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Lithuania

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Basic facts (2023)

Population: 3 million

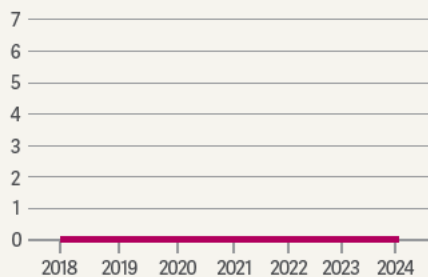
GDP, nominal: USD 79,4 billion

GDP/capita: USD 28 482



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + EU and eurozone membership
- + Strong democracy and public institutions
- + Low level of public debt

Weaknesses

- Vulnerable to external shocks
- Geopolitical risks on the border with Kaliningrad and Belarus

Strong involvement in the EU and NATO

After gaining independence from the Soviet Union, rapprochement with the West became an important goal for Lithuania. Today, Lithuania has a well-functioning market economy with strong democratic governance and has been a member of the EU and NATO since 2004. The country's economy, which is dominated by the services sector, has benefited from the introduction of the euro in 2015. Since Russia's annexation of Crimea in 2014, NATO has strengthened its presence in the country and Lithuania has a close cooperative relationship with the United States.

Russia, which had been a major trading partner before Russia's annexation of Crimea in 2014, has declined in importance. Lithuania's largest trading partner is the European Union, accounting for approximately 60 per cent of both imports and exports. Russia accounted for about 25 per cent of Lithuania's total imports in the years before 2014. Since then, the proportion has successively decreased, and in 2022 was down to only five per cent. There has also been a decrease in exports to Russia, albeit from a lower level, down to a share of some six per cent of Lithuania's total exports (2022). Right after Russia annexed Crimea in 2014, Lithuania became one of the EU's strongest critics of Russia's behaviour. When Russia invaded Ukraine in February 2022, a temporary national state of emergency was declared, which meant that more money could be set aside for the security and protection of the country's borders. Six Russian-language TV channels were shut down after reports containing war propaganda. Russian speakers are the second largest minority group (after the Poles), consisting of about 5 per cent of Lithuania's population. Already in April 2022, Lithuania became the first EU country to suspend gas imports from Russia.

Having borders with both Kaliningrad and Belarus, Lithuania has its fair share of border problems. Critics of the Belarusian governing regime have been granted asylum in Lithuania, and in response in 2021 Belarus allowed migrants to freely cross the Lithuanian border to try to enter the EU, sparking a humanitarian crisis and political problems for the EU. Also, relations with China have become frostier since Lithuania allowed Taiwan to open a trade office (representative office) in the country in 2021. China has responded by suspending its imports from, and exports to, Lithuania.

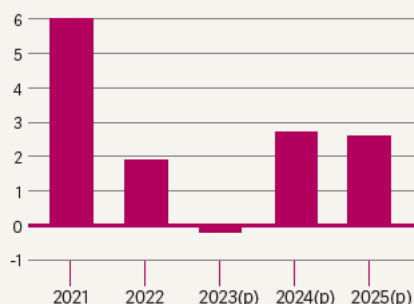
Stabilisation of a turbulent economy

A strong economic recovery after the coronavirus pandemic led to an increase in demand in the economy. Combined with rising prices, including for energy, as a consequence of Russia's full-scale invasion of Ukraine, inflation rose sharply. Lithuania's weighted inflation rate for 2022 was 19 per cent, which was the second highest in the eurozone after Estonia. This compares with the eurozone average of eight per cent. The European Central Bank raised its key interest rates in 2023, but decided in December to keep the rates unchanged, which likely means that interest rates have peaked for the time being.

