Lithuania’s Economic Development Scenario
2020–2023

March 2020
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Economic Development Scenario in Brief

The Economic Development Scenario (hereinafter – the scenario) was developed on the basis of the statistical data published by 12 March 2020 and the information obtained, which, following Government of the Republic of Lithuania Resolution No 369 On the Approval of the Description of the Procedure for Development and Publishing of the Economic Development Scenario of 13 April 2016, was presented by the institutions. Respective assumptions of the external environment (development of trading partners, oil prices, EUR / USD exchange rate) published by international institutions by 12 March were also taken into consideration.

The Economic Development Scenario was drafted under circumstances of exclusive uncertainty. The COVID-19 virus outbreak, which commenced at the end of 2019 in China, spread up through all the continents of the world, and during the development of the scenario, the World Health Organization indicated Europe as the focus of its spread. To contain the spread of the virus, most of the European Union (hereinafter – the EU) countries take unprecedented measures (country-wide quarantine, closure of borders) which have huge negative effects on the economy. The scope of negative effects will depend on how long the virus spread will last and what actions will be taken to amortise the demand and supply shock to the economy caused by the COVID-19 virus outbreak and measures imposed for containing the virus. The scenario is developed assuming that the virus outbreak will be contained during the first half of the year 2020 and starting from the second half of the year the EU economy will start recovering. In drafting the scenario the economic stimulus plan approved by the Government of the Republic of Lithuania on 16 March 2020 which should amortise negative consequences caused by the COVID-19 crisis to Lithuania’s economy was taken into consideration.

We anticipate that due to the shock related to the COVID-19 virus crisis, in 2020 Lithuania’s economy will shrink by 1.3 %, and in the medium term the gross domestic product (hereinafter – GDP) could grow on average by 2.2 % per year.

External environment in the medium term will remain unstable, and global economic growth perspectives are fragile. According to the estimates of international institutions, in the short term the economy of the EU – basic Lithuania’s export market of goods and services – will decline, and in near future any global economic recovery, even after the projected slowest global post-crisis GDP growth in 2020, is not foreseen. Moreover, the projected global economic growth in 2020 is very fragile. The COVID-19 virus outbreak, which spread through all the continents of the world and disrupted global supply chains, caused the demand and supply shock, has not been contained during the development of the scenario. Therefore, there is a risk that technical external environment assumptions based on which the scenario was drafted may be revised downward. The scope of revision will depend on how long the spread of the virus will last in the global economy and what measures will be necessary for containing the virus.

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1 Macroeconomic projections published by the International Monetary Fund (IMF), European Commission (EC), Organisation for Economic Cooperation and Development (OECD) and ECB by 12 March 2020.
Though in 2019 Lithuania’s economy was one of the fastest growing in the EU, the impact of declining external demand has already been visible in the second half of the year 2019. According to the data by the Customs Department, exports of goods of the Lithuanian origin in the last quarter of 2019 declined by 3.2 %, and total exports of goods scarcely grew 0.8 %. External environment uncertainty prevailing during the development of the scenario as well as persisting risk, due to the tension in the global trade resumption and the increased risk for the global economic perspectives lead to a cautious assessment of the perspectives of the Lithuanian exports of goods and services in the medium term. The scenario envisages that in 2020 exports of goods and services (at constant prices) will slump by 2.4 %, while in the medium term it could grow on average approximately 3 % per year. However the risk balance, due to this estimate, is negative and emerges from unstable external environment.

In 2020 the labour market will be negatively affected by the downturn in economic activity due to the spread of the COVID-19 virus and measures imposed for containing the virus – the quarantine imposed in the middle of March and limitation of shopping activities as well as supply of services to consumers. This effect will be cushioned by economic stimulus measures foreseen by the Government, part of which will be for preserving jobs and income. It is projected that in 2020 the number of employed population will decline by 2 %, and the employment of population will be most affected in the services sector of the country. The unemployment rate in the country will temporarily grow and in 2020 it will constitute 8.1 %. It is expected that after recovery of economic activity in 2021, the number of the employed population will increase by 0.6 %, the unemployment rate will decrease down to 7.3 %. In subsequent years of the medium term the unemployment rate will moderately decline and at the end of the term will represent 6.6 %. At the end of the medium term the labour force supply will be restrained by deepening ageing society problem, therefore we do not expect the employment growth.

According to demographic assumptions of Lithuania, based on which this scenario has been developed, intensifying aging population process in this decade will lead to structural changes in the composition of the Lithuanian population – the portion of people aged 65 and older will increase in population, while the portion of working-age people – will shrink. Due to natural population fluctuation, in the medium term the number of working-age population (aged 15–64) will decrease on average by 1 %, or by 18.4 thousand persons, each year. The decrease in the number of young people caused by emigration in previous periods will lead to increasing gap between persons leaving the labour market in post-retirement (and older) and persons for the first time entering the labour market. This will compound the structural labour market problems – lack of working-age people and imbalances in the supply of the working force and demands of the labour market in the medium term.

The economic shock caused by the COVID-19 virus in 2020 will correct the recent wage development trends. In 2020 wages will grow most rapidly in the public sector, while in the private sector, after increased unemployment rate, the growth of wages will significantly decelerate. Labour income downward trend in 2020 will be damped by measures for economic stimulus slated by the Government – we project that this year wages could grow 5.6 %, however wage growth downward

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2 Long-term population projections for Lithuania published by Eurostat services before 29 February 2020 (balanced international migration scenario).
trends will persist also in 2021 – wages in the country will grow at more decelerated pace than in 2020 – 3.9 %. In parallel to the declining unemployment rate in subsequent years of the medium term, the wage growth rate in the country will gradually accelerate, however it will be lower than the one observed in recent years and will remain close to 5 %.

Price increase in the country in the medium term will be moderate – average annual price development in the country will reach on average approximately 2 % each year. In parallel to the growth of wages at more accelerated pace than inflation, the purchasing power will keep growing through the entire medium term. It will be enhanced by further declining labour force taxation. However, the economic shock caused by the COVID-19 virus, fading recent optimistic consumer expectations, decreasing employment and the number of population will lead to a decelerated growth of household consumption expenditure. The scenario envisages that household consumption expenditure growth will slow down from 3.2 % in 2019 to 1 % in 2020. In the medium term household consumption expenditure could grow 2.9 % each year.

Unstable external environment and deteriorating business expectations will damp the investment development. Growth of the expenditure for fixed capital formation may decelerate from 7.4 % in 2019 to 1 % in 2020. The scenario has been developed based on the assumption that in order to optimise profits in the medium term, Lithuanian entrepreneurs should further invest to business process automation, technological renewal, innovation and other measures enhancing operational efficiency and labour productivity, therefore in 2021–2023 the expenditure for gross fixed capital formation should grow approximately 3.7 % on average each year.

