



Weekly Briefing

Lithuania economy briefing:
Overview of Lithuanian Economics in 2022
Justas Karčiauskas

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: : Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Overview of Lithuanian Economics in 2022

Summary

Although 2022 has been an especially challenging year for Lithuanian economy, there are some positive trends of its economic resilience. The briefing summarizes how the estimates of macroeconomic parameters made at the beginning of the year differ from actual performance of Lithuania's economy. The biggest negative differences between the estimates and the actual macroeconomic performance is that of significantly slowed GDP growth and significantly increased inflation. Soaring prices of energy resources, skyrocketing general rate of inflation, together with rising interest rates and decreasing businesses confidence because of geopolitical and economic instability are the major reasons negatively affecting Lithuania's economy. Real estate market has also been affected by economic uncertainty, and after double-digit growth in the last couple of years, has suddenly cooled down. Nevertheless, Lithuania has not fallen into a recession, its GDP growth as well as exports growth remain positive, and the situation in the labour market is good, with increased number of employed people and the rate of unemployment remaining low.

Introduction

2022 has been an unpredictable and difficult year not only for Lithuania's economy but for that of the whole region. The forecasts of major macroeconomic parameters that were made at the beginning of the year 2022 are wildly different from actual economic performance. This article will overview the state of Lithuania's economy for the year 2022 by focusing on Lithuania's exports, labour market, impact of increased interest rates, as well as the real estate purchase and rental prices.

Forecasts versus actual performance

Although the official data of actual performance of Lithuania's economy for the whole year of 2022 will not be available for the next few months, as of December 2022, the time of writing, we are able to estimate the economic performance fairly accurately. It is also interesting to compare it against economic forecasts that were made

In the Table 1 below there is a comparison between the forecast of Lithuania’s economic performance in 2022 made back in 2021 and the estimate of this year’s economic performance that can be made now, at the end of 2022. We will call the latter an ‘actual’ economic performance even though it is still an estimate, albeit a fairly accurate one. All numbers in Table 1 are provided by the Ministry of Finance of the Republic of Lithuania which usually gives usually conservative estimates and use them to plan government’s income and expenditure.

Table 1: Forecast economic indicators¹ and end of 2022 estimates².

	Forecast for 2022 (made at the end of 2021)	Estimate of 2022 (made at the end of 2022)
Real GDP growth (per cent)	4.0	1.6
Annual inflation rate (per cent)	2.5	17.8
Unemployment rate (per cent)	6.7	6.3
Government debt (per cent to GDP)	45.6	39.1

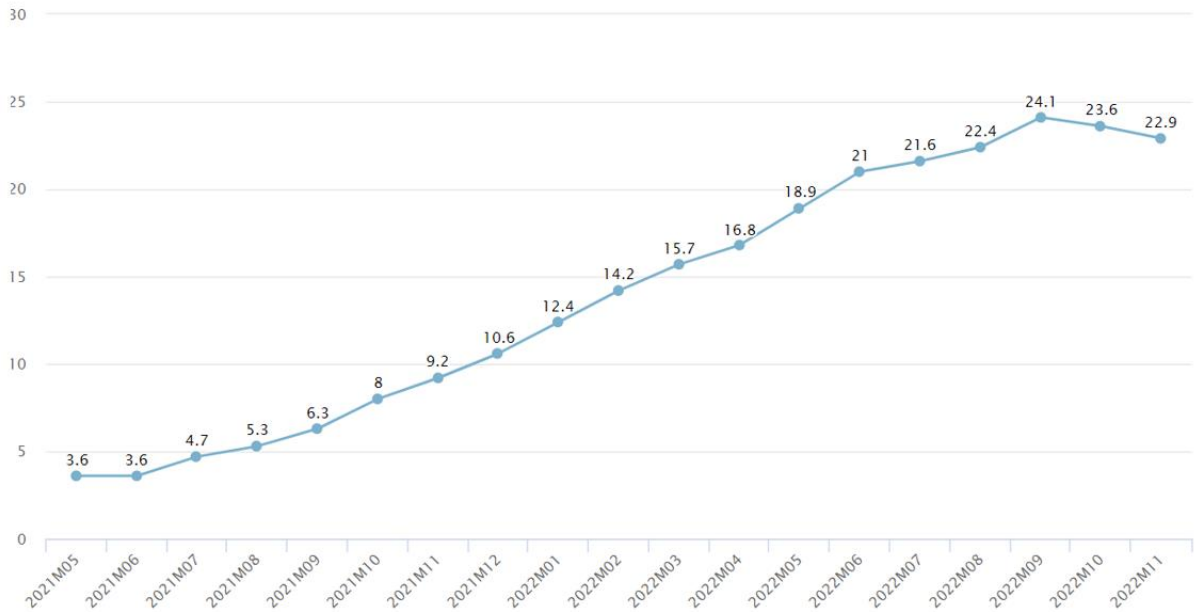
As Table 1 shows above, Lithuania’s GDP was initially forecast to grow 4.0 per cent in 2022 but then this estimate was cut by more than half to 1.6 per cent. This is a significant downgrading, underlying all the major unexpected shocks that Lithuania’s economy underwent in 2022. Nevertheless, Lithuania’s GDP is still growing, and is in turn predicted to further grow in the year 2023, which shows a degree of resilience of Lithuania’s economy.

