Republic of Lithuania Rating Report

SCOPE A- STABLE OUTLOOK

Credit strengths

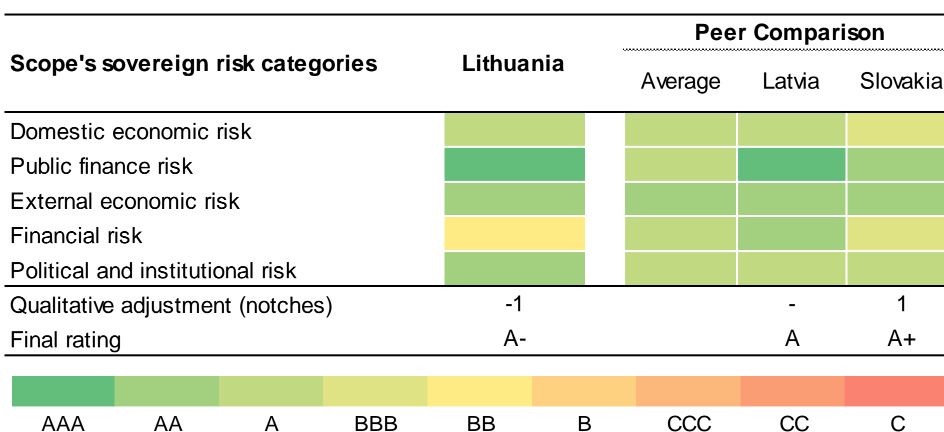
- Fiscal consolidation efforts and moderate debt burden
- Euro area membership
- Commitment to structural reforms

Credit weaknesses

- Unfavourable demographics
- Low potential-growth outlook
- Vulnerability to external shocks

Rating rationale and Outlook: Scope's upgrade of Lithuania's rating to A- reflects: i) continued fiscal consolidation; ii) increased economic and external resilience underpinned by euro area membership since 2015, iii) commitment to structural reforms including in the labour market, tax and pension systems, alongside in energy infrastructure, supporting Lithuania's improving macroeconomic performance. However, some challenges remain, including unfavourable demographics, low potential-growth and vulnerability to external shocks. The Stable Outlook reflects Scope's assessment that the risks going forward are broadly balanced.

Figure 1: Sovereign scorecard results



Scope's sovereign risk categories	Lithuania	Peer Comparison		
		Average	Latvia	Slovakia
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	-1		-	1
Final rating	A-		A	A+

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown together with two selected countries chosen from the entire CVS peer group. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive rating-change drivers

- Improved potential-growth outlook
- Stronger debt reduction than anticipated
- Reforms address adverse demographics and low productivity

Negative rating-change drivers

- Reversal in fiscal consolidation leading to a rise in debt ratios
- Lower-than-expected EU fund absorption, lowering growth
- Failure to properly address the low potential-growth outlook

Ratings and outlook

Foreign currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

Local currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

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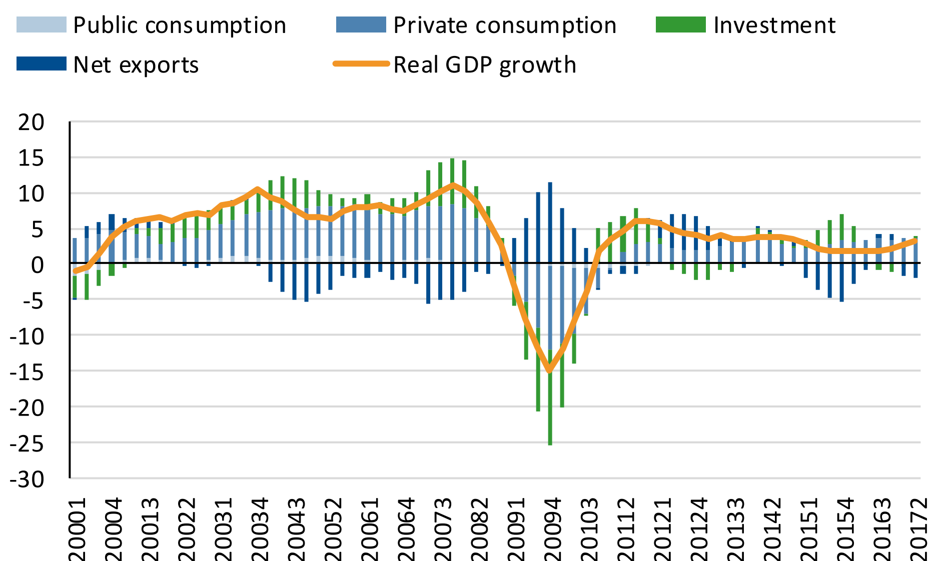
Domestic economic risk

Robust growth prospects in the short-to-medium term

Lithuania, as a small and open economy, experienced a sharp recession in 2009, with growth falling by -14.8%. After a V-shaped recovery in 2010-2011, the country benefitted from a solid recovery with growth averaging 3.3% over the period from 2010-2017. This period included entry into the euro area in 2015. In 2016, economic growth accelerated to 2.3% from 1.8% in 2015 and Scope expects growth to range from 3.0% to 3.5% over the next several years supported predominantly by a pick-up in the absorption of European Union (EU) funds.