The medium term will not be easy for business – challenges ahead related to the economic shock caused by the COVID-19 virus, aging population and global demand fluctuations as well as the need to sustain international competitiveness. It is unlikely that under depletion of labour force resources, business models based on cheap labour force would remain competitive. Lithuanian exporters will have to adapt to rapidly changing economic circumstances, to manage currency risk, to take decisions reducing production costs and enhancing operational efficiency as well as labour productivity, to diversify export markets.

### Table 1. Key indicators of the economic development scenario

<table>
<thead>
<tr>
<th>Title of the indicator</th>
<th>2019</th>
<th>2020P</th>
<th>2021P</th>
<th>2022P</th>
<th>2023P</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (at current prices), MEUR</td>
<td>48 339</td>
<td>48 919</td>
<td>51 101</td>
<td>53 239</td>
<td>55 477</td>
</tr>
<tr>
<td>GDP (at constant prices), rate of change, %</td>
<td>3.9</td>
<td>–1.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Harmonised index of consumer prices (average annual)</td>
<td>2.2</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Investment (at constant prices), rate of change, %</td>
<td>7.4</td>
<td>1.0</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Export (at constant prices), rate of change, %</td>
<td>9.3</td>
<td>–2.4</td>
<td>3.4</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Unemployment rate (based on definition of the Labour Force Survey), %</td>
<td>6.3</td>
<td>8.1</td>
<td>7.3</td>
<td>6.8</td>
<td>6.6</td>
</tr>
<tr>
<td>Average monthly gross wage, rate of change, %</td>
<td>8.8</td>
<td>5.6</td>
<td>3.9</td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Number of employed persons, rate of change, %</td>
<td>0.3</td>
<td>-2.0</td>
<td>0.6</td>
<td>0.0</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Sources: Ministry of Finance, Statistics Lithuania

*Note: arrows indicate the direction of revision, as compared with the scenario of September 2019.*
External environment will remain unstable in the medium term, and global economic growth perspectives – fragile. Whereas currently the global spread of the COVID-19 virus is not contained, and its current focus – Europe, there is a risk that external environment may be worse than projected in the basic scenario. Therefore, there is a risk that in 2020 Lithuania’s GDP may decrease more – 2.8%.

**External Environment**

External environment will remain unstable in the medium term, and global economic growth perspectives are fragile.

Technical external environment assumptions, as compared with the assumptions used in autumn 2019, were revised downward. The European Commission (hereinafter – EC) published the winter forecast on 13 February 2020, where COVID-19 virus effects have not been considered. The International Monetary Fund (hereinafter – IMF), after consideration of the impact of the COVID-19 virus spread in China on global economy, in February 2020 published the forecast which projects that in 2020 global economy will grow 3.2 % – by 0.3 percentage point lower than projected in July 2019 (technical assumption of the scenario drafted by the Ministry of Finance in September 2019). On 2 March 2020 the Organisation for Economic Cooperation and Development (hereinafter – OECD), after consideration of the COVID-19 virus outbreak outside its focus in China, reduced the global GDP growth rate in 2020 down to 1.4 % – this growth rate is by 2.1 percentage point lower than the technical assumption of the scenario drafted by the Ministry of Finance in September 2019. The OECD envisages a 3.3 % global GDP growth in 2021.

**Diagram 1. Global and euro area GDP developments, %**

<table>
<thead>
<tr>
<th>Change in Global GDP, %</th>
<th>Change in Euro area GDP, %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2020</strong></td>
<td><strong>2020</strong></td>
</tr>
<tr>
<td>IMF 2019 July Outlook</td>
<td>EC 2019 Summer Forecast</td>
</tr>
<tr>
<td>IMF 2020 January-February Outlook</td>
<td>EC 2020 Winter Forecast</td>
</tr>
<tr>
<td>OECD 2020 March Forecast</td>
<td>OECD 2020 March Forecast</td>
</tr>
</tbody>
</table>

Sources: OECD, EC, IMF
The COVID-19 virus outbreak, which spread up through all the continents of the world, deteriorated into a global pandemic and during the development of the scenario it was still not contained. Therefore, there is a risk that technical external environment assumptions based on which the scenario was drafted are likely to be revised downward. The scope of revision will depend on how long the spread of the virus will last in the global economy and what measures will be necessary for containing the virus.

In 2019 China’s economic growth rate was the slowest through the entire observation period and reached 6.1 % (multiannual average value – 9.3 %). In recent years China’s economy faced challenges in international trade, and the COVID-19 virus spread at the beginning of 2020 forced to take drastic actions which affect the economy negatively. The situation in China is significant to the global economy – China’s impact on global economy, trade, tourism significantly increased in the last couple of decades.

**Diagram 2. China’s GDP developments and share in global economy, %**

Investments

Considering the need to invest in operational efficiency and automation of processes, on-going implementation of projects financed from the EU Funds assistance, we project that gross fixed capital formation (hereinafter – GFCF) in the medium term should grow: in 2020 1 %, in 2021–2023 – 3.7 % per year. In 2020 a notably slowed down investment will be a result of the COVID-19 virus effect. The Action Plan for Economic Stimulus of the Government of the Republic of Lithuania should cushion negative spill-over effects of the economic shock and contribute to support the investment process in the country.
In 2019 GFCF in Lithuania sustained rather accelerated growth rate and exceeded the EU average – in Lithuania the fixed capital grew 7.4%, while in the EU – 5%. The main driver of investment in the country was the construction: investment in non-residential buildings and structures had a 3.5 percentage point, in housing – 1.3 percentage point impact on total GFCF growth. Total investment in construction resulted in two thirds of the fixed capital growth rate (4.8 percentage point out of 7.4%). Investment expenditure for machinery, equipment, cultivated biological resources and intellectual property products contribution to GFCF growth was smaller than the construction sector (in 2019 constituted 2.5 percentage point).