Lithuania's economic growth can be described as being quite volatile in recent years. After strong growth of 6% in 2021, it fell to 1.9% in 2022 and in 2023 is expected to end up at minus 1.4%. High inflationary pressures in 2022 and subsequent interest rate hikes had a negative impact on demand. For 2024 and

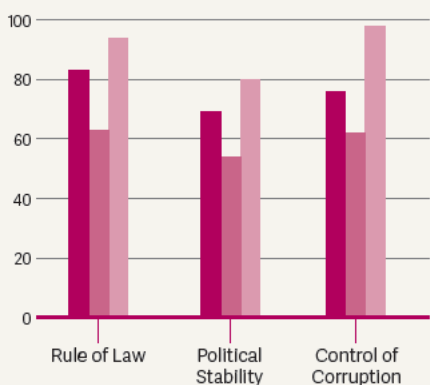
Lithuania

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Lithuania
■ Europe & Central Asia
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Lithuania

	MSEK
2022	22 694
2021	12 548
2020	9 400
2019	10 915
2018	9 864

Source: SCB

EKN:s exposure

	MSEK
Guarantees	1 915
Offers	112

2025, growth is expected to rise to just below 3% annually and inflation to fall to 4% year-on-year. Normally the current account is in surplus, however 2022 was an exception where rising import costs resulted in a deficit of 5% of GDP. The forecast for 2024 shows a return to a positive current account balance. The IMF assesses the country's indebtedness as sustainable and the risk that the central government will experience payment problems is considered low.

Lithuania's transport sector has grown significantly in recent years thanks to low labour costs and low taxes on road transport, compared to the EU average. Rising fuel costs in Europe have benefited Lithuanian transport and exporting companies, which is probably one reason for EKN's increased outstanding guarantees to Lithuania.

EU cooperation has been the key to Lithuania's relative resilience during both the coronavirus pandemic and Russia's war against Ukraine. Both inflation and growth are expected to return to normal levels in 2024. With a rather small economy and close proximity to Russia and Belarus, the country is particularly vulnerable to external factors, which means that the risks of new price shocks are relatively high. In the longer term, Lithuania's demographic challenges related to population decline may pose a threat to economic growth. The population of the country has declined on average 0.6% per year over the past ten years, a total of 20% since independence, due to migration and low birth rates.

Business environment

The business environment benefits from eurozone and EU membership, and is regarded as being strong, even though corruption is present, and the informal sector of the economy is large, estimated at 20% of GDP. Lithuania's judiciary is constitutionally independent of the Government, as confirmed by Freedom House's review of the functionality of the judiciary.

Lithuania's banking system is well-capitalised and has a low level of non-performing loans. The banking system is highly concentrated in a few large banks and is dominated by foreign-owned banks. The three largest banks, two of which are Swedish, account for 70 per cent of the financial system's assets. The banking system has undergone a transformation in recent years, driven by new financial services (fintechs). Revolut started banking operations in 2019 and has grown into the country's third-largest bank, with 18 per cent of the banking system's assets.

EKN:s policy

Since joining the eurozone in 2015, Lithuania has been a Market Benchmark Country and does not have an OECD country class. EKN classifies Lithuania in country risk category 0 and the pricing of long-term credit guarantees is made according to a premium matrix, in comparison with the OECD's market references. According to the EU's competition rules, EKN and other export credit agencies may not cover any payment risks (with the exception of letter of credit guarantees) for transactions with a total risk period (credit period + production period) of less than two years. Other than this, an ordinary risk assessment is made, which means that transactions are assessed on their own merits without special requirements or terms.

Lithuania

EKN:s commitment and experience

EKN's exposure to Lithuania has been minimal, with an average issuance of one guarantee per year between 2018 and 2022. In 2022 and 2023, EKN's guarantee exposure increased sharply, from SEK 2 million in 2021 to SEK 2 billion in 2023. The explanation for the increase is a small number of transactions to private buyers, primarily in the transport sector which is expanding its operations within the EU countries.

EKN only has experience with private buyers. Sporadic delays in payment occur, but most of them are paid within one to three months. Since 2018, an indemnification payment has been made in only one transaction, corresponding to SEK 200,000, which was later recovered.