Figure 2: Percentage point contribution to real GDP growth



Source: Lithuania Department of Statistics, Calculations Scope Ratings AG

Solid private consumption growth, supported by rapid wage increases, improving conditions in the labour market and moderate inflation, has been the main driver of Lithuania's growth of recent years. Labour market conditions have improved in view of falling unemployment rates (from a peak at 17.8% in 2010 to 7.9% in 2016) and employment growth (averaging 0.5% over the same period). After a significant slowdown in 2016, related to the transition to the new 2014-2020 EU multiannual framework, investments resumed in 2017 in line with an expected pick-up in the absorption of EU funds, which are expected to increasingly contribute to growth in coming years. Indeed, in line with that in its Eastern European peers, public investments in Lithuania are determined by the EU funds calendar. Standing at EUR 6.8bn[1], Lithuania is the fifth largest receiver of EU funds as a ratio of annual GDP (at 17.6% of GDP).

In 2016, net exports contributed negatively to GDP growth despite an improvement in the trade balance. Export growth continued in 2016, driven by economic recovery in main trading partners and rising demand for high value-added services exports while imports were low mainly due to a lower price for energy imports (these account for around 20% of Lithuania's imports). Going forward, Scope expects this positive trend in net exports to reverse over the coming years due to robust domestic consumption growth, higher investment (and, as such, higher imports), as well as rising labour costs.

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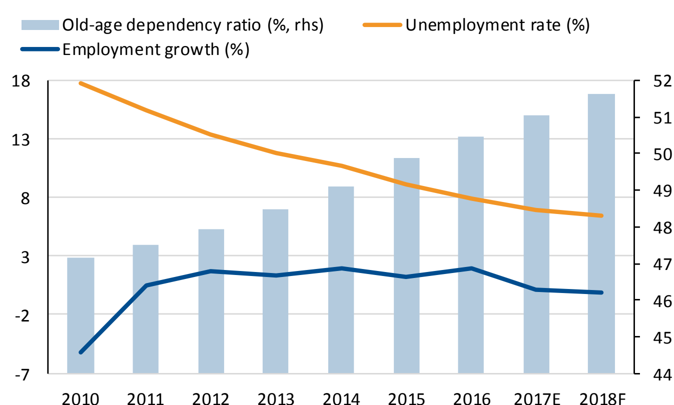
[1] European structural and investment funds 2014-2020: http://ec.europa.eu/regional_policy/sources/docgener/guides/blue_book/blueguide_en.pdf

But low potential growth dampens long-term economic outlook

While the short-to-medium-term growth outlook is robust, Lithuania's long-term growth potential faces two main challenges: i) the slowdown in its convergence process with euro area economies and ii) its transition to a higher value-added economic model. Real growth is still well below pre-crisis levels and GDP per capita remains significantly below that of Lithuania's peers, at around 41% of the euro area average in 2017[2].

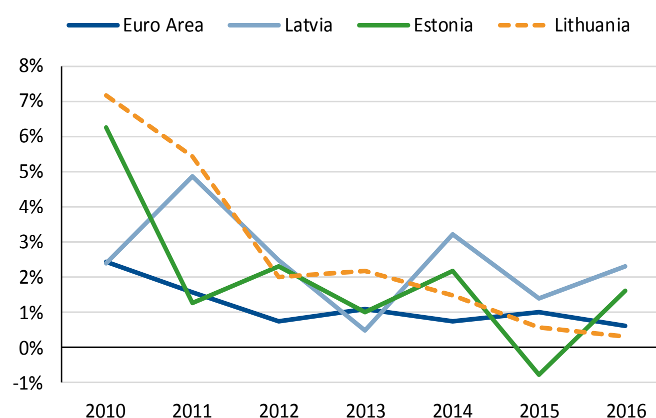
The low growth potential of Lithuania is mainly the result of adverse demographics and subdued labour productivity growth. A significant portion of improvements in employment rates can be attributed to the shrinking labour force. Lithuania's labour force declined at an annual compounded rate of 0.4% from 2010 to 2016 and the participation rate stands at below 60%. Hence, Lithuania is faced with one of the strongest declines in its economically active population in the EU, due both to an ageing population and high emigration especially among young and educated workers.

Figure 3: Demographic developments, %



Source: IMF, World Bank

Figure 4: Labour productivity growth, %



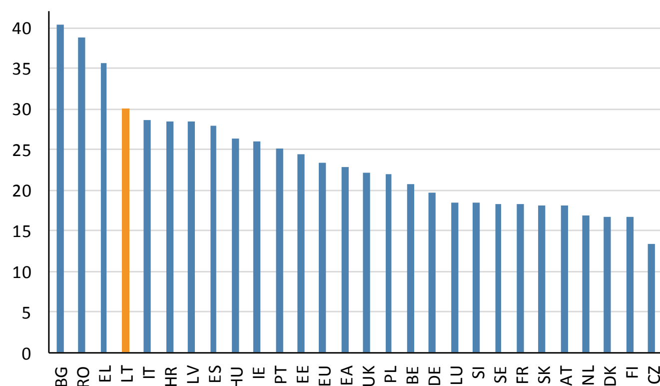
Source: National statistical offices, Calculations Scope Ratings AG

Lithuania's low growth potential is further exacerbated by decreasing productivity growth as measured by output per employee. In combination with unfavourable demographics, high wage growth, and the dominance of low value-added economic activities, decreasing productivity growth is becoming a challenge to the country's competitiveness. Supported by an increase in minimum wages in 2016, overall wage growth has surpassed productivity growth every year since 2012.