Perhaps the most dramatic difference between estimated and actual macroeconomic indicators is that of annual inflation rate. At the end of 2021 the inflation rate in Lithuania during 2022 was predicted to be around 2.5 per cent, and now we see it will be around 18 per cent. The main causes of inflation was the increase in prices of energy resources, namely oil, gas, electricity and heating. Higher prices of energy resources in turn made most other goods and services more expensive. Inflation rate, although remains record-high, in the last couple of months has started showing signs of stabilizing and even going down – see Graph 1 below.

¹ Lithuanian Ministry of Finance: 2022 state budget project, in:
https://economy-finance.ec.europa.eu/system/files/2021-10/2022_dbp_lt_lt_0.pdf

² Lithuanian Ministry of Finance: 2023 state budget project, in:
https://finmin.lrv.lt/uploads/finmin/documents/files/0_2023_Biudzetas%20glaustai_PROJEKTAS%20i%C5%A1%20KS.pdf

Graph 1: annualized inflation rate, measured monthly ³



Considering the uncertainties and risks stemming from the war in Ukraine, Lithuania’s high dependence on income from Russian and Belarusian transit, which has significantly reduced, energy prices shocks and worsening businesses expectations about the economy, it is perhaps surprising to see two positive changes in forecasts in Table 1 above. The first such positive change is about unemployment rate and labour market, which is discussed in more detail in the chapter below. The second positive change is about government debt, which was initially expected to be higher as a percentage of GDP than government now expects it to be. The major reason is better than expected collection of taxes, which was driven by inflation and increased prices.

Lithuania exports

Lithuania’s economy is very open and its growth heavily depends on Lithuanian exports. Good harvest in Lithuania, which was 10 per cent better than last year, and increased prices of agricultural products significantly boosted the exports. However, during 2022, the problems with Lithuanian exports have been mounting. Major issues are economic uncertainty and slower economic growth in major markets for Lithuanian exports, which is mainly the EU. Exports to

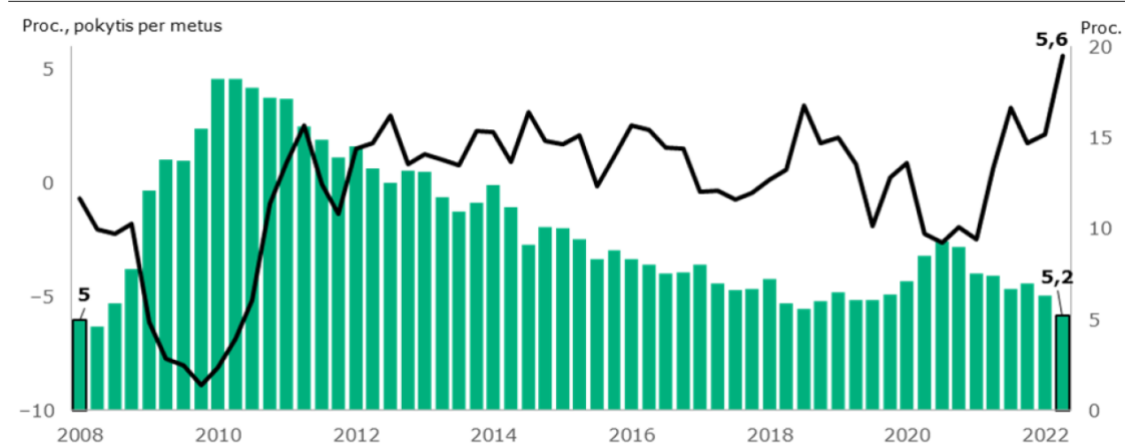
³ OFFICIAL STATISTICS PORTAL, Monthly changes in consumer prices, in: <https://osp.stat.gov.lt/statistiniu-rodikliu-analize?hash=ff99ba4a-9557-4b61-8f81-4a98c7a26b33#/>

