

Investment and exports to support solid growth in 2018

General Information



GDP	USD42.7bn (World ranking 84, World Bank 2016)
Population	2.9mn (World ranking 139, World Bank 2016)
Form of state	Parliamentary Democracy
Head of government	Saulius SKVERNELIS (Prime Minister)
Next elections	May 2019, presidential



Strengths

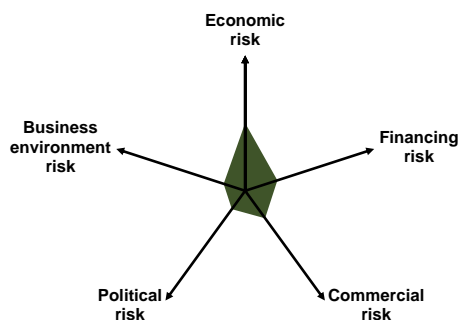
- Low systemic political risk
- Good international relations, EU and NATO membership
- Eurozone membership provides for low transfer and convertibility risk
- Sound public finances and access to international capital markets
- Strong business environment

Weaknesses

- High external debt burden
- The industry is dominated by one large refinery complex, Orlen Lietuva, which accounts for around 20% of total industrial output and a significant share in total exports
- High export and import dependence on Emerging Markets, notably Russia (here especially on crude oil imports)

Country Rating

BB1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Russia	14% 1	18% Russia
Latvia	10% 2	11% Germany
Poland	10% 3	10% Poland
Germany	7% 4	9% Latvia
Estonia	6% 5	5% China

By product (% of total)

Exports	Rank	Imports
Refined Petroleum Products	16% 1	11% Crude Oil
Furniture	6% 2	6% Refined Petroleum Products
Plastic Articles	5% 3	4% Plastic Articles
Fertilizers	4% 4	4% Pharmaceuticals
Other Edible Agricultural Prod	3% 5	3% Meat

Source: Chelem (2015)



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Rebounding investment boosts growth

Real GDP growth accelerated from +2.3% in full-year 2016 to +4.1% y/y in H1 2017, mainly thanks to a strong rebound in fixed capital formation. In Q3 2017, growth eased to +3.1% y/y as, despite rapid wage gains, rising inflation and declining employment contributed to a slowdown of consumer spending. This took the average GDP growth in the first three quarters of 2017 to +3.8% y/y. Fixed capital formation rose by +6.6% y/y in Q1-Q3, driven by private investment, but inventories subtracted -0.4pp from growth. Consumer spending increased by +4% and public spending by +1.5%. External trade activity has exceeded expectations in 2017 to date, benefiting from favorable trends in global trade. Both exports and imports rose by +12.2% y/y, so that net exports made a small contribution of +0.1pp to Q1-Q3 growth.

Looking ahead, investment and exports should support economic activity in the next two years while consumer spending is expected to moderate somewhat as a result of higher inflation and falling employment due to negative demographic trends and emigration. Overall, we forecast full-year real GDP growth to edge down from an expected +3.5% in 2017 to around +3.2% in 2018 and +3% in 2019.

Stable macroeconomic fundamentals

A hike in excise duties at the start of 2017, higher prices for fuels, foodstuff and related services as well as rapid wage growth pushed up consumer price inflation to a six-year high of 4.8% y/y in September 2017, before it eased to 4.4% in October, taking the average in the first ten months to 3.6%. We forecast inflation to moderate but remain elevated over the next two years, averaging 3.7% in 2017, 3.5% in 2018 and 2.9% in 2019. Such rates should not raise any serious concern.

Public finances are sound. As in 2016, we expect the annual budget to come in close to balance in 2017-2019 while public debt should fall back to just below 40% of GDP in 2018.

The current account deficit narrowed in the first nine months of 2017 and we expect it at around -0.5% of GDP in 2017 as a whole. In 2018-2019, the annual external shortfall is forecast to widen to still modest ratios of -1% or so of GDP, as a result of gradually rising energy prices.

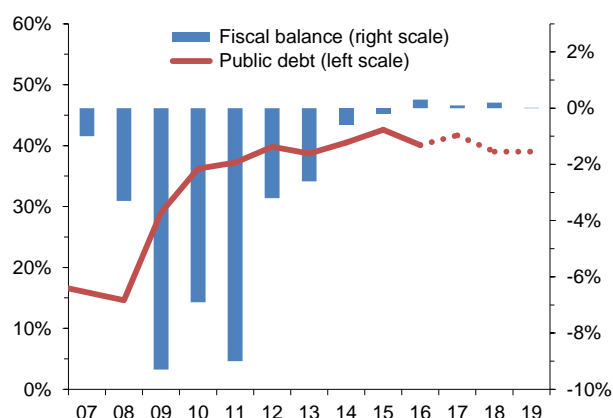
Gross external debt rose from 70% of GDP in 2014 to a relatively high 86% in 2016 and is forecast to stabilize around that level. Hence it remains a cause of some concern and close monitoring is appropriate.

Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	2.3	3.5	3.2	3.0
Inflation (% , yearly average)	0.7	3.7	3.5	2.9
Fiscal balance (% of GDP)	0.3	0.1	0.2	0.0
Public debt (% of GDP)	40.1	41.7	39.0	39.0
Current account (% of GDP)	-0.9	-0.5	-0.9	-1.0
External debt (% of GDP)	85.7	84.7	84.2	84.0

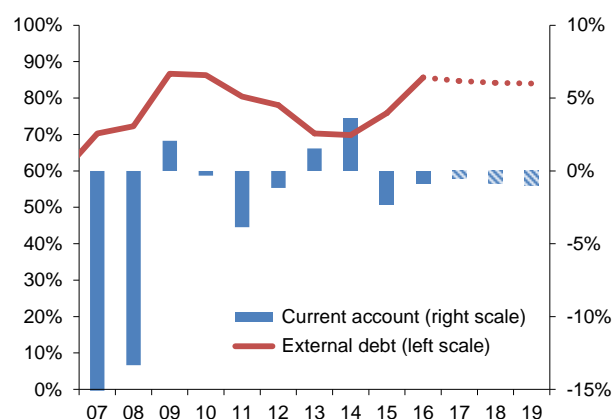
Sources: National statistics, IHS, Euler Hermes

Public finances (% of GDP)



Sources: Eurostat, Euler Hermes

Current account and external debt (% of GDP)



Sources: National statistics, IHS, Euler Hermes

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