Diagram 3. Impact on gross fixed capital formation change, percentage point

Source – Eurostat

Investment in construction – both in dwellings (10.1%) and other buildings and structures (9.1%) increased rapidly in Lithuania in 2019. Investment in dwellings was driven by active demand – a record number over the last decade of residential buildings transactions was recorded in 2019. The active investment process in other buildings and structures in 2019 was promoted by the development of industrial facilities by large investors, construction of business centres and hotels, projects implemented in energy, transport sectors. Under subdued development of hotels, large business centres and industrial projects of large foreign investors in the short term, as compared with an extremely active 2018–2019 period, and after consideration of the feasible impact of external threats on decisions to invest, we project a slower development of the investment growth in other buildings and structures in 2020–2023.
In 2019 the productive investment grew slower than the investment in construction; however it also contributed to the investment process (the growth rate reached 5.2 %, impact on the GFCF growth of 2.5 percentage point). The need for search of new technological decisions and enhancement of labour productivity fostered the rapid growth of investment in information and communication technologies (28.4 %), intellectual property products (6.9 %). The investment in these areas was especially active in the second half of 2019 – grew 44 % and 11.8 %, respectively. Actively carried out renewal in recent years and uncertainty of the external environment resulted in slow growth of investment in the transport sector (2.8 %) in 2019. This sector will face quite a number of challenges and in the near future, therefore increase in investment in transport equipment is unlikely.

In 2019 the private sector investment constituted slightly more than two thirds (69.5 %) of total investment in tangible fixed assets in Lithuania. The share of public sector in investment in tangible fixed assets in 2019 reached 30.5 % and was higher, as compared with 2018, however still about 10 % lower than in 2011, when the share of the public sector investment was the largest in the post-crisis period. Developments of the private sector investment have a more significant impact on the entire investment process in the country, however well-targeted public sector investment are also significant and would help build the foundations for a sustainable future economic growth.

Table 2. Development of gross fixed capital formation (GFCF) and its components, %

<table>
<thead>
<tr>
<th></th>
<th>GFCF</th>
<th>Dwellings</th>
<th>Other buildings and structures</th>
<th>ICT equipment</th>
<th>Cultivated biological resources</th>
<th>Other machinery, equipment and weapon systems</th>
<th>Transport equipment</th>
<th>Intellectual property products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>8.4</td>
<td>5.9</td>
<td>11.3</td>
<td>13.7</td>
<td>-3.1</td>
<td>-3.8</td>
<td>18.5</td>
<td>6.3</td>
</tr>
<tr>
<td>I</td>
<td>10.3</td>
<td>21.1</td>
<td>11.8</td>
<td>13.2</td>
<td>-3.2</td>
<td>5.8</td>
<td>3.3</td>
<td>12.0</td>
</tr>
<tr>
<td>II</td>
<td>8.8</td>
<td>-4.6</td>
<td>13.7</td>
<td>1.3</td>
<td>-3.2</td>
<td>2.6</td>
<td>19.8</td>
<td>7.4</td>
</tr>
<tr>
<td>III</td>
<td>9.3</td>
<td>18.8</td>
<td>11.4</td>
<td>26.9</td>
<td>-3.2</td>
<td>-15.5</td>
<td>33.5</td>
<td>-2.1</td>
</tr>
<tr>
<td>IV</td>
<td>5.7</td>
<td>-4.4</td>
<td>8.6</td>
<td>14.4</td>
<td>-3.2</td>
<td>-5.8</td>
<td>18.4</td>
<td>8.2</td>
</tr>
<tr>
<td>2019</td>
<td>7.4</td>
<td>10.1</td>
<td>9.1</td>
<td>28.4</td>
<td>4.0</td>
<td>-3.3</td>
<td>2.8</td>
<td>6.9</td>
</tr>
<tr>
<td>I</td>
<td>8.3</td>
<td>17.1</td>
<td>16.7</td>
<td>10.1</td>
<td>4.0</td>
<td>-20.2</td>
<td>23.2</td>
<td>0.3</td>
</tr>
<tr>
<td>II</td>
<td>8.0</td>
<td>10.0</td>
<td>12.0</td>
<td>7.4</td>
<td>4.0</td>
<td>1.3</td>
<td>6.2</td>
<td>3.9</td>
</tr>
<tr>
<td>III</td>
<td>8.2</td>
<td>-4.2</td>
<td>9.0</td>
<td>56.1</td>
<td>4.0</td>
<td>17.5</td>
<td>-12.5</td>
<td>11.3</td>
</tr>
<tr>
<td>IV</td>
<td>5.2</td>
<td>16.7</td>
<td>2.2</td>
<td>35.6</td>
<td>4.0</td>
<td>-12.0</td>
<td>-3.4</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Source – Statistics Lithuania
In 2019 the public sector allocated the major share (76.2%) of investment in tangible fixed assets to the construction and reconstruction of buildings and structures, and 21.1% to the acquisition of equipment, machinery and transport vehicles. These two areas prevail also in the private sector expenditure for investment in tangible fixed assets, however the major share is allocated to machinery and equipment (48.2%) and a slightly lower share to the construction (43.1%). A large share of the public sector investment in tangible fixed assets for the construction is necessary to develop and renew the transport infrastructure, while to optimise profits in the private sector, there is the need to invest in machinery renewal, process automation and robotisation. Similar trends should prevail also in the medium term.

The investment process continuity in the medium term will be supported by the development of projects financed from the EU Funds and the Investment Plan for Europe. During the development of this scenario, it was planned to allocate EUR 4 billion from the EU Funds 2020–2023 for investment, this in total could promote the investment of approximately EUR 7 billion. The
Investment Plan for Europe is significant for the energy and transport sectors of Lithuania. It is projected that under this plan in total EUR 386 million will be allocated to Lithuania for financing investment projects from the European Fund for Strategic Investments. It is expected that in total EUR 1.8 billion will be raised for investment.

Demographic situation in the country and the endeavour to remain competitive and successfully perform activities in the environment of extremely high uncertainty oblige to increase productive investment. Investment in efficiency enhancement should remain relevant through the entire medium term and since 2021 contribute a major part of fixed capital growth. Search for new innovative solutions, cooperation between the private sector and education institutions as well as forward-looking innovative investors’ interest in development and implementation of new technologies should support the investment not only in tangible assets, but also in intellectual property products.

**Inflation**

Considering the information disposed during the development of the scenario, we project that the average annual inflation measured by the Harmonised Index of Consumer Prices (HICP) methodologically harmonised with other EU Member States will constitute 1.8 % in 2020. In subsequent years of the medium term the price development rate will remain close to the currently observed rate and in 2021–2023 will constitute 2 %. The scenario has been developed based on the assumptions that since 2022 global oil prices and euro-dollar rate will remain stable.

In 2019 the average annual inflation in the country constituted 2.2 % and exceeded the inflation rate in the EU and euro area (which represented 1.5 % and 1.2 %, accordingly), but was lower than the inflation rate in the majority of other countries of Central and Eastern Europe, including Latvia (2.7 %) and Estonia (2.3 %). The major factor for the inflation rate in Lithuania last year remained prices of consumer services which increased by 4.6 % affected by rapidly growing wages. Escalation of service prices constituted more than half (1.3 percentage point) of the average annual inflation rate. A significant impact on inflation – 0.7 percentage point – was exerted by higher prices of foodstuffs and non-alcoholic beverages mainly related to boosted prices of vegetable and meat on international market.

