

Key messages:

- Projected economic growth in 2018 is balanced, equally supported by both internal and external demand
- The labour force is shrinking
- The general government surplus in 2017 was determined by one-off and other temporary measures
- The fiscal policy maintains its pro-cyclical stance
- Gross debt will remain on slowly decreasing path

Macroeconomic outlook

In the first quarter of this year GDP grew by 3.6 % per year, 0.4 percentage points less than in the same quarter of 2017. Economic growth is currently well balanced – exports, domestic consumption and investments positively contribute to the development of GDP. The negative effects of demographic changes in the labour market hinder Lithuania’s economy to get a faster pace. After six years of steady growth, in 2017 employment decreased and is expected to continue decreasing in the medium-term by around 0.5 % per year. Due to the lack of employees, wages are likely to keep growing by 6 % on average during the medium-term. In 2018, inflation is expected to reach 2.9 % according to the Ministry of Finance spring projections. The uncertainty surrounding the international environment and tensions in the labour market are the factors increasing the risk of higher inflation in the medium-term.

Short-term fiscal outlook

The general government surplus reached €21.2 million or 0.5 % of GDP in 2017. The Fiscal institution notes that the general government surplus in 2017 was determined by one-off and other temporary measures. Due to these factors, general government balance has been improving for the past 3 years. However, the same one-off and other temporary measures shall have an opposite effect in the near future on general government balance.

Having assessed the execution of plans of the major taxes and social insurance contributions for 2017 as well as the execution trends for the first quarter of 2018, the Fiscal institution revised the estimate of the general government surplus downwards from 0.5 to 0.2 % of GDP. Given the reduction in the general government primary structural balance in 2018, the fiscal policy of Lithuania will maintain its pro-cyclical stance. This means that the fiscal space has not been created during good times to ensure the possibility of counter-cyclical expansion during a downturn in the business cycle (Chart 2).

Medium-term fiscal outlook

The medium-term objective (structural deficit of 1.0 % of GDP) was reached in 2014, and there was no deviation from it since then. In 2018 the Parliament approved the same size of the medium-term objective for the period 2019–2021. Despite approved medium-term objective, Government plans to achieve a structural surplus in 2020–2021. This would lead to gross debt reduction from 39.7 % of GDP in 2017 to 35.3 % of GDP in 2021 (Chart 3).

Chart 1: Structural Balance

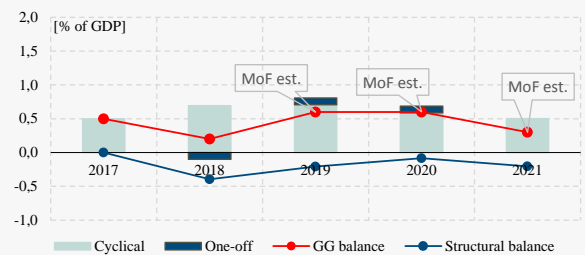


Chart 2: Fiscal Stance

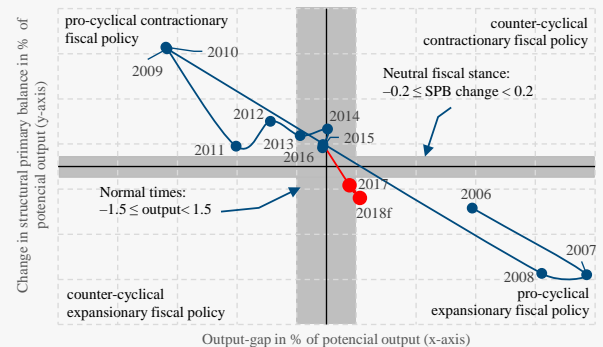
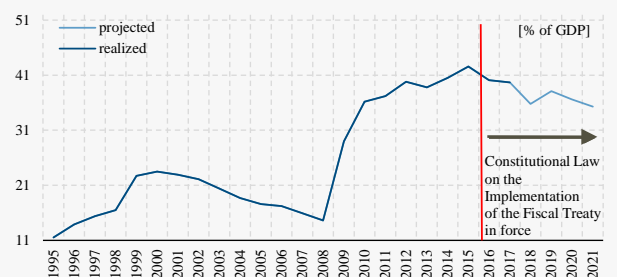


Chart 3: Debt-to-GDP ratio



Key indicator forecast

		2017	2018 f	2019 f	2020 f	2021 f
Real GDP growth rate	[% y-to-y]	3.8	3.2	2.8	2.5	2.5
Output Gap - MoF est.	[%]	2.3	2.4	1.8	1.0	0.3
Output Gap - IFI est.	[%]	1.2	1.7	1.7	1.4	1.2
GG balance - MoF est.	[% of GDP]	0.5	0.6	0.6	0.6	0.3
GG balance - IFI est.	[% of GDP]	0.5	0.2	–	–	–
GG debt - MoF est.	[% of GDP]	39.7	35.8	38.1	36.6	35.3
GG structural balance - MoF est.	[% of GDP]	-0.4	-0.3	-0.2	0.1	0.1

Sources:

MoF: The 2018 Stability programme for Lithuania, 25.4.2018

IFI: The Report on the 2018 Stability programme for Lithuania, 4.5.2018

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