



## Summary

Lithuania's recovery will slow in 2012, as domestic demand is still recovering and eurozone demand will be slow, reducing the growth of Lithuania's export sector. At the same time, the temporary surplus on the current account balance, as a result of the sharp fall in domestic demand, has once again turned into a deficit. This will put further pressure on the country's FX reserves which now cover a low 3.1 months of imports. In order to maintain its peg to the euro, Lithuania may be forced to call on the IMF. The likelihood of IMF involvement would further increase if the eurozone debt crisis worsens, or Greece leaves the eurozone.

## Things to watch:

- Eurozone debt crisis
- Low FX reserves

Author: **Anouk Ruhaak**  
Country Risk Research  
Economic Research Department  
Rabobank Nederland

Contact details: P.O.Box 17100, 3500 HG Utrecht, The Netherlands  
+31-(0)30-21-64860  
[A.N.Ruhaak@rn.rabobank.nl](mailto:A.N.Ruhaak@rn.rabobank.nl)

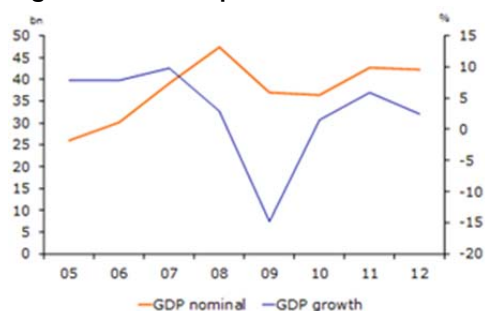
Lithuania						
<b>National facts</b>			<b>Social and governance indicators</b> rank / total			
Type of government	Democratic Republic		Human Development Index (rank)	40 / 187		
Capital	Vilnius		Ease of doing business (rank)	27 / 183		
Surface area (thousand sq km)	65		Economic freedom index (rank)	23 / 179		
Population (millions)	3.2		Corruption perceptions index (rank)	50 / 183		
Main languages	Lithuanian (80%) Other (20%)		Press freedom index (rank)	30 / 178		
Main religions	Roman Catholic (79%) Russian Orthodox (4.1%) Other (16.9%)		Gini index (income distribution)	37.57		
Head of State (president)	Dalia Grybauskaite		Population below \$1 per day (PPP)	0.0016		
Head of Government (prime-minister)	Andrius Kubilius		<b>Foreign trade (2008)</b>			
Monetary unit	Litas (LTL)		<i>Main export partners (%)</i> <i>Main import partners (%)</i>			
<b>Economy (2008)</b>			Russia	17	Russia	33
<i>Economic size</i>			Latvia	10	Germany	10
	<i>bn USD</i>	<i>% world total</i>	Germany	9	Poland	9
Nominal GDP	43	0.06	Poland	7	Latvia	7
Nominal GDP at PPP	61	0.08	<i>Main export products (%)</i>			
Export value of goods and services	33	0.15	Mineral products	24		
IMF quatum (in mln SDR)	184	0.08	Machinery & Equipment	11		
<i>Economic structure</i>			Chemicals	8		
	<i>2007</i>	<i>5-year av.</i>	Transport Equipment	8		
Real GDP growth	5.9	1.4	<i>Main import products (%)</i>			
Agriculture (% of GDP)	3	4	Mineral products	33		
Industry (% of GDP)	29	30	Machinery & Equipment	13		
Services (% of GDP)	68	66	Chemicals	11		
<i>Standards of living</i>			Transport Equipment	8		
	<i>USD</i>	<i>% world av.</i>	<i>Openness of the economy</i>			
Nominal GDP per head	13111	121	Export value of G&S (% of GDP)	78		
Nominal GDP per head at PPP	18682	150	Import value of G&S (% of GDP)	80		
Real GDP per head	8906	109	Inward FDI (% of GDP)	3.0		

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

### Economic structure and growth

Two years of overheating and the global crisis caused the economy to contract by roughly 15% in 2009, a bust from which Lithuania is still recovering. Since then, growth has not returned to pre-crisis levels and GDP is still below its 2007-level (see graph). Although strong growth of 5.9% in 2011 seemed promising, we expect a slowdown in 2012 and the economy is expected to grow by a meagre 2.4%. This weak recovery is partly explained by the ongoing crisis in the eurozone, which hampers demand for Lithuanian exports. Meanwhile, domestic demand and investments have strengthened somewhat in the last year, as unemployment fell. However, for 2012 we expect a slight rise in unemployment and, consequently, we expect the recovery of private consumption to slow.