**Diagram 6. Average annual inflation in the EU countries in 2019, %**

Source – Eurostat
Though last year the purchasing power of households was growing rapidly (net earnings alone increased 14.2 %), and the pressure on rise of prices of consumer goods and services kept intensifying, prices in the country grew by 0.3 percentage point lower than in 2018. It was mainly affected by last-year evaporated impact of boosting prices of energy commodities, which in 2018 constituted 0.8 percentage point of the average annual inflation rate. In 2019 under decreased oil and raw materials for biofuels, and launch of VAT exemption on firewood, prices of energy commodities decreased on average by 0.7 %. Prices of vehicle fuel, heat energy and solid fuel kept declining.

Diagram 7. Annual inflation development and structure

In 2020, as compared with 2019, the inflation rate should slow down and represent 1.8 %. Inflation projections have been developed based on oil price forecast published by the European Central Bank in March 2020. It indicates that in 2020 the average oil price in euro will slump by 11.1 %, in 2021 – by 1.4 %, and since 2022 will mainly remain unchanged. Lower oil price in 2020 will manifest, first, in cheaper vehicle fuel and will have a positive effect on both household consumption expenditure and operating costs for enterprises, and will reduce pressure on prices of goods and services. The outbreak of COVID-19 virus and limitations on consumption of services during quarantine should decelerate the growth of prices of services and negatively affect the inflation rate this year.

Boosted prices of foodstuffs on global market alert on a heightened pressure on retail prices of foodstuff to increase. FAO\(^3\) Food Price Index at the end of 2019 – beginning of 2020 rose to its highest level in 5 years. The index rise was due to higher prices of meat, dairy products, oils and sugar on global market. Despite that, a more rapid rise of prices of foodstuff than last year is not

\(^3\) Food and Agriculture Organization of the United Nations
expected in Lithuania in 2020. Boosted prices of vegetable which last year had a huge impact (1.9 percentage point) on developments of foodstuff prices have stabilised and still rising meat prices may stabilise if pork supply and demand balance will be restored on global market. Global and Lithuanian food prices may be also influenced by the measures to contain the outbreak of COVID-19 virus (e.g. quarantine imposed in different countries of the world), if they affect food supply and/or demand.

This year the impact of lower oil prices on inflation will be outweighed by higher administered prices of consumer goods and services, whose effect on inflation will constitute approximately 0.5 percentage point. Last year, after a long period of time, increased electricity prices for household consumers have risen another 15 percent since the beginning of this year and will have a direct impact of 0.2 percentage point on the average annual inflation in 2020. The development of electricity prices was caused by boosted market prices and higher infrastructure maintenance costs. Though prices of natural gas for household consumers have been reduced from the beginning of this year by 17.9 %, higher electricity price impact on inflation will not be outweighed. Lower prices of natural gas were set following the reduction of maintenance costs of the Liquefied Natural Gas terminal and slightly lower prices of raw gas on international markets. Developments of excise duty rates on petrol and diesel, tobacco products and ethyl alcohol will have impact of approximately 0.3 percentage point on inflation this year. In drafting the scenario the assumption was made that in subsequent years of the medium term electricity and natural gas prices for household consumers will remain stable, and excise duty rates will increase solely for tobacco products starting from March 2021.

In the medium term the inflation rate should remain close to 2 %. The price level of services (in 2018 in Lithuania it constituted 49.9 % of the EU average) and the share of household consumption expenditure falling on services (in 2019 in Lithuania it constituted 27.5 %, in the EU – 43.1 %) will gradually become close to the average EU rates. Services will remain one of the main factors of inflation, though under decelerating wage growth rate in the country, the price growth rate of services will also slightly slow down. In 2020 the pressure on prices of services will be additionally depressed by the country-wide quarantine, during which the use of services will be restricted.

**Labour Market**

In 2020 the labour market will be negatively affected by decline in economic activity due to the outbreak of COVID-19 virus and measures taken to contain it – quarantine and restriction of shopping activities and supply of services imposed in the middle of March. This effect will be mitigated by economic stimulus measures planned by the Government, part of which will be for protection of jobs and income. It is projected that in 2020 the number of employed population will shrink by 2 %, and the employment will be mostly affected in the service sector of the country. The unemployment rate in the country will temporarily increase and in 2020 it will account for 8.1 %. It is projected that following the recovery of economic activity in 2021, the number of the employed population will increase by 0.6 %, the unemployment rate will diminish down to 7.3 %. In subsequent years of the medium term the unemployment rate will decline moderately and at the end
of the term will constitute 6.6 %. At the end of the medium term the labour force supply will be impeded by deepening aging society problem, therefore we do not expect the employment growth.

Considering the wage development trends and the information disposed during the development of the scenario about the wage developments in the public and private sector, we predict that in 2020 average monthly gross wages in the country will increase by 5.6 %. This year wages will grow most rapidly in the public sector, while in the private sector, after increased unemployment rate, the growth of wages will significantly decelerate. A slower than this year – 3.9 % – wage growth rate in the national economy is expected in 2021 due to its slower growth in the public sector. Under diminishing unemployment rate in subsequent years of the medium term, the wage growth rate in the country will gradually accelerate, however will be lower than the one observed over the last years and will remain close to 5 %.

**Working Age Population**

In 2019 – for the first time since 1992 – the number of the resident population in Lithuania increased. According to preliminary data by Statistics Lithuania, 2 million 794.3 thousand resident population resided in Lithuania on 1 January 2020 – by 0.1 thousand more than at the beginning of 2019.

**Diagram 8. Number of the resident population at the end of the year, thousand**

![Diagram 8. Number of the resident population at the end of the year, thousand](image)

Source – Statistics Lithuania

In 2019 a positive net international migration was recorded for the first time since 1990, which accounted for 10.8 thousand persons. A positive result of migration was due to the number of immigrants which increased by 38.6 % and the number of emigrants decreased by 9.1 %. 40.1 thousand persons immigrated and 29.3 thousand persons emigrated. The natural population change after decrease in crude death rate over the year improved by 0.7 thousand persons, however remained negative and made up –10.7 thousand persons. A positive net migration fully offset a negative impact of natural population change.
Diagram 9. Change in the number of population and its structure, thousand

Source – Statistics Lithuania

Last year, as in 2018, about 90% of immigrants were working age population. Favorable development of migration had a significant positive effect on the number of the working age population in Lithuania. On 1 January 2020 the number of working age population (aged 15–64) made up 1 million 815.3 thousand persons and over the year shrunk by 4.6 thousand, or 0.3%. This is a substantially lower negative change as in 2018 (−15.7 thousand, or −0.9%). This number covers solely the resident population of the country, but does not include foreign citizens who are short-term employees in Lithuania or posted from other countries. Their number in recent years grew significantly.

