

# Macro Monitor

## Lithuania

- In the following we present an updated outlook on the Lithuanian economy given the latest economic releases for October and November. Lithuanian quarterly national accounts data is characterised by a significant correction, which reduces the reliability of our model forecast.
- After the revision of Q3 data the GDP growth rate rose from 0.6% to 1.1% y/y. Third quarter development has started to show recovery in domestic demand. Particularly significant were changes in fixed investment spending, which rose by 15% y/y in Q3. Imports again grew faster than exports in Q3 – this is not a good trend, as it suggests that the recovery in domestic demand could once again turn the current account balance into deficit. We now expect the Lithuanian economy to grow by 0.8% y/y in 2010 (versus our previous expectation of 0.5% y/y) and 3.6% in 2011E (3.7% y/y previously).
- Over the coming months, inflation is likely to increase given fast-rising prices of fuel and higher excise duties. On the other hand, we do not expect significant inflationary pressures from a medium-term perspective and have made only slight upward adjustments to our inflation forecasts for 2011 and 2012.
- Lithuania's current account swung into a deficit of 0.9% of GDP in Q3 10 mostly due to widening income and trade deficits. We expect that this is more short term in nature and the current account surplus will remain over 2011-12 and deteriorate more significantly in 2013.

### Macro forecasts

Year	Gdp <sup>1</sup>	Private cons <sup>1</sup>	Fixed Inv <sup>1</sup>	Export <sup>1</sup>	Import <sup>1</sup>
2009	-14.7	-17.7	-39.9	-12.5	-28.0
2010	0.8	-3.3	-1.6	15.1	18.1
2011	3.6	3.3	17.8	13.5	16.2
2012	3.6	3.9	7.9	7.0	9.8

Source: Reuters Ecowin and Danske Markets

### Macro forecasts

Year	Trade Balance <sup>2,4</sup>	Current acc. <sup>2,4</sup>	Industrial prod. <sup>1</sup>	Unemployment <sup>3</sup>	Wages <sup>1</sup>	Inflation <sup>1</sup>
2009	-3.1	4.3	-14.4	15.6	-4.3	4.5
2010	-3.5	2.1	6.7	17.5	-4.2	1.3
2011	-1.8	5.4	19.7	16.5	1.3	2.3
2012	-4.3	2.7	14.6	16.1	2.6	2.2

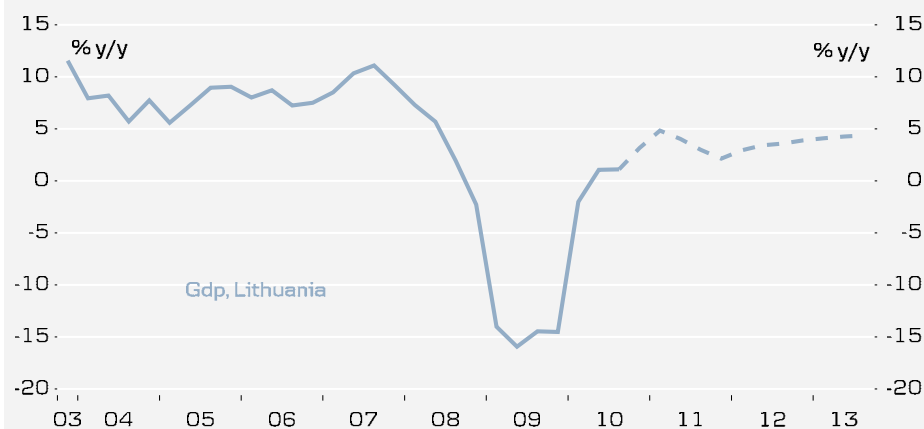
Source: Reuters Ecowin and Danske Markets

