania, fulfilling the Maastricht convergence criteria, entered the ERM II on June 28 at a 3.4528 central rate of the litas to the euro.

Table LT

## Lithuania: Selected Economic Indicators

|  | 1999    | 2000    | 2001    | 2002    | 2003 <sup>1)</sup> | 2003<br>1st quarter | 2004                  | 2004<br>forecast | 2005  |
|--|---------|---------|---------|---------|--------------------|---------------------|-----------------------|------------------|-------|
| Population, th pers., mid-year <sup>2)</sup>             | 3524.2  | 3499.5  | 3481.3  | 3469.1  | 3454.0             | .                   | .                     | .                | .     |
| Gross domestic product, LTL mn, nom.                     | 43359.4 | 45525.9 | 48378.7 | 51633.3 | 55736.7            | 12386.0             | 13357.0 <sup>1)</sup> | 61500            | 68000 |
| annual change in % (real)                                | -1.7    | 3.9     | 6.4     | 6.8     | 9.0                | 9.6                 | 7.7 <sup>1)</sup>     | 10               | 8.5   |
| GDP/capita (EUR at exchange rate)                        | 2881    | 3517    | 3876    | 4301    | 4599               | .                   | .                     | .                | .     |
| GDP/capita (EUR at PPP - wiiw)                           | 7440    | 8110    | 8850    | 9580    | 10600              | .                   | .                     | .                | .     |
| Gross industrial production                              |         |         |         |         |                    |                     |                       |                  |       |
| annual change in % (real)                                | -9.9    | 2.2     | 16.0    | 3.1     | 16.1               | 20.9                | 9.6                   | 11               | 9     |
| Construction industry <sup>2)</sup>                      |         |         |         |         |                    |                     |                       |                  |       |
| annual change in % (real)                                | -8.5    | -17.8   | 7.5     | 21.8    | 23.7               | 22.6                | 18.6                  | .                | .     |
| Consumption of households, LTL mn, nom.                  | 28315.5 | 29530.6 | 31352.6 | 33091.8 | 35869.2            | 7723.3              | .                     | .                | .     |
| annual change in % (real)                                | 3.2     | 6.4     | 4.0     | 6.2     | 11.1               | 5.2                 | .                     | 7                | 6     |
| Gross fixed capital form., LTL bn, nom.                  | 9614.2  | 8565.3  | 9784.6  | 10549.2 | 11569.4            | 2048.3              | .                     | .                | .     |
| annual change in % (real)                                | -6.1    | -9.0    | 13.5    | 8.7     | 11.4               | 6.2                 | .                     | 15               | 13    |
| LFS - employed persons, th, avg. <sup>3)</sup>           | 1598.4  | 1397.8  | 1351.8  | 1405.9  | 1438.0             | 1387.9              | .                     | .                | .     |
| annual change in % <sup>3)</sup>                         | 0.1     | -12.6   | -3.3    | 4.0     | 2.3                | 2.4                 | .                     | .                | .     |
| LFS - employed pers. in industry, th, avg. <sup>3)</sup> | 330.3   | 290.8   | 281.1   | 293.3   | 297.5              | 299.2               | .                     | .                | .     |
| annual change in % <sup>3)</sup>                         | -2.7    | -12.0   | -3.3    | 4.3     | 1.4                | 5.8                 | .                     | .                | .     |
| LFS - unemployed persons, average <sup>3)</sup>          | 263.3   | 273.7   | 284.0   | 224.4   | 203.9              | 218.8               | .                     | .                | .     |
| LFS - unemployment rate in %, average <sup>3)</sup>      | 14.1    | 16.4    | 17.4    | 13.8    | 12.4               | 13.6                | .                     | 11.5             | 10    |
| Reg. unemployment rate in %, end of period               | 10.0    | 12.6    | 12.9    | 10.9    | 7.7                | 9.3                 | 7.9                   | 7.5              | 7     |
| Average gross monthly wages, LTL <sup>4)</sup>           | 987     | 971     | 982     | 1014    | 1056               | 1125                | 1146                  | .                | .     |
| annual change in % (real, gross)                         | 4.8     | -5.1    | -0.3    | 3.8     | 7.8                | 5.1                 | 3.1                   | .                | .     |
| Consumer prices, % p.a.                                  | 0.8     | 1.0     | 1.3     | 0.3     | -1.2               | -1.7                | -1.2                  | 0.3              | 1.5   |