Russia and Belarus have decreased but this was partly offset by increased exports to the EU. The Central Bank of Lithuania forecasts that Lithuanian exports in 2022 will have increased by 6.4 per cent.⁴

Labour market in 2022

The year 2022 has been fairly positive for Lithuania’s labour market. Because of the war and risk of sanctions, there has been an influx of Ukrainian and Belarusian immigrants to Lithuania. As of September, there were 43 thousand more people coming to Lithuania than leaving it. This meant that the labour force, a significant part of which consists of women fleeing war in Ukraine, has significantly increased. Although the labour force rapidly increased, the rate of unemployment has kept dropping, and was 5.2 per cent as of September. This year saw 5.6 per cent increase in employed people, the biggest percentage increase since records began. The Graph 2 puts the two numbers into perspective. This means that regardless of language and cultural barriers, immigrants join the Lithuanian labour market very successfully. For years, Lithuanian businesses have complained about the shortage of available people for employment, and now they are taking this opportunity to employ the increasing labour force. As shown by government’s unemployment forecasts in Table 1 above, the unemployment rate is expected to go up to around 6 per cent. This is in line with dropping businesses expectations about the future, which in turn will slow down the hiring of new people.

Graph 2 – % change of number of employed people (green bars, right axis) versus the rate of unemployment (black line, left axis).⁵



⁴ BANK OF LITHUANIA: Review of Lithuanian economics (2022 September edition), in: <https://www.lb.lt/lt/leidiniai/lietuvos-ekonomikos-apzvalga-2022-m-rugsejo-men?html=1>

⁵ Ibid.

Interest rates and loans

During 2022 the European Central Bank (the ECB) raised its benchmark interest rate four times. At the end of 2022 the ECB interest rate is 2.5 per cent, whereas 12 months ago it was zero per cent. This directly impacts the EURIBOR rate, and hence is having an impact on both business loans and mortgage loans in Lithuania. According to ECB data, more than 90 per cent of mortgages, and loans to non-financial businesses issued in Lithuania in 2022 are with variable interest rate based on EURIBOR.⁶ So far in 2022 this negative effect has been relatively moderate, however, with the latest ECB hike, the monthly mortgage loan payments, based on the most popular 20-year mortgage period in Lithuania, could go up by roughly 25 per cent. The average mortgage balance in Lithuania is about 50,000 Euros, which means that the average monthly mortgage payment could increase from 253 Euros to 316 Euros per month.⁷

The effect of interest rate hike on Lithuania's public debt has been minimal in 2022 because only part of the public debt is refinanced each year, but in 2023 the negative impact will start biting more.⁸

Real Estate

Lithuanian real estate market has also been especially dynamic in 2022. At the beginning of the year, real estate prices were still on the rise, continuing a wave of unprecedented real estate price surge which had started back in 2020 (see Graph 3). The war in Ukraine and the subsequent turmoil in stocks and financial, commodity and energy markets has quickly turned the tables in Lithuanian real estate market, and the expectations of people about the real estate prices quickly changed. Since August 2022 the real estate prices have stopped climbing, and in some segments even slightly decreased. Speculators are no longer betting on unstoppable price increases. Investors and people who can wait with their real estate purchases are waiting in anticipation of real estate price decreases. The evidence of this is a significant drop in the