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# National account

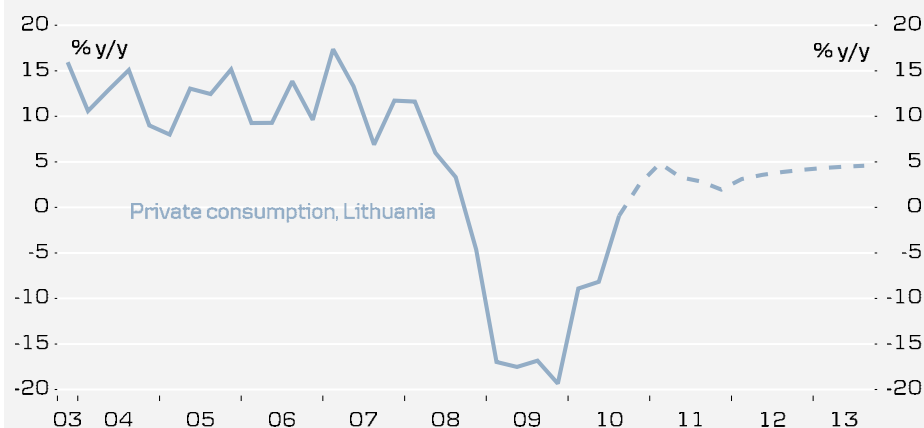
## Gross domestic product



Source: Reuters Ecowin and Danske Markets

- Following the revision of Q3 GDP data, the growth rate rose from 0.6% y/y to 1.1% y/y. Final consumption expenditure declined further in Q3, albeit at a slower pace of 1.1% y/y, while gross fixed capital formation grew by 15.0% y/y.
- We expect there to have been a step-up in economic growth in Q4. And forecast GDP growth of 0.8% y/y on average for 2010 and 3.6% y/y for 2011.

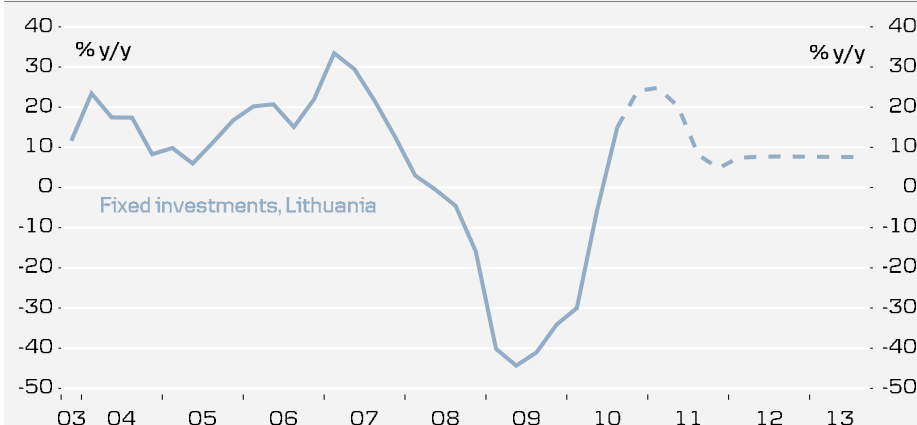
## Private consumption



Source: Reuters Ecowin and Danske Markets

- Lithuanian private consumption is slowly beginning to move up. The forecast for private consumption in 2010 has improved somewhat versus our previous expectations.
- Some uncertainties to consumption forecast associated with an additional fiscal tightening, which can be implemented from the second half of 2011.
- We predict private consumption will decline 3.3% y/y in 2010 and grow by 3.3% y/y in 2011.

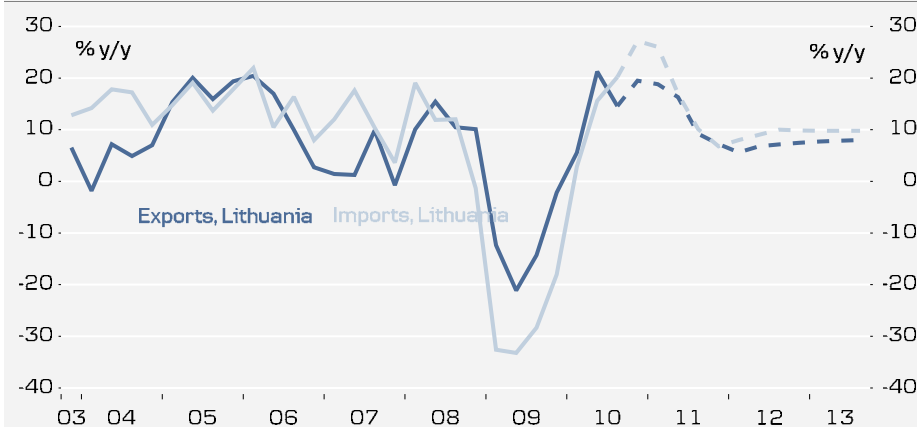
## Investments



Source: Reuters Ecowin and Danske Markets

- Lithuanian fixed investment rebounded significantly in Q3 10, mostly due to a low base effect and investment in infrastructure projects.
- Hence, the outlook for investment has improved significantly versus our previous expectations. Overall, we expect fixed investment to contract 1.6% y/y in 2010 and to grow 17.8% y/y in 2011.