A rapid growth rate of the number of immigrants recorded for the second successive year was driven by the number of returning citizens of the Republic of Lithuania which increased 1.4 times and the number of arriving foreigners which increased 1.6 times. The number of returning citizens of the Republic of Lithuania amounted to 20.4 thousand and was the highest since 2001, however was not exclusively high – similar numbers were recorded in 2013–2015 (on average 19 thousand each year). Last year returning citizens of the Republic of Lithuania accounted for half (50.9%) the number of immigrants. The residents were encouraged to return by the improved Lithuania’s economic situation, increased demand for workers in the labor market, rapidly growing wages.

The number of immigrants foreign nationals was 19.6 thousand – almost the same as the number of returning citizens of the Republic of Lithuania. The main reason for immigration of foreign nationals was a lack of labour force of certain skills in Lithuania. Last year the number of immigrated foreign nationals was much higher than ever before during the period since 2001. As compared with 2018, their number increased by 7.4 thousand. The Ukrainian and Belarussian nationals constituted the majority (77.6%) of immigrants foreign nationals.

According to the data by the Migration Department covering the information on short-term foreign workers, 66.6 thousand foreigners arrived to Lithuania for work in 2019. The major share of their occupations – 86% – satisfied the list of occupations/workers lacking in Lithuania (they do not need permits for work), and the remaining 14% were employed after issue of permits for work. On 1
January 2020 78.1 thousand foreigners resided in Lithuania who constituted 2.79 % of the number of resident population of Lithuania. The number of foreigners residing in Lithuania increased by 34.6 % over the year. The major share of foreigners – 87.3 % – consisted of nationals from the third countries. It is likely that, as in previous years, the majority of foreign nationals worked in transport and construction activities.

Last year the emigration of population from the country kept declining for the third successive year. The main directions of emigration remained the same as in 2018 – the United Kingdom (10.1 thousand, or 34.6 % of total number of emigrants), Germany (2.6 thousand, 8.8 %), Norway (2.4 thousand, 8.1 %). Though at present there no statistical data, the emigration of the citizens of the Republic of Lithuania presumably decreased, and the migration of foreign nationals might increase. Not all foreign nationals immigrants tend to stay for a longer period of time. Part of foreign nationals could departure for other countries, part – to return to their native country. For instance, last year 1.6 thousand persons emigrated to the Ukraine – by 1.1 thousand or 3.2 times more than in 2018. Presumably, they were Lithuanian immigrants having Ukrainian nationality and returning to their native country.

**Diagram 10. International migration development, thousand**

A positive net migration development may continue also in 2020, but still there is no solid ground to expect that a positive net migration will be recorded for the entire medium term. Expected changes in regulation of the transport sector at the EU level will damp the recently rapidly increasing demand for workers in international transport, where the major share of immigrants from the third countries is concentrated. The immigration flow will be affected by national migration policy changes projected since 2021 – employment quotas for foreigners arriving to Lithuania from the third countries to take low-skilled jobs. Before the introduction of quatas, workers who are in most demand in Lithuania may arrive to the country for work under simplified conditions, and their number is not restricted. The quatas will not apply to highly qualified professionals and foreiners whose occupation is not included into the list of lacking occupations. In case the quatas are exceeded according to the list of occupations lacking in Lithuania, in order to recruit additionally
the foreigners, it will be necessary to obtain a permit for work or decision on alien labour compliance with Lithuania’s labour market needs. When drafting this scenario it was not clear the outcome of the negotiations between the EU and UK concerning a new relationship after the transitional period expires following Brexit at the end of 2019 that may influence the developments of flows of returning citizens of the Republic of Lithuania was uncertain. After expiry of the free movement between the UK and EU, and restriction of immigration of low skilled workers to the UK, the emigration flow from Lithuania to the UK, where last year departed one third of all emigrants, would significantly decrease.

When drafting this scenario a technical assumption that positive migration trends recorded in 2019 will last also in the short term – in 2020 net migration will remain positive was taken into consideration. Nevertheless, the working age population in the country will decline. The assumptions about demographic trends in the medium term (in 2021–2023) match the latest projections of the no migration scenario by Eurostat services. They indicate that in the medium term, due to natural population change, the number of working age population (aged 15–64) will decline on average by 1 %, or by 18.4 thousand persons each year. In the long term the number of working age population will also decline – in 2030 the number of this age group persons will be by 10.1 % (183 thousand), and in 2060 – by 29.4 % (530 thousand) lower than at the beginning of 2020. The number of persons no longer active on the labor market (aged 65 and older) in the medium term will grow on average by 1 % each year. In the long term the number of population aged 65 and older will further increase. In 2030 the number of this age group persons will be by 15.8 % (88 thousand), and in 2060 – by 24.3 % (135 thousand) higher than at the beginning of 2020. The size of the labour reserve – population younger than 20 years of age – in the medium term will remain relatively stable, however in parallel to the increasing number of population aged 65 and older, it will become lower already in 2021.

**Diagram 11. Development of the number of population and projections, thousand**

Sources: Eurostat, Statistics Lithuania
Over the last several years Lithuania’s labour market encountered deficiency of workers with marketable skills. In 2019 increased labour supply defused both external and domestic tensions in the labour market. The labour force consisting of the employed and unemployed working age population (residents), however are actively seeking for a job, in the group aged 15–64 made up 1 million 416 thousand persons and over the year increased by 0.2 % – almost the same as in 2018 (0.3 %). Including population aged 65 and older, the labour force made up 1 million 470.4 thousand persons and increased by 0.4 % (in 2018 – 0.5 %). The labour force indicator, which is estimated by Statistics Lithuania following the labour force survey methodology, does not cover short-term workers from abroad who are not immigrants and are not resident population of the country (residents). Considering the fact that the number of short-term workers kept increasing in 2019, the labour supply growth would have been faster than the labour force survey data indicates.