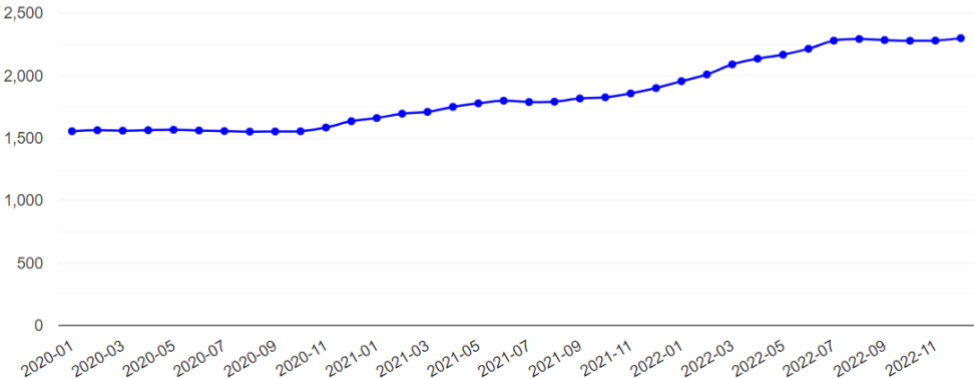
⁶ EUROPEAN CENTRAL BANK: Statistical Data Warehouse, in: https://sdw.ecb.int/quickview.do;jsessionid=5E6DE013C673FBB7AA19F531E77FF3B1?SERIES_KEY=304.RAI.M.L.T.SVLHHNFC.EUR.MIR.Z

⁷ LRT: How will ECB rate hike affect Lithuanian debtors and economy?, in: <https://www.lrt.lt/en/news-in-english/19/1744570/how-will-ecb-rate-hike-affect-lithuanian-debtors-and-economy>

⁸ Ibid.

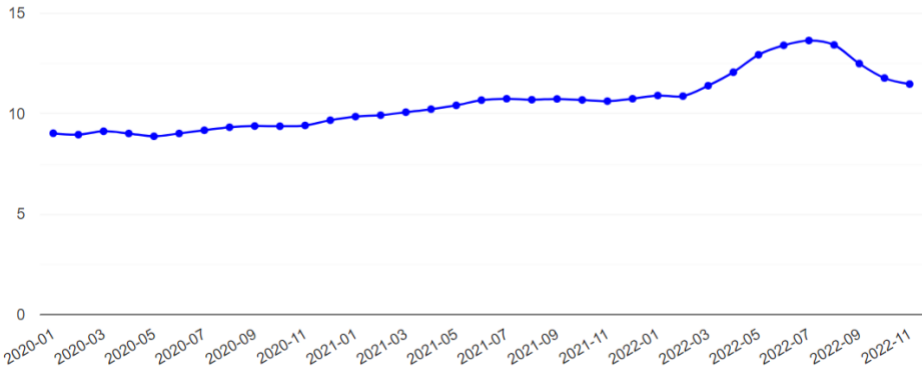
number of real estate sales transactions and the increase in the number of cancellations of real estate pre-bookings.

Graph 3 – Average real estate price in Lithuania, per square meter ⁹



In spring, after the war in Ukraine broke out, large numbers of Ukrainians and Belarusians started arriving in Lithuania. Some accommodation was given free of charge to Ukrainian war refugees, others were rented out, and the resulting sudden decrease in supply of available apartments and increased demand meant that accommodation rental prices have jumped as much as 20-25 per cent (see Graph 4). Second half of the year saw the rental prices dropped back to initial levels after the accommodation supply and demand in most cities stabilized.

Graph 4 – Apartment average monthly rental price in Lithuania, per square meter ¹⁰



⁹ ARUODAS: Real estate price statistics, in: <https://en.aruodas.lt/kainu-statistika/>

¹⁰ ARUODAS: Real estate price statistics, in: <https://en.aruodas.lt/kainu-statistika/>

Conclusion

It is obvious that the year 2022 will not be as good for Lithuanian economy as 2021. GDP growth is slowing down, together with businesses and households anticipation of economic prospects. The record-breaking inflation rates and rising interest rates have been slowing down Lithuanian economy. Lithuania has an open economy and hence heavily depends on exports and the economic performance of its exports markets, all of which have been negatively affected by the war in Ukraine, inflationary pressure and economic as well as geopolitical uncertainties. Rising costs of loans put further pressure for businesses and increasing mortgage payments have cooled down the Lithuanian real estate market.

On the other hand, Lithuanian economy is once again showing signs of resilience. Despite all economic and geopolitical shocks, Lithuanian GDP is still growing although at ever decreasing pace. Situation in Lithuanian labour market is fairly good, the number of employed people is the highest in the last few years. Lithuanian exports are still growing although at a slower pace. Therefore, although the year 2022 has not been easy, it seems that Lithuanian economy has been and will continue to be able to meet economic challenges quite well.