An additional constraint to the country's economic growth potential is the persistence of high levels of poverty and social exclusion, with Lithuania exhibiting the highest income inequality in the euro area[3]. After declining for a period after 2010, the ratio of people at risk of poverty or social exclusion has reversed trend over the past two years, reaching 30.1% in 2016, the highest in the EU after Romania, Bulgaria and Greece. Income inequality is also on an upward trajectory with the top-quintile earners making 7.5 times those in the bottom quintile in 2015[4]. Skills inequalities are also prevalent, increasing in both the education and labour markets, resulting in a widening skill gap and increasing skills shortages. We believe that these factors constrain economic growth by weighing on private consumption.

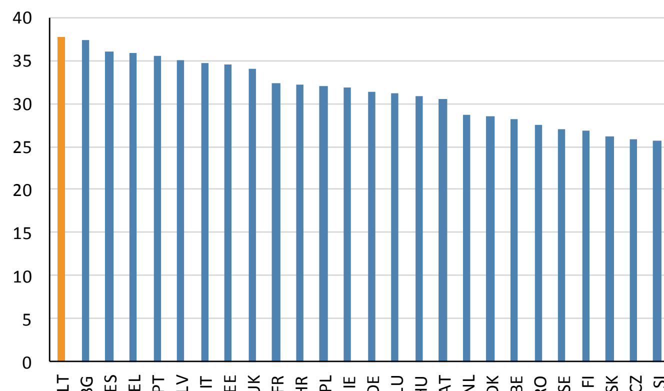
[2] Using purchasing power parity in calculating GDP per capita results in GDP per capita in Lithuania being at 75% of the EU average and 70.8% of the euro area average.
[3] Measured by the Gini coefficient (ranges from 0 to 100).
[4] European country report on Lithuania, 2017.

Figure 5: People at risk of poverty or social exclusion in 2016, %



Source: Eurostat

Figure 6: Gini Index in 2014, coefficient



Source: World Bank

Government is taking steps to address structural challenges

In this context, Scope views positively the government's commitment to structural reforms. Following the recommendations made in 'The new social model' promoted in 2015, the Lithuanian Parliament enacted a new labour market reform in September 2016 that enhances labour market flexibility and provides solutions to the challenges arising from the pension and health care systems. In addition, the 2017 National Reform Programme also takes steps towards addressing poverty and income inequality by reducing the tax burden for low-income earners as well as improving the coverage and adequacy of unemployment benefits and social assistance, thus increasing potential growth. Finally, reforms in the education system are planned in order to strengthen labour productivity.

Public finance risk

Lithuania's public finances remain sound in view of a moderate debt burden of around 40% of GDP in 2016, well under the EU average of 85% of GDP and the EU's 60% reference value. After hitting a record high deficit of 9.1% in 2009, successful fiscal consolidation efforts have led to a steady reduction in the headline deficit to below the Maastricht threshold of 3% of GDP since 2013.

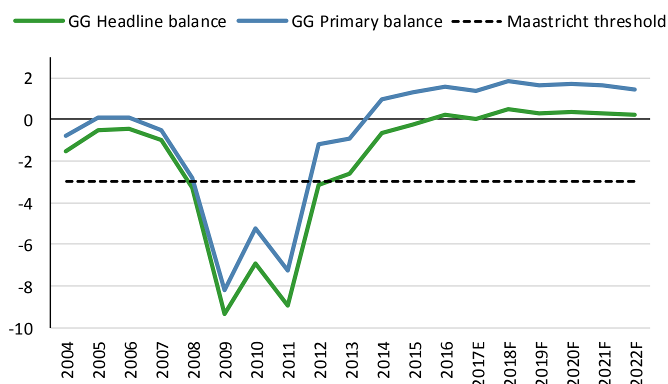
Effective fiscal consolidation efforts

Lithuania's ongoing budget consolidation process has also benefitted from the sovereign's credible fiscal rules, monitored since 2015 by an independent fiscal council. Lithuania's fiscal framework targets a positive structural balance using expenditure ceilings that impose greater fiscal consolidation than that required under the EU's Stability and Growth Pact. In addition, Scope assesses positively the strengthening of Lithuania's fiscal framework, including the extension of its medium-term budgetary framework over a three-year horizon and the inclusion of the structural balance rule as constitutional law.