In 2019 the flow of returning citizens of the Republic of Lithuania and immigrants foreign nationals, who almost all (about 90 %) were working age persons, was rapidly increasing. At the same time under declined emigration it partly offset a negative impact of aging society on labour supply in Lithuania. The labour force participation rate increased by 0.7 percentage point up to 78 % (in the group aged 15–64) indicating the proportion of the labour force of the selected group to total population of the same age also had a positive impact on labour supply. The participation rate growth was recorded almost in all age groups, however its growth rate, as compared with 2018, halved. The working age population activity was fostered by labour market situation favourable to workers – a strong labour demand, still high vacancy selection, rapidly growing wages. The participation rate decreased (by 0.4 percentage point down to 73.4 %) solely in the group aged 55–64 – for the first time since 2011. Decreased participation rate shows that in this age group the number of inactive population grew more rapidly than the number of the working age population. Most of these were males living in the cities, where the unemployment rate is likely to exceed the national average, and the labour demand is lower. The number of inactive population in this age
group increased despite delayed retirement age and cautions that employment opportunities for this age population in certain regions of the country possibly deteriorated.

Diagram 13. Labour force change and its structure by age group, thousand

As compared with other countries, the participation rate in Lithuania already in 2018 (the data was not yet available in 2019) constituted 77.3 % and was among the top ten in the EU, and by 3.6 percentage point exceeded the EU average (73.7 %). Last year recorded twice slower growth rate than in 2018 is not surprising. It is less likely that in the medium term the activity of the working age population will further rapidly grow at a rate that was observed over the last 11 years (by 0.9 percentage point each year). Considering a negative impact of ageing population on labour force, limited mobility of labour force in the country and relatively poor health status of elderly population, it more likely that in the medium term the participation rate will grow more slowly or will stabilise. Whereas the labour participation growth in recent years had highly positive impact on the labour market – it partly offset a negative effect of the decreasing number of the working age population on labour supply, under deteriorating its development prospects in the medium term, the labour supply growth is likely only in the context of high net migration.
Employment and Unemployment

The number of the employed population, which is estimated by the Statistics Lithuania following the labour force survey methodology, in 2019 increased by 0.3 % and made up 1 million 378.4 thousand persons. Last year, as compared with 2018, the number of employed population grew by 1.2 percentage point slower. The growth rate of the employed population was negatively affected by falling demand for new workers in certain economic activities, low labour supply growth despite a record flow of immigrants, high structural unemployment, also statistical base effect – recorded rapid growth of the employed in III Q of 2018 (3.4 %) which partly attributable to a strong negative
impact in III Q of 2019 (−1.9 %). The number of the employed population estimated following the population employment survey methodology does not cover short-term workers foreign nationals who arrived to Lithuania to work for several weeks or months, therefore it does not entirely reflect the real labour market employment situation. Short-term workers foreign nationals are not a resident population of the country (residents), therefore are not included into the labour force survey, however they occupy jobs and create value added. If in estimating the number of the employed population the increased number of short-term workers foreign nationals were included, the number of the employed population estimated in such manner could be higher in 2019.

Diagram 16. Change in the number of the employed population and its structure, %/percentage point

In 2019 the number of the employed population in the private sector made up 1 million 7.9 thousand persons (73.1 % of the employed population of whole economy) and over the year increased by 0.7 %. In II half of 2019, as compared with a corresponding period a year ago, a 1 % decrease of the number of the employed population was recorded in this sector. Worse data of II half might be a result of statistical base effect, more active migration of workers to the public sector, where last year wages grew much faster, worse business expectations for future perspectives. The number of the employed population in the public sector was 370.6 thousand – by 0.8 % lower than in 2018. Though the average annual number of the employed population in the public sector kept declining, in IV Q of 2019, as compared with with a corresponding period a year ago, a 1.3 % growth was recorded. The number of the employed population in the public sector in IV Q of 2019 increased for the first time over the last 2 years in this sector under shortage of workers (job vacancy rate in public administration and defence reached 3.1 % and was the highest in whole economy) and rapid growth of net wages (12.2 % in 2019).
Diagram 17. Change in the number of the employed population and its structure, % / percentage point

In manufacturing, whose major part of production is exported, the number of the employed population reached 218.9 thousand in 2019 and made up 15.9 % of the employed of whole economy. Under increased uncertainty in export markets and deteriorated industrial confidence indicator (from -1.5 in 2018 to -3.25 in 2019), the number of employed population in manufacturing industry shrunk by 0.4 %. Indeed, the number of job vacancies in this activity boosted by 4.7 % last year, and the vacancy rate increased by 0.1 percentage point up to 1.9 %, therefore it is likely that slump in employment in this activity might be affected also by skills shortages. Industry indicators of business trends indicate that the forecast of the number of industrial workers for 3 months at the end of 2019 – at the beginning of 2020, as compared with a corresponding period a year ago, degenerated after deterioration in export development.

In construction, which last year had 7.6 % of the employed in the country, their number grew 2.5 % – by 1.1 percentage point lower than in 2018. The growth of the number of the employed was recorded despite slightly deteriorated construction confidence indicator (from –12.1 in 2018 to –14.5 in 2019). The number of job vacancies in this activity shrunk by 11.2 % last year, and as compared with 2017 – by 43 %. The job vacancy rate in 2019, as compared with 2017, slumped by half from 2.1 % to 1.1 % and indicates that demand for new workers and pressure on wage growth in construction is watered down.

In the services sector covering wholesale and retail trade, transport and storage, accommodation and food service, information and communication activities, real estate, professional, scientific and technical activities, administrative and support service activities, the number of the employed population grew 1.4 % – by 0.8 percentage point lower than in 2018. In 2019 in this sector
economic activities were carried out by 537.5 thousand, or 39 % of the employed in the country. Over the year the number of job vacancies in this sector also kept decreasing, however at less accelerated pace (4.2 %).

The number of job vacancies in the whole economy declined moderately over the last two years. In 2018 their number shrunk by 7.7 %, in 2019 – by 0.9 % and made up 18.3 thousand. In 2019 the number of occupied posts increased by 1.6 %, however more than half of this growth rate – 0.9 percentage point – was caused by the number of occupied posts increased by 9.3 % in transport and storage activity. Last year the job vacancy rate indicating the proportion of the number of job vacancies to occupied posts in the country remained unchanged and constituted 1.4 %. Last year the shortage of workers remained strong in the public sector and manufacturing industry, and declined in the construction and service sector. A diminished number of job vacancies and the job vacancy rate indicate that in these economic activities the shortage of workers and the pressure on wage growth is watered down – the labour market in the construction and service sectors shows signs of possible cooling.