## Net exports

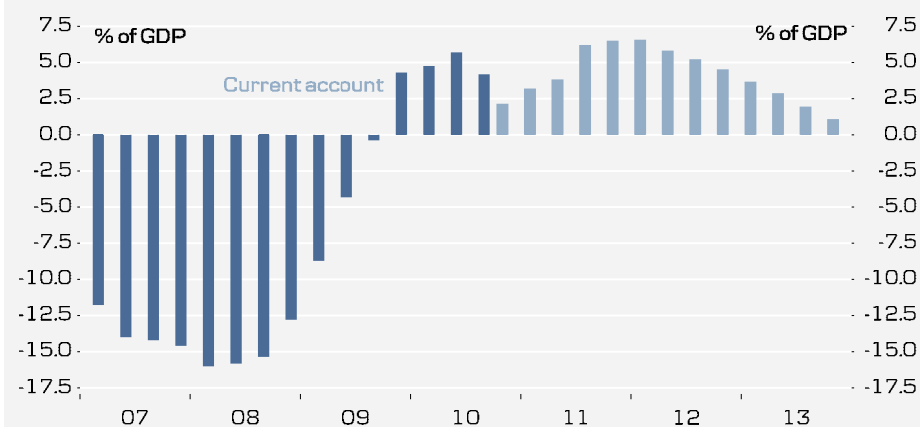


Source: Reuters Ecowin and Danske Markets

- The export recovery slowed in Q3, marking a somewhat worrying trend. On the other hand, the external environment remains favourable for Lithuania: its main trading partners - Germany, Poland, the Nordic countries and Russia - are rapidly recovering. Therefore, we believe that export growth will remain rapid during this year as well.
- However, the economy's dependence on exports needs to be even higher, as this is the only way to achieve higher economic growth rates. We expect exports to grow 15.1% y/y in 2010 and 13.5% y/y in 2011.
- The recovery of exports and the need to import more energy resources moved total imports up again. We expect imports to grow 18.1% y/y in 2010 and 16.2% y/y in 2011.

## External balances

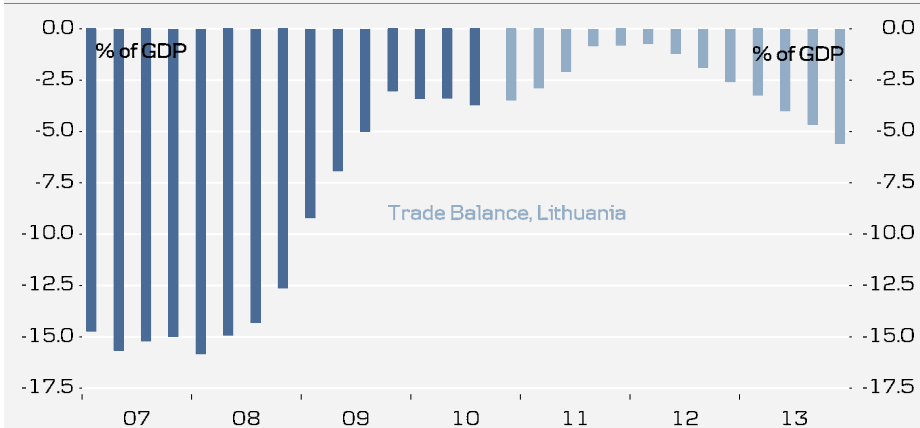
### Current account



Source: Reuters Ecowin and Danske Markets

- The unsustainably large current account deficit has improved sharply mainly due to the decrease in foreign trade deficit.
- However, this has started to weaken: Lithuania's current account swung into deficit in Q3 10 mostly due to widening income and trade deficits. So far, we forecast that this is more short-term in nature. However, there is a risk that the situation may start to deteriorate more rapidly than we forecast. This development would limit scope for any easing of fiscal policies.
- We expect the Lithuanian current account to remain in surplus of around 2% in 2010 and 5% in 2011.

### Trade balance

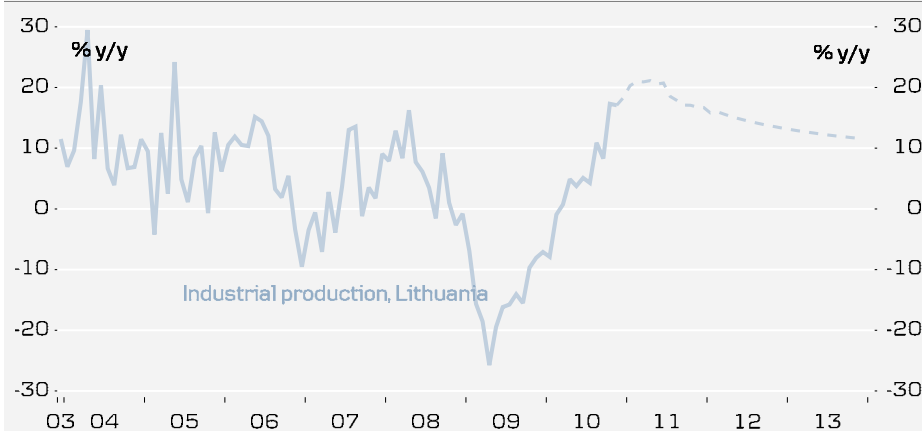


Source: Reuters Ecowin and Danske Markets

- Rapid export growth, which we hope will continue, should lead to improvements in foreign trade balance in 2011. However, a faster recovery in domestic demand would weaken the trade balance position in the medium term.
- Our forecast is a trade deficit of 3.5% of GDP in 2010 and 1.8% of GDP in 2011.