In 2016, Lithuania recorded a budget surplus for the first time (of 0.3% of GDP), reflecting strong fiscal discipline over an extended period as well as improving labour market conditions (leading to higher tax revenues) and subdued public investment. However, Scope expects the budget surplus to decrease in 2017, driven by an increase in public expenditures related to the implementation of structural reforms in the labour market and increasing pension obligations related to an ageing population. Moreover, in addition to the 'New social model', whose near-term costs are estimated at around 0.5% of GDP, the recently adopted tax reforms aim at increasing the non-taxable income threshold, which is expected to generate longer-term economic growth, but further add to tax revenue losses. Nevertheless, Lithuania's budgetary performance is projected to stay sound in the

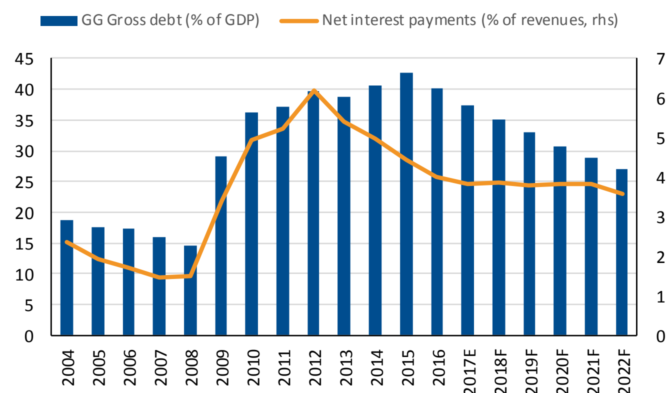
short- to medium-term with a balanced budget of 0.05% of GDP in 2017 and small surpluses of 0.3% over the next years. General government gross debt decreased to 40% of GDP in 2016 after peaking in 2015 at around 42.7%. Going forward, Scope expects the downward trajectory of debt to continue and be below 35% of GDP in 2020.

Figure 7: Fiscal developments, % of GDP



Source: IMF

Figure 8: GG gross debt and net interest payments



Source: IMF, Calculations Scope Ratings AG

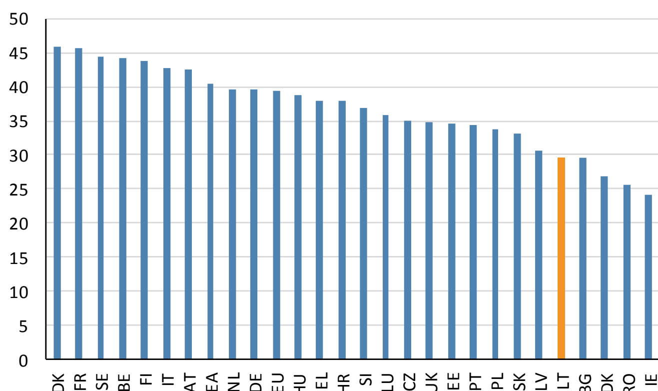
However, the tax system remains incomplete and inefficient

However, concerns remain on Lithuania's fiscal framework, stemming from an incomplete and relatively inefficient tax system. Lithuania's tax burden is among the lowest in the EU. In 2017, the tax burden, including social contributions, is estimated at 30.5% of GDP against an average of 39.3% in the EU and 40.5% in the euro area. At the same time, this relatively small tax base contributes to the persistence of inefficiencies, such as the high tax wedge on low income earners. While this issue should be addressed by the recent tax reform, the general broadening of the tax base, which would help alleviate pressure on the budget while trimming income inequality, poverty and social exclusion, remains incomplete in addressing tax compliance and the informal economy.

Despite significant progress in recent years, the tax compliance gap in Lithuania remains high, especially for indirect taxes such as the VAT. Lithuania had the fourth largest VAT gap (26.4%) after Romania, Slovakia and Greece in 2015[5], much higher that the EU-27 average of 12.8%. Finally, the shadow economy, estimated at 16.5% of the economy in 2016[6], remains considerable in Lithuania even though the government has taken steps to bring this into the formal economy. Given its size, the shadow economy represents significant public revenue losses and an obstacle to the improvement in poor working conditions, low levels of welfare provision (due to resource allocation distortions), and reduced overall labour productivity and output. In addition, it incentivises unfair competition to legitimate businesses, which places pressure on them to evade regulatory standards vis-à-vis their euro area peers.

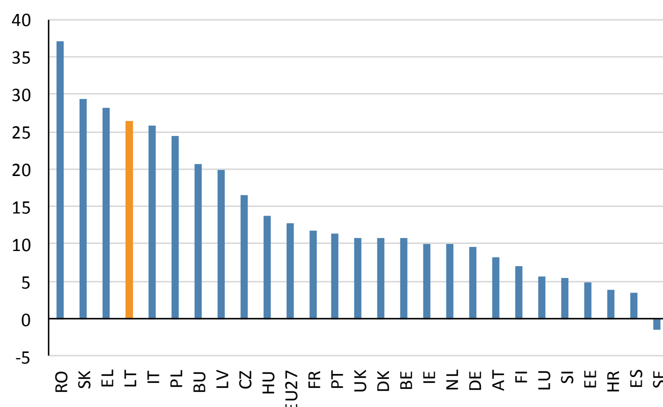
[5] CASE (Center for Social and Economic Research). Study and Reports on the VAT Gap in the EU-28 Member States, 2017 Final Report.
[6] Shadow Economy Index for Baltic Countries, Stockholm School of Economics.