Figure 1: Growth performance



Source: EIU

### Political and social situation

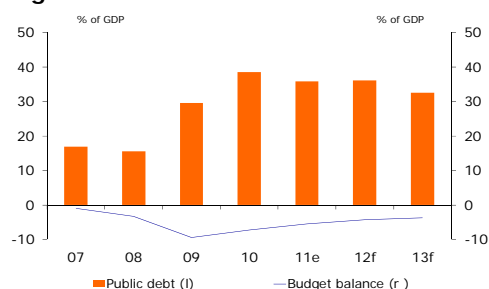
Lithuania's political situation is unstable as well, as the coalition consists of four parties with deep ideological differences. Meanwhile, the population is growing increasingly tired of the far-stretching austerity measures. These are especially painful in light of the country's high unemployment rate, which rose from 8% of the workforce in 2008, to over 15% of the workforce in 2011. The adverse economic conditions have translated in an increase in public discontent, but we do not expect the resulting protests to severely destabilize the economy.

### Economic policy

Another concern is Lithuania's budget deficit. At the start of the crisis, the budget deficit widened considerably, thereby pushing up public debt. Also for 2012, we do not expect that the government will come in below the 3% of GDP required under the Maastricht criteria. Still, with public debt at 36% of GDP in 2011, these concerns should not be overstated.

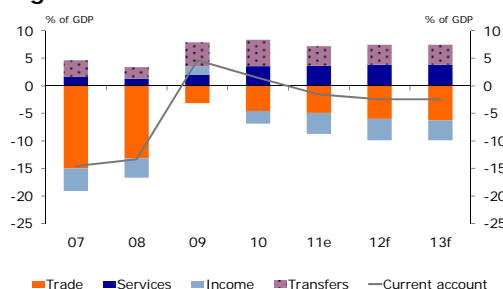
Inflation shot up to over 4% in 2011, as a result of increasing commodity prices. For 2012, we expect inflation to come in at roughly 3%. Monetary policy focuses on maintaining the exchange rate of the litas fixed against the euro. We do expect this peg to remain in place until Lithuania enters the eurozone, which we do not expect to happen before 2016. However, a worsening of the eurozone crisis could undermine Lithuania's motivation to join the eurozone and therefore the necessity to maintain the peg.

Figure 2: Public finances



Source: EIU

Figure 3: Current account balance

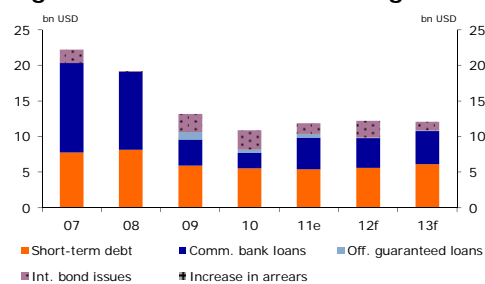


Source: EcoWin

### Balance of Payments

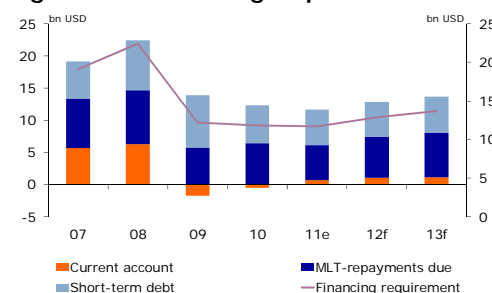
Although the deficit on the current account turned into a surplus at the start of the crisis, increased repatriation of profits by investors has once again resulted in a current account deficit. For 2012, we expect this deficit to increase to above 2% of GDP, from 1.6% of GDP in 2012. Meanwhile, FX reserves are low and only cover 3.2 months of imports.

Figure 4: External debt financing



Source: EIU

Figure 4: Refinancing requirement



Source: EcoWin

### External position

Lithuania's external debt grew by over 16% in 2011 (on a per capita basis), reaching 73% of GDP (which is still less than the 83% of GDP reported in 2010). With FX reserves only covering 69% of the total debt service due (including short term debt), Lithuania could be forced to call on the IMF. This would certainly be needed in case of a (messy) Greek exit from the eurozone.