## Production and labour market

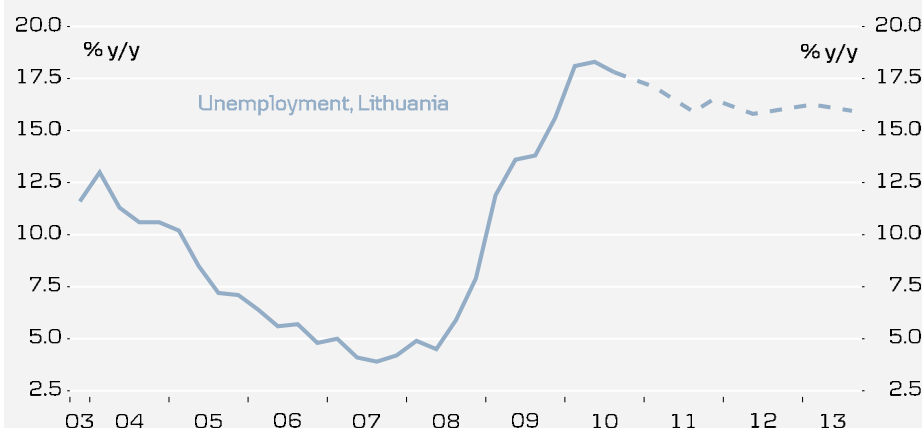
### Industrial production



Source: Reuters Ecowin and Danske Markets

- Industrial production recovered but mainly due to a positive base effect.
- The recovery of industrial production remains fragile but we expect industrial production growth to move to more sustainable rates during this year.
- We forecast industrial production on average to grow by 6.7% y/y in 2010 and by 19.7% y/y in 2011.

### Unemployment

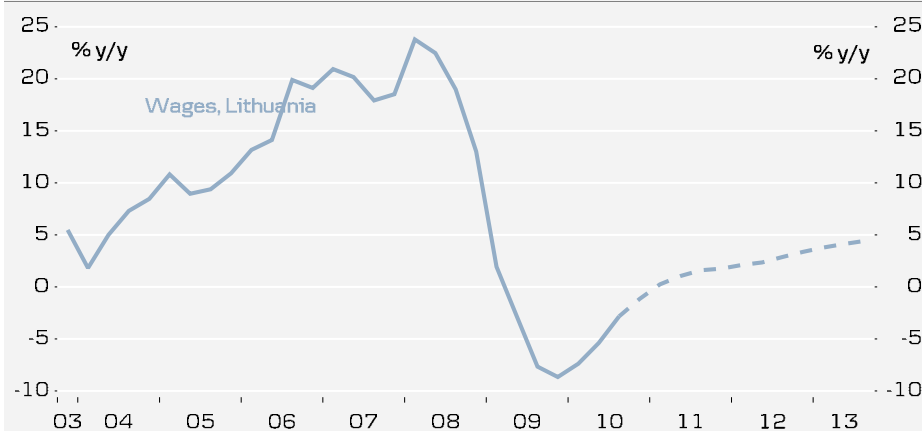


Source: Reuters Ecowin and Danske Markets

- The Lithuanian labour market continues to show signs of stabilisation. The unemployment rate declined by 0.5 percentage points to 17.8% in Q3.
- However, the unemployment rate decreased mainly due to acceleration in the emigration process. In the medium- to long-term, it is not a desirable labour market development scenario. Unabated emigration process can be a considerable obstacle to a more sustained economic growth outlook.
- Unemployment, which is structural by nature, is expected to remain high for some time. We forecast unemployment to remain at 17.5% in 2010 and then decline slightly to 16.5% in 2011.

# Wages and prices

## Wages



Source: Reuters Ecowin and Danske Markets

- The drop in growth, rising unemployment and cut in public wages have caused average wages to decline sharply.
- We expect wages to start to stabilise in 2011, although unemployment remains high but skill mismatches in certain sectors may lead to faster wage growth.
- On average, wages are expected to decline by 4.2% y/y in 2010 and to grow by 1.3% y/y in 2011.

## Inflation



Source: Reuters Ecowin and Danske Markets

- Lithuanian inflation has currently accelerated, and this trend is expected to continue in the coming months. This will be influenced by both internal and external factors. In 2011 increased excise taxes on tobacco and fuel might significantly affect CPI development.
- Thus, Lithuanian inflation should rise a bit faster than previously forecast. We expect inflation on average to be 1.3% y/y in 2010 and 2.3% y/y in 2011.

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