Figure 9: Tax burden in 2017, % of GDP



Source: European Commission

Figure 10: VAT Gap (% of VAT total tax liability)



Source: Center for Social and Economic Research

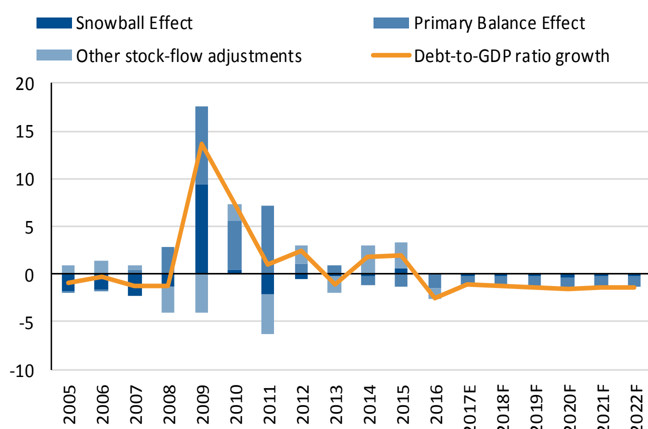
Unfavourable demographics could threaten long-term debt sustainability

Scope's assessment of Lithuania's contingent liabilities is mixed, with government guarantees existing from the substantial number of state-owned enterprises (130 companies in key sectors with a combined asset value of about 20% of GDP) but also significant additional expenses resulting from an ageing population. While long-term care and pension-related expenditures amounted to around 8.6% of GDP in 2013, they are projected to increase at a compounded annual rate of 1.1% to 11.6% of GDP by 2040[7]. Amounting to around 16% of GDP in 2015, total age-related expenditures are expected to increase to around 20.7% of GDP by 2040, while contributions to the public pension scheme are expected to fall. Lithuania's public debt exceeds the EU-28 average once implicit debt is taken into account[8], a margin that Scope expects to worsen dramatically given Lithuania's adverse demographics. Therefore, Scope sees the need for further structural reforms as a priority in order to properly address the challenges arising from pension and other ageing population-related expenditures to preserve long-term budget sustainability.

Against this backdrop, Scope assesses the underlying fiscal performance assumptions for government debt-to-GDP projections from the IMF[9] under a range of stressed scenarios including a combination of lower economic growth, higher interest payments, fiscal loosening and a balance-of-payment shock over the forecast period to 2022.

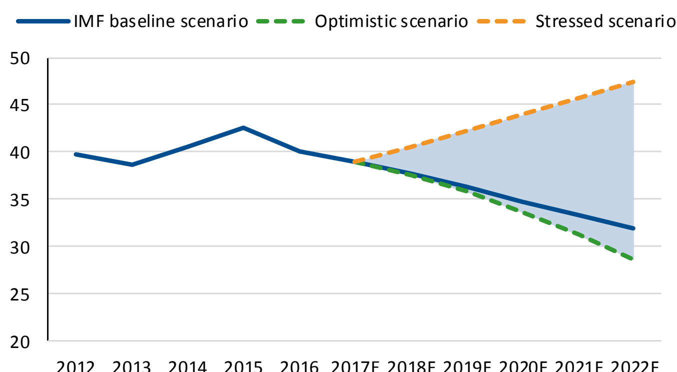
[7] European Commission's 2015 Ageing Report
[8] Stiftung Marktwirtschaft. 'Honourable states? EU Sustainability Index 2016', December 2016.
[9] IMF World Economic Outlook, April 2017.

Figure 11: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 12: Government debt, % of GDP



Source: Calculations Scope Ratings AG

	Real GDP growth (% change)	Primary balance (% of GDP)	Real effective interest rate (%)
IMF baseline (WEO April 2017) 2017 – 2022 average	3.05	1.13	2.3
Optimistic scenario 2017 – 2022 average	3.13	1.63	2.3
Stressed scenario 2017 – 2022 average	1.24	-0.40	3.55

Nevertheless, debt level, trajectory and structure remain robust in the short-to-medium term

Benefitting from a low debt stock, sound budgetary performance and good economic performance, Scope considers Lithuania's public-debt dynamics to be robust over the medium term, with the debt-to-GDP ratio not increasing past 50% under a stressed scenario. According to Scope's public debt sustainability analysis and given the combined small size of the economy, openness and high share of public debt held by non-residents (69.3% of total public debt in 2016), the key risk to Lithuania's debt sustainability in the short to medium term is a scenario of protracted weak GDP growth and capital outflows stemming from an external shock coupled with reversals in investor sentiment. However, even taking into account a major economic and external shock, Scope does not envision the debt-to-GDP ratio increasing over the Maastricht threshold of 60%.

Based on Lithuania's recent utilisation of the euro alongside a conservative debt management strategy, the debt structure has also improved in the past few years as reflected by the increasing share of debt denominated in local currency (from 21.3% of total debt in 2014 to 72.6% in 2016[10]), extensions in the average debt maturity within a low interest rate environment (the average maturity on general government debt securities increased from 4.1 years in 2014 to 5.6 years in 2016), and a decreasing interest payment burden (which has fallen from 4.7% of government revenues in 2014 to 3.9% in 2016), thereby mitigating refinancing risks. In addition, 17% of government debt is in the form of loans, of which the main bulk is provided by foreign banks (the result of the shallow domestic capital market).