| Producer prices in industry, % p.a.                      | 1.7     | 16.0    | -3.0    | -2.8    | -0.5               | 4.1                 | -2.0                  | 0                | 1     |
| General govern.budget, EU-def., % GDP <sup>3)</sup>      |         |         |         |         |                    |                     |                       |                  |       |
| Revenues   | 38.0    | 36.4    | 33.6    | 33.8    | 33.9               | .                   | .                     | .                | .     |
| Expenditures   | 43.7    | 39.0    | 35.7    | 35.2    | 35.6               | .                   | .                     | .                | .     |
| Deficit (-) / surplus (+)                                | -5.7    | -2.6    | -2.1    | -1.4    | -1.7               | .                   | .                     | -2.5             | -2.8  |
| Public debt in % of GDP <sup>3)</sup>                    | 23.4    | 24.3    | 23.4    | 22.8    | 21.9               | .                   | .                     | 22.5             | 23    |
| Money market rate, % p.a., end of period <sup>4)</sup>   | 15.9    | 7.5     | 4.5     | 3.3     | 2.4                | 2.5                 | 2.1                   | .                | .     |
| Current account, EUR mn                                  | -1118   | -730    | -639    | -772    | -1063              | -136                | -269                  | -1300            | -1480 |
| Current account in % of GDP                              | -11.0   | -5.9    | -4.7    | -5.2    | -6.6               | -3.8                | -7.0                  | -7.3             | -7.5  |
| Total reserves minus gold, EUR mn                        | 1187    | 1410    | 1835    | 2253    | 2697               | 2635                | 2759                  | .                | .     |
| Gross external debt, EUR mn                              | 4499    | 5221    | 5974    | 5945    | 6905               | 6356                | .                     | .                | .     |
| FDI inflow, EUR mn                                       | 457     | 412     | 499     | 772     | 160                | 151                 | 113                   | 700              | 750   |
| FDI outflow, EUR mn                                      | 8       | 4       | 8       | 18      | 34                 | 9                   | -3                    | .                | .     |
| Exports of goods, BOP, EUR mn                            | 2951.2  | 4395.0  | 5460.8  | 6363.0  | 6760.2             | 1701.8              | 1681.5                | 7570             | 8710  |
| annual growth rate in %                                  | -16.3   | 48.9    | 24.3    | 16.5    | 6.2                | 24.9                | -1.2                  | 12               | 15    |
| Imports of goods, BOP, EUR mn                            | 4275.4  | 5603.3  | 6696.9  | 7770.2  | 8181.0             | 1830.8              | 2037.6                | 9080             | 10170 |
| annual growth rate in %                                  | -12.4   | 31.1    | 19.5    | 16.0    | 5.3                | 10.8                | 11.3                  | 11               | 12    |
| Exports of services, BOP, EUR mn                         | 1025.7  | 1149.2  | 1293.0  | 1560.5  | 1600.2             | 352.7               | 362.9                 | .                | .     |
| annual growth rate in %                                  | 3.9     | 12.0    | 12.5    | 20.7    | 2.5                | 6.0                 | 2.9                   | .                | .     |
| Imports of services, BOP, EUR mn                         | 739.0   | 735.0   | 783.0   | 986.0   | 1067.7             | 228.9               | 237.6                 | .                | .     |
| annual growth rate in %                                  | -4.4    | -0.5    | 6.5     | 25.9    | 8.3                | 13.6                | 3.8                   | .                | .     |
| Average exchange rate LTL/USD                            | 4.00    | 4.00    | 4.00    | 3.67    | 3.06               | 3.22                | 2.76                  | .                | .     |
| Average exchange rate LTL/EUR (ECU)                      | 4.27    | 3.70    | 3.58    | 3.46    | 3.45               | 3.45                | 3.45                  | 3.45             | 3.45  |
| Purchasing power parity LTL/USD, wiiw                    | 1.51    | 1.49    | 1.45    | 1.45    | 1.40               | .                   | .                     | .                | .     |
| Purchasing power parity LTL/EUR, wiiw                    | 1.65    | 1.60    | 1.57    | 1.55    | 1.52               | .                   | .                     | .                | .     |

Notes: 1) Preliminary. - 2) Enterprises with more than 20 employees. - 3) According to ESA 95, excessive deficit procedure. - 4) VILIBOR 1 month interbank rate.

Source: wiiw Database incorporating national statistics; AMECO; wiiw forecasts.