Diagram 18. Number of job vacancies and its change

![Diagram 18](image18.png)

Source – Statistics Lithuania

Diagram 19. Number of occupied posts, its change and contributions

![Diagram 19](image19.png)

Sources: Statistics Lithuania, Ministry of Finance
Despite a rapid economic growth rate and increased number of the employed population, the unemployment rate grew 0.2 percentage point in 2019 and constituted 6.3%. The increase in the unemployment rate was a result of a higher labour supply, weaker labour demand in certain economic activities and high structural unemployment in the country. In Vilnius county the unemployment rate diminished by 0.2 percentage point down to 4.4%, however in Kaunas, Klaipėda, Marijampolė, Panevėžys and especially in Tauragė counties the unemployment increased. Aging labour force and distances to the largest cities limit labour mobility and possibilities of working in the largest cities, where labour demand is higher.

**Diagram 20. Unemployment rate, %**

![Diagram showing unemployment rate from 2012 to 2019](image)

Source – Statistics Lithuania

**Diagram 21. Unemployment rate in counties in 2019, %**

![Diagram showing unemployment rate in different counties in 2019](image)

Source – Statistics Lithuania

In 2020 the COVID-19 virus pandemic will have adverse effect on labour demand and employment. The quarantine and restriction of service consumption to contain the virus spread up in the country will mainly affect the activities of the enterprises providing services and temporary will diminish
the labour force demand. Economic stimulus measures foreseen by the Government, part of which will be for protection of jobs and income, will cushion an adverse effect on the labour market. The funds of taxpayers – planned EUR 250 million – will be used to offset the partial downtime or part of downtime for workers for up to three months.

It projected that in 2020 the number of the employed population will diminish by 2 %, while the unemployment rate in the country will temporary increase and constitute 8.1 %. In 2021 when economic activity recovers, the number of the employed population will increase by 0.6 %, the unemployment rate will decrease down to 7.3 %. In subsequent years of the medium term the unemployment rate will fall moderately and at the end of the term it will represent 6.6 %. At the end of the medium term the labour supply will be restrained by deepening ageing society problem, therefore we do not expect the employment growth.

**Wages**

According to preliminary data by Statistics Lithuania, in 2019 average monthly gross wages in the whole economy made up EUR 1,296.2 and grew 8.8 % – by 1.2 percentage point slower than in 2018.

**Diagram 22. Average monthly gross wages, EUR**

![Diagram 22](image-url)

**Diagram 23. Change in average monthly gross wages, %**

![Diagram 23](image-url)

Net wages grew 14.2 % – at much more accelerated pace than in 2018 (9.1 %). Due to a rapid net wage growth and moderate inflation, over the year real wages boosted by 11.6 % – almost at double pace than in 2018 (6.2 %). The wage development in the country was affected by tax system amendments effective from 1 January 2019, changed procedure for calculation of the non-taxable
income rate, decisions made by the Government concerning the increase of wages in the public sector, labour supply development, minimum monthly wages (MMW) increased by 7.6 % up to EUR 555.

Tensions in the labour market over the last years, which led to wage development in the national economy, weakened in 2019. Average monthly gross wages in the private sector made up EUR 1,265, and its growth rate reached 7.4 % and, as compared with 2018, slowed down by 2.2 percentage point. Last year gross wage growth rate in the private sector was the slowest over the past 4 years. It is likely that the slowdown of the growth rate could be affected by the increased labour supply – substantially increased number of immigrants and short-term workers foreign nationals. Besides, due to the amendments to the tax system, last year net wages highly increased, the pressure on the employers to increase wages could weaken.

**Diagram 24. Average monthly gross wages in economic activities in IV Q of 2019, EUR**

In 2019 average monthly gross wages in the public sector made up EUR 1,368.2 and over the year grew 12.2 % – at the most accelerated pace over the last 11 years. Its amount of EUR 103.2 exceeded the average gross wage in the private sector. The annual wage growth rate in public administration and defence accelerated from 6.6 % in IV Q of 2018 to 12.7 % in IV Q of 2019. The acceleration was affected by the amended payment system for civil servants, increased basic salary for State politicians, lawyers, State officials, civil servants and employees of budgetary institutions. The wage growth rate in the public sector was affected by the wages increased from 1 May 2018 for workers of health institutions (doctors and nurses), the employment payment procedure for educators amended from September 2018.
Considering wage development trends and the information disposed during the development of the scenario about the wage development in the public and private sector, we project that in 2020 the average monthly gross wage change in the country will constitute 5.6 %. The decisions made by the Government concerning the increase of wages in the public sector will have a significant impact on wage growth; therefore wages will mostly grow in the public sector. The payroll fund of doctors and nurses was increased by 15 % from 1 September 2019. This year EUR 146.6 million was allocated for the implementation of the National Collective Agreement signed by the Government and trade unions. This wages will rise for public sector workers of various professions – workers of education institutions, teaching staff and researchers, career civil servants, cultural workers, other civil and municipal servants and workers employed under labour contracts, professional military service officers. MMW increased by 9.4 % (EUR 607) will also have a significant effect on wages. After increase in the unemployment rate in the private sector, the wage growth will decelerate.

**Household Consumption**

In the medium term household consumption expenditure development trends will be mostly determined by disposable income and price development, general economic situation in the country, feasible consumers’ behavioural change due to changed expectations and changes in the number of consumers in the country. Considering the situation in the labour market, actions taken to contain the spread of the COVID-19 virus and the Government Action Plan to protect jobs and personal income, we project that household consumption expenditure will grow 1 % in 2020, and in 2021–2023 by 2.9 % each year, i.e. the projected consumption expenditure development is slower than envisaged in September 2019.

In 2019 household consumption expenditure grew at less accelerated pace than in 2018, however still exceeded 3 % (the growth rate in 2019 was 3.2 %). The expenditure growth was supported by further rapidly growing personal income. The Government decisions on reduction of labour force taxation, wage increases (also of minimum monthly wages), support to families with children, pension indexation gave stimulus to improving household financial situation.

Disposable personal income should further grow and foster increase in consumption expenditure. Disposable income will be raised by increasing wages, further reduction of labour force taxation, increasing social transfers. In 2020 pensions for the first time in a post-crisis period will grow at more accelerated pace than wages. However social transfers make up much lower share of disposable income (23 %), as compared with income generated from paid employment (61.5 %), therefore more rapid pension growth will be insufficient to offset the slower growth of paid employment income. The possibilities of further increase of wages rocketing over the last years in the private sector have been exhausted.
Since II half of 2019 consumer expectations deteriorated, and at the beginning of 2020 for the first time since January 2018 the annual change in the consumer confidence indicator was negative. The population became cautious in assessing national economic situation and its own financial situation perspectives, in January intensions to acquire larger purchases also declined. In drafting the scenario the extent of the COVID-19 virus spread was yet not known, a very high uncertainty prevailed which will have effect on consumer expectations, therefore, we project that a downward trend in expectations of the population will prevail for some time and will have the adverse effect on the consumption development in the country.