[10] After currency swap transactions, debt is 100% euro denominated.

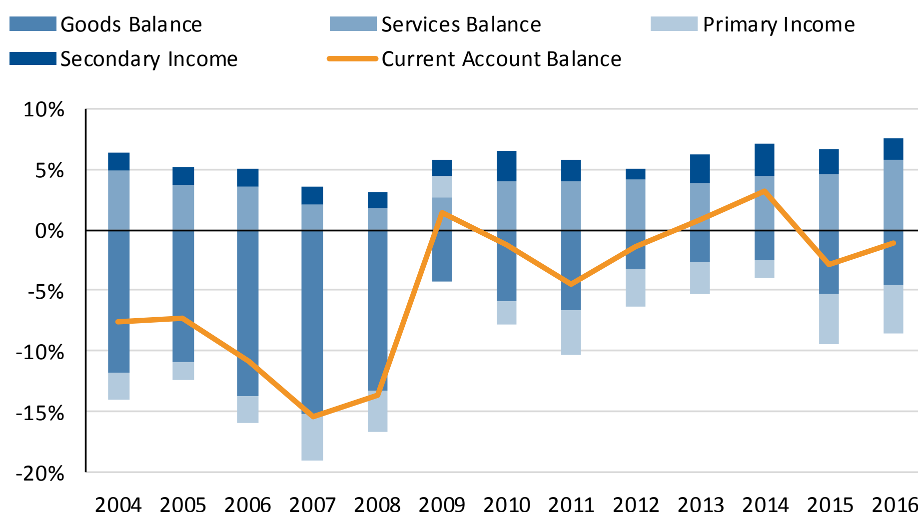
External economic risk

Vulnerability to external shocks

As a small and open economy, Lithuania remains reliant on external demand and is vulnerable to external shocks. The openness of the economy, measured by total exports and imports as a percentage of GDP, stood at around 147% in 2016. Lithuania's main trading partners are Russia (accounting for 14% exports) and the EU-28 (more than 80% of exports), the latter including Latvia (9.9%), Poland (9.1%), Germany (7.7%), Estonia (5.3%), and the United Kingdom (4.3%). While Lithuania's exports are mainly low value-added products (such as minerals, timber, agricultural/food products and basic electrical equipment) and the economy remains dependent on energy imports, the increasing share of services exports (24% of the total in 2016 as compared to 19% in 2010) reflects a gradual transition towards a higher value-added economy.

Lithuania's current account balance improved in 2016 exhibiting a small deficit of around 0.9% of GDP, as the economic recovery abroad gained momentum in the EU and Russia. Going forward, Scope expects a worsening of the current account deficit to around 1.5% of GDP over the next several years, mainly due to a combined deterioration in the trade balance as imports increase in line with investments and a deterioration in the secondary income balance stemming from a decrease in remittances coming from the UK. However, we do not see any challenge to financing the deficits as Lithuania benefits from robust capital inflows in the form of direct investment and EU funds. In the longer term, increasing unit labour costs and real effective exchange rates could pose a challenge to the external competitiveness of the Lithuanian economy.

Figure 13: Current account balance, % of GDP



Source: IMF, Eurostat

Lithuania's negative net international investment position was on a downward trajectory since its peak at 58.7% in 2009 and stabilised at around 43.2% of GDP in 2016. This reflects the relatively high though decreasing dependence of the economy on foreign capital inflows.

Euro area membership increases the sovereign's resilience to shocks

Scope views Lithuania's euro area membership as a positive credit driver, providing access to a large common market, a strong reserve currency, an independent European Central Bank effectively acting as a lender of last resort, and an economic governance and macro-prudential framework supporting credible macroeconomic policies. Indeed, we believe that these are important elements which reflect a better protection of Lithuania from external adverse shocks, underpinning the sovereign's resilience, effectiveness of

policy-making and creditworthiness. In addition, almost 40% of the country's liabilities are inward foreign direct investments, which are less prone to flight in times of market volatility. Gross external debt stood at 85.7% of GDP in 2016, below that of Lithuania's Baltic peers and the euro area average but in line with its CEE peers. Lithuania's external debt is mainly composed of public debt (41.7% of total external debt) and that of financial institutions (39.4% of total external debt).

Improving energy security

After years of dependence on Russia and Belarus for energy imports, Lithuania and the other Baltics have made major improvements in securing their energy supply. The recently completed infrastructure projects of a terminal for liquefied natural gas in Klaipėda and the construction of the Klaipėda-Kuršėnai pipeline decreases the reliance of the Baltic nations on Russia for gas and electricity by providing them with two independent sources of energy. In addition, Lithuania is strengthening its energy security via gas and electricity interconnections with Finland, the first step towards the integration of the Baltics into the continental European energy network. Scope assess this diversification of sources of energy positively, having also resulted in a decrease in energy prices in Lithuania.