Lithuania							
Selection of economic indicators	2007	2008	2009	2010	2011	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	9.8	2.9	-14.8	1.4	5.9	2.4	2.8
Consumer prices (average % change pa)	5.7	10.9	4.5	1.3	4.1	3.2	2.7
Current account balance (% of GDP)	-14.6	-13.3	4.7	1.5	-1.6	-2.4	-2.5
Total foreign exchange reserves (mln USD)	7557	6280	6420	6336	7915	8680	9260
<i>Economic growth</i>							
GDP (% real change pa)	9.8	2.9	-14.8	1.4	5.9	2.4	2.8
Gross fixed investment (% real change pa)	23.0	-5.2	-40.0	1.0	21.2	4.0	5.0
Private consumption (real % change pa)	12.1	3.7	-17.7	-4.9	6.1	3.5	3.7
Government consumption (% real change pa)	3.2	7.3	-1.9	-3.3	0.2	0.3	1.0
Exports of G&S (% real change pa)	3.0	11.6	-12.7	17.4	14.9	3.0	4.0
Imports of G&S (% real change pa)	10.7	10.3	-28.4	17.3	14.0	5.0	4.0
<i>Economic policy</i>							
Budget balance (% of GDP)	-1.0	-3.3	-9.4	-7.3	-5.5	-4.3	-3.7
Public debt (% of GDP)	17	16	30	39	36	36	33
Money market interest rate (%)	4.2	4.0	0.9	0.2	0.8	1.0	2.0
M2 growth (% change pa)	21	0	1	9	5	5	5
Consumer prices (average % change pa)	5.7	10.9	4.5	1.3	4.1	3.2	2.7
Exchange rate LCU to USD (average)	2.5	2.4	2.5	2.6	2.5	2.6	2.7
Recorded unemployment (%)	4.3	5.8	13.7	17.8	15.4	15.7	15.4
<i>Balance of payments (mln USD)</i>							
Current account balance	-5692	-6310	1725	534	-670	-1030	-1090
Trade balance	-5874	-6231	-1181	-1684	-2110	-2540	-2750
Export value of goods and services	17162	23745	16484	20729	28080	29090	29770
Import value of goods and services	23036	29976	17665	22413	30190	31630	32520
Services balance	632	568	727	1288	1550	1600	1670
Income balance	-1614	-1683	554	-828	-1610	-1630	-1620
Transfer balance	1163	1037	1626	1758	1500	1540	1610
Net direct investment flows	1409	1638	-185	666	1070	600	700
Net portfolio investment flows	-2081	-447	-1136	-770	600	300	450
Net debt flows	8804	3143	-709	-1403	874	400	-490
Other capital flows (negative is flight)	-500	706	489	945	-264	510	1010
Change in international reserves	1939	-1270	184	-27	1611	790	580
<i>External position (mln USD)</i>							
Total foreign debt	29430	31777	31717	30151	31025	31430	30930
Short-term debt	7763	8174	5949	5549	5449	5650	6150
Total debt service due, incl. short-term debt	14169	17147	14702	12847	11521	12320	13100
Total foreign exchange reserves	7557	6280	6420	6336	7915	8680	9260
International investment position	-23488	-23551	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	19196	18111	n.a.	n.a.	n.a.	n.a.	n.a.
Total liabilities	42683	41662	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-15.0	-13.2	-3.2	-4.6	-5.0	-6.0	-6.2
Current account balance (% of GDP)	-14.6	-13.3	4.7	1.5	-1.6	-2.4	-2.5
Inward FDI (% of GDP)	5.2	4.2	0.0	2.1	3.0	2.1	2.3
Foreign debt (% of GDP)	75	67	86	83	73	74	70
Foreign debt (% of XGSIT)	122	100	134	106	83	81	77
International investment position (% of GDP)	-60.1	-49.8	n.a.	n.a.	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	59	54	62	45	31	32	33
Interest service ratio incl. arrears (% of XGSIT)	3	3	3	2	1	1	1
FX-reserves import cover (months)	3.9	2.5	4.4	3.4	3.1	3.3	3.4
FX-reserves debt service cover (%)	53	37	44	49	69	70	71
Liquidity ratio	85	79	101	100	106	105	106

Source: EIU

**Disclaimer**

This document is issued by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. incorporated in the Netherlands, trading as Rabobank Nederland, and regulated by the FSA. The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy or completeness. It is for information purposes only and should not be construed as an offer for sale or subscription of, or solicitation of an offer to buy or subscribe for any securities or derivatives. The information contained herein is not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient. All opinions expressed herein are subject to change without notice. Neither Rabobank Nederland, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith, and their directors, officers and/or employees may have had a long or short position and may have traded or acted as principal in the securities described within this report, or related securities. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities are described in this report, or any related investment. This document is for distribution in or from the Netherlands and the United Kingdom, and is directed only at authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 or to persons described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons categorised as a "market counterparty or intermediate customer" in accordance with COBS 3.2.5. The document is not intended to be distributed, or passed on, directly or indirectly, to those who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons. The distribution of this document in other jurisdictions may be restricted by law and recipients into whose possession this document comes from should inform themselves about, and observe any such restrictions. Neither this document nor any copy of it may be taken or transmitted, or distributed directly or indirectly into the United States, Canada, and Japan or to any US-person. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of Rabobank Nederland. By accepting this document you agree to be bound by the foregoing restrictions.