

Key messages:

- Despite the uncertainty in the international environment Lithuania's economic growth remains robust
- In the medium-term weakening external demand will slowdown Lithuania's exports
- The positive general government balance in 2018 was determined by the surplus of social security funds
- The fiscal policy continues to improve its stance but remains pro-cyclical
- Gross debt will stabilize at around 37.0 % of GDP in the medium-term because of negative automatic debt dynamics

Macroeconomic outlook

In the first quarter of 2019, Lithuania's economy maintained a rather fast pace of growth: GDP grew by 4.0 % per year, 0.3 percentage points more than in the same quarter of 2018. Economic growth was mostly positively contributed by investment, exports and domestic consumption. Private consumption was driven by an increase in wages, reduced labour taxes and higher social benefits. Growth is also supported by labour resources. Recently, employment in the country has risen, however such tendencies may not be sustained in light of adverse demographic trends which might not be offset by intensified immigration flows. Despite the uncertainty surrounding the international environment, Lithuania's economic growth remains robust but in the medium-term weakening external demand will slowdown Lithuania's exports and investment which will lead to slower economic growth. According to the Ministry of Finance spring projections, the economic growth is expected to be 2.6 % in 2019 and 2.4 % in 2020.

Short-term fiscal outlook

The general government surplus reached €297.6 million or 0.7 % of GDP in 2018. General government revenue grew at a faster pace than expenditure, which led to €92.4 million higher surplus than in 2017. The fiscal institution notes that in 2018 positive general government balance was determined mainly by the surplus of social security funds. Debt refinancing and lower than planned general government expenditure have a positive impact on government debt dynamics. General government and its sub-sectors debt declined in 2018 compared to the post-crisis period and makes 34.2 % of GDP.

The favourable position of Lithuania's business cycle in 2019-2020 warns of the need for a neutral fiscal policy. Given the reduction in the general government primary structural balance in 2019 and 2020, Lithuania's fiscal policy continues to improve its stance but remains pro-cyclical. The fiscal institution estimates that the fiscal effort of the Government envisaged in the Stability Programme for 2019 is not sufficient for a neutral policy (Chart 2).

Medium-term fiscal outlook

The fiscal institution projects the general government balance to be at 0.1 % surplus in 2019, whereas a deficit of 0.2 % of GDP is projected in 2020 (Chart 1). The balance of risk factors for the general government balance indicator for the period 2019-2020 is negative.

The growth of general government debt has been modest over the last few years and stood at around 40 % of the GDP. In the medium term, general government debt will be reduced by automatic debt dynamics and it will reach 37.1 % in 2019 and 36.7 % of GDP in 2020 (Chart 3).

Fiscal framework and national fiscal rules

In the view of the fiscal institution, the fiscal discipline rules were complied with in 2018, with the exception of the expenditure growth limitation rule. As an arithmetic average of general government balance during the period of 2013-2017 was negative, expenditure growth had to be limited in 2018.

Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f
Real GDP growth rate	[% y-to-y]	4.1	3.4	2.6	2.4	2.3
Output Gap MoF est.	[%]	2.6	2.9	2.0	0.9	0.2
Output Gap IFI est.	[%]	1.1	1.8	1.5	1.0	0.5
GG balance – targets	[% of GDP]	0.5	0.7	0.4	0.2	0.1
GG balance - IFI est.	[% of GDP]	0.5	0.7	0.1	-0.2	-
GG debt - MoF est.	[% of GDP]	39.4	34.2	37.0	36.2	35.4
GG debt - IFI est.	[% of GDP]	39.4	34.2	37.1	36.7	-
GG structural balance -MoF est.	[% of GDP]	-0.6	-0.5	-0.4	-0.3	0.0
GG structural balance - IFI est.	[% of GDP]	0.0	0.0	-0.6	-0.7	-

Chart 1: Structural Balance

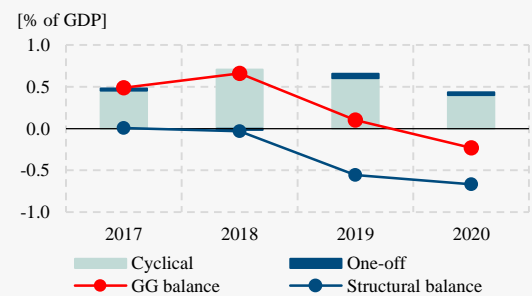


Chart 2: Fiscal Stance

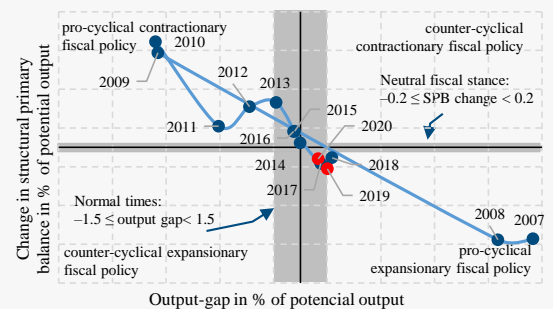
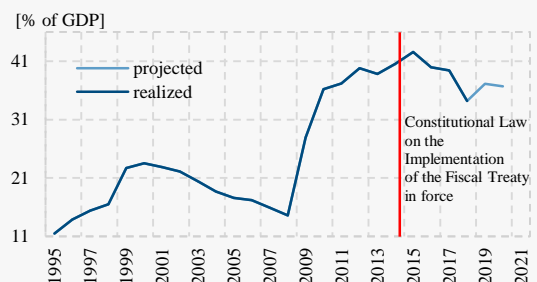


Chart 3: Debt-to-GDP ratio



Sources:

MoF: Stability Programme of Lithuania for 2019, 24.04.2019

IFI: Assessment of Stability Programme of Lithuania for 2019, 14.05.2019

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