The growth of the largest product group in retail trade (sales of food, beverages and tobacco in 2019 constituted 40.2 % of total retail sales) was sluggish (1.8 %), however the trade of non-essential goods was active: retail trade sales of textiles, footwear grew 9.6 %, information and communication technology equipment, cultural and recreation goods, watches – 7.8 %, audio and video equipment, furniture, lighting installations – 5.9 %. The measures to contain the spread of the COVID-19 virus will have an adverse effect on the development of consumer expenditure in the country in 2020 – though purchase of foodstuffs may accelerate, however this will be insufficient to offset the decrease in the acquisition of non-essential goods and services.
Household indebtedness grew in 2019. In 2019 the balance of loans granted for consumption on average increased by 5.9 %, long-term debts were particularly fast-growing which constitute the major share of total loans granted to households (81 % in 2019). In 2019 the balance of loans granted to households for house purchase on average was by 8.6 % higher than in 2018, therefore part of income which could be used for purchasing goods or services in the medium term will be used for the fulfilment of existing long-term financial liabilities.

In 2019 household consumption expenditure contributed a major part (2.6 percentage point) to the final consumption expenditure growth (grew 2.7 %). In the medium term household consumption expenditure will further remain to be the main source of the final consumption expenditure growth and should grow at more accelerated pace than the EU average. Household consumption expenditure in the EU increases three times slower than in Lithuania – since 2011 in the EU such expenditure on average grew 1.2 %, when in Lithuania on average growth reached 3.8 %. After recovery of economic activity faster than prices growing personal income in the medium term will support the purchasing power of population and will create opportunities for household consumption expenditure to grow on average about 2.9 % per year.
**Risk for the Scenario Come True**

The scenario has been developed under exclusively high instability of the external environment. The global outbreak of the COVID-19 virus which disrupted global supply chains claimed thousands of lives and forced many countries in the world to impose the measures to contain the spread of the virus, which have an enormous impact on the economy, will undoubtfully result in negative economic consequences on both global economy and economies of the EU Member States. The extent of negative economic consequences will depend on how long the virus spread will last. During the development of the scenario the virus spread was still not contained, there were increasing signs that its spread will last longer than I Q of 2020. To contain the spread of the virus, the European countries had to take extreme measures (national quarantine, closure of borders) whose extent of negative effects will depend on duration of their imposition.

Geopolitical tensions and uncertainty over international trade conditions did not fade and may get stronger. The first stage of the US-China Trade Agreement fulfilled this year decreased uncertainty over trade conditions, however international trade is still feeble. The majority of already imposed US and China trade tariffs on each other’s goods remained, it is not known for how long the trade truce between the United States and China will last, the trade agreement is not reached between the US and EU, and the COVID-19 virus shock damps the international trade. The risk for sustainability of global economy still remains high with regard to some sovereign debts and challenges related to their financing. All this increases vulnerability of both global economy and economies of the euro area and Lithuania.

If economic and political uncertainty of external environment increases further, this may have adverse consequences for both external and domestic demand, population may reduce consumption expenditure and enterprises postpone investment plans.

After the UK officially left the EU on 31 January this year, the uncertainty emerged about the UK-EU future relationship negotiations after the expiry of the transition period.

**Diagram 29. The UK and EU negotiations**
It is projected that the transition period should end on 31 December 2020, however there is a possibility of its extension to 12 or 24 months. During the transition period the EU-UK relationship model valid to date will remain unchanged. During the negotiations it should be agreed on the EU and UK trade, migration and other conditions. However, there are signs that the negotiations will not be easy and it could be difficult to reach the agreement, therefore additional uncertainty rises which may negatively affect consumer and business expectations, damp the economic development of both the UK and EU.

After the transition period there are several possible models of relationship between the EU and UK. The EU membership enabled full participation in the single EU market, customs union and absence of customs duties and free movement of population. After the UK leaves the EU, a bilateral agreement may be reached which would enable the relationship with less restrictions, as compared with the relationship based on the conditions of the World Trade Organisation (hereinafter – WTO). Usually, it takes a long time to reach a bilateral agreement, therefore there is a risk that by the end of the transition period the EU and UK may not reach the agreement – in such case the WTO conditions would come into effect and they would be much tighter than the ones which are in effect now. After a significant change in bilateral relationship, there is a risk that the estimates of the Lithuanian macroeconomic indicators projected in this scenario would also change.

Table 3. Relationship models between the countries

<table>
<thead>
<tr>
<th>Participation in the single EU market</th>
<th>EU membership</th>
<th>Bilateral agreements</th>
<th>WTO conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in the customs union</td>
<td>Yes</td>
<td>Usually no</td>
<td>No</td>
</tr>
<tr>
<td>Customs duties</td>
<td>No</td>
<td>May be reduced/exempted depending on agreement conditions</td>
<td>Yes</td>
</tr>
<tr>
<td>Free movement of population</td>
<td>Yes</td>
<td>Yes/no (depends on agreement conditions)</td>
<td>No</td>
</tr>
<tr>
<td>Contributions to the EU budget</td>
<td>Yes</td>
<td>Yes/no (depends on agreement conditions)</td>
<td>No</td>
</tr>
</tbody>
</table>

After the virus pandemic gained momentum, the global oil demand slumped thus depressing its price. In the middle of March Brent oil price fell down to almost USD 30/ bar.

Diagram 30. Brent oil price development (future transactions), USD/ bar

Source – bbc.com
The started oil price war between Saudi Arabia and Russia when the latter has not agreed with the oil extraction cut proposed by OPEC also has a downward effect on oil prices. Under protracted price war, the average oil price in 2020 would be lower than the technical assumption of the scenario (USD 56.4 / bar), and would have a higher downward effect on the inflation this year.

If the EU Mobility Package is approved in 2020, it, according to the data available during the development of the scenario, should come into effect in its full extent within 18 months from the data of its publication. The regulation specified in the Mobility Package aims to improve road safety in Europe, improve drivers' working conditions and to reduce air pollution. The effect of the implementation of the Mobility Package on the indicators in the scenario will depend on preparation and ability of the transport enterprises to adapt to the foreseen new regulatory environment.

The estimates of the indicators set in the scenario to a large extent are determined by statistical data available during the development of the scenario, which recently after revisions by Statistics Lithuania significantly change.

If the main assumptions based on which this scenario has been developed do not come true, the estimates of the majority of indicators specified in this scenario would change.