Financial stability risk

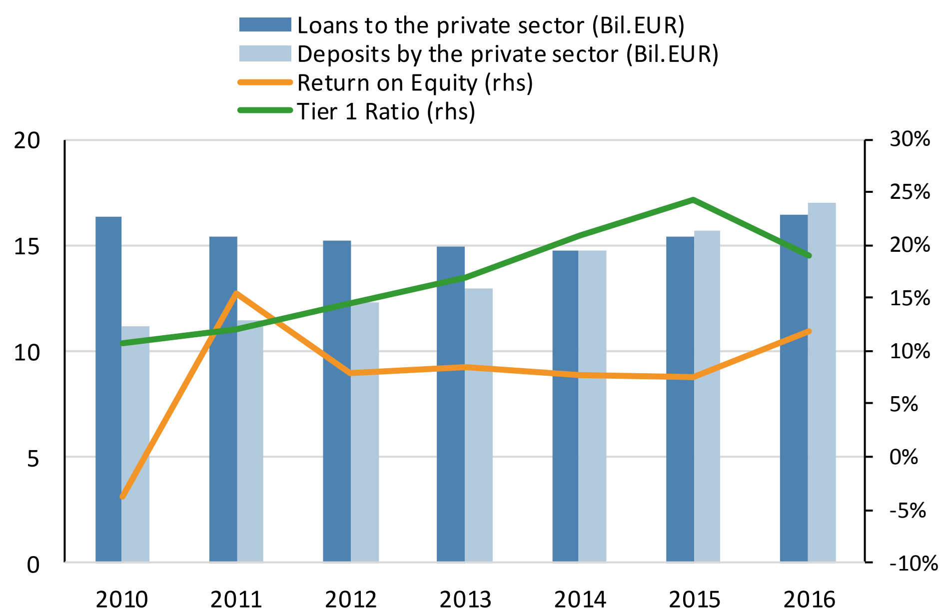
Sound banking sector, but subject to potential spill-over risks from Nordic parent banks

Lithuania's banking sector gained resilience after being severely hit by the financial crisis in 2008-09, thanks to the strengthening of the macro-prudential framework by the Bank of Lithuania as well as the implementation of additional supervisory activities following Lithuania's integration into the European Banking Union. Scope assesses the banking sector as sound, thanks to its strong capital structure (with a tier 1 capital ratio of 19.1% of risk-weighted assets in 2016, above the euro area average of 14.7%), improving asset quality (NPLs as a share of total loans decreased to around 3.8% from 24% in 2009) and increasing liquidity buffers (with a median liquid asset ratio of 24%). In addition, banking sector resilience in Lithuania is supported by the sector's relatively high profitability, compared to the EU average, with a return on equity and on assets of around 12.6% and 1.2% respectively.

After several years of strong deleveraging, credit growth has recently strengthened driven by the economic recovery, rising domestic consumption and the low interest rate environment. Relatively strong deposit growth provides greater loan capacity. However, private sector debt on aggregate remains at an historical low, at around 40% of GDP in 2016.

Largely dominated by Nordic Banks, the banking sector in Lithuania benefits from the foreign parent banks' large market share combined with strong fundamentals, large and easy access to financial markets, and significant capital inflows. However, given the concern that macro-financial weaknesses related to overleveraged households and elevated housing prices pose in Nordic countries, the high interconnectedness among the banking systems in northern Europe represents a potential systemic issue. Since Swedish banking groups are of systemic importance for countries in the region, any shock to the Swedish banking sector could have wider implications on neighbouring countries, in the form of damaging balance sheets of branches or creating liquidity concerns stemming from credit shortages.

Figure 14: Key performance indicators of the banking system



Source: ECB, Bank of Lithuania

Institutional and political risk

Lithuania's political system is based on a semi-presidential representative democracy with a multiparty system and a unicameral parliament, the Seimas. Given that no single party has won an absolute majority in parliament since independence and 16 prime ministers representing six different parties, Lithuania has developed a tradition of government coalition-building and of negotiations between both government and opposition parties.

Lithuania's 2016 parliamentary elections took place in the context of a political crisis in which leaders of almost all parties were enveloped in corruption scandals, resulting in the Farmers and Greens Union winning 54 seats in the Seimas (unprecedented since the beginning of the 21st century), after failing to clear the electoral threshold of 5% and winning only one seat in the preceding elections. It is Scope's opinion that the results reflect the willingness of Lithuanian citizens to appoint new representation into the Seimas and hope that change will provide new solutions to address the country's structural weaknesses. In November, the Farmers and Greens Union and the Social Democrats agreed on a coalition and on 22 November 2016, Saulius Skvernelis, the former Minister of Interior in the Butkevičius Cabinet, was appointed Prime Minister, ensuring policy continuity.

The next elections are scheduled for 2020. Overall, Scope expects no radical changes in policy in the short to medium term in Lithuania. However, given the nation's small size and geographic location (with a shared border with both Belarus and Russia's Kaliningrad Oblast), the possibility of an escalation in regional crises in Eastern Europe constitutes a downside risk.

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on at https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA.

Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "A" ("a") rating range for the Republic of Lithuania. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Republic of Lithuania, the following relative credit strength has been identified: 1) public debt sustainability. Relative credit weaknesses have been signalled in: 1) growth potential of the economy, 2) macroeconomic stability and imbalances, 3) vulnerability to short-term external shocks, 4) geo-political risk, 5) macro-financial vulnerabilities and fragility. Combined relative credit strengths and weaknesses generate a one-notch downward adjustment and signal a sovereign rating of A- for Lithuania. A rating committee discussed and confirmed these results.

Rating overview	
CVS category rating range	A
QS adjustment	A-
Final rating	A-

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, a review of debt sustainability, fiscal and financial performance assessments, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Lithuania's debt is predominantly issued in euros. Because of its history of openness to trade and capital flows as well as the reserve currency status of the euro, Scope sees no reason to believe that Lithuania would differentiate among any of its contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**A**
QS adjustment	**A-**
Final rating	**A-**

QS

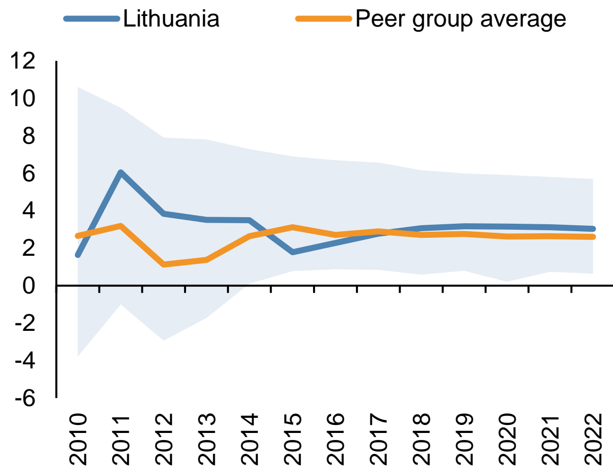
Maximum adjustment = 3 notches

QS indicator	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	○ Neutral	● Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	○ Strong performance	● Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	● Strong sustainability	○ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	○ Very good access	● Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	○ Neutral	● Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate
Financial sector performance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

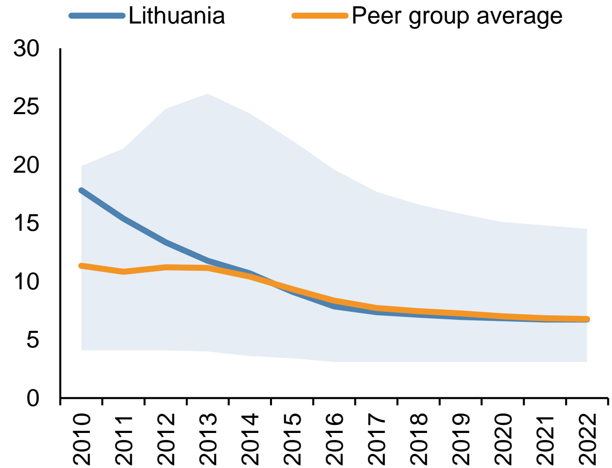
III. Appendix: Peer comparison

Figure 15: Real GDP growth



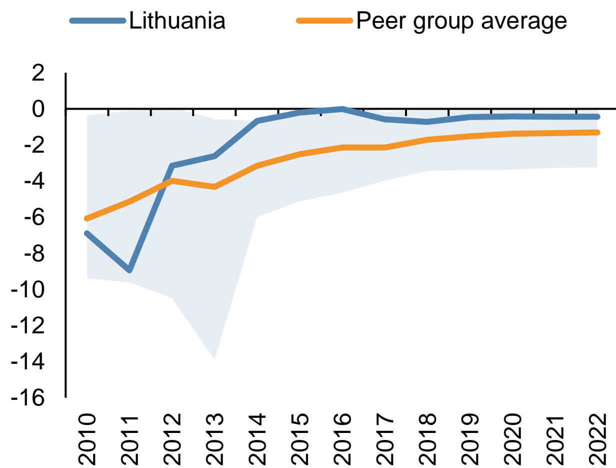
Source: IMF, Calculations Scope Ratings AG

Figure 16: Unemployment rate, % of total labour force



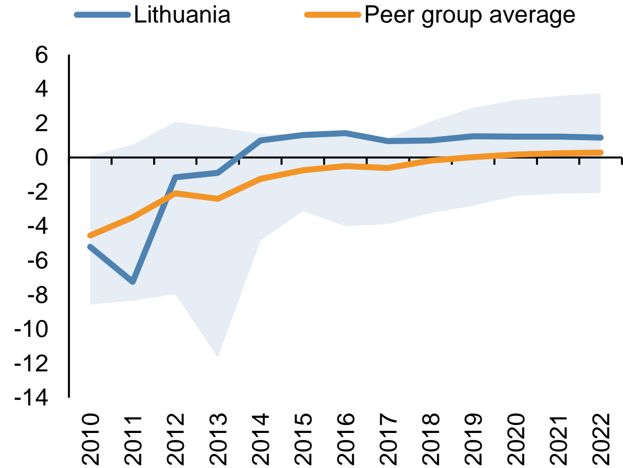
Source: IMF, Calculations Scope Ratings AG

Figure 17: General government balance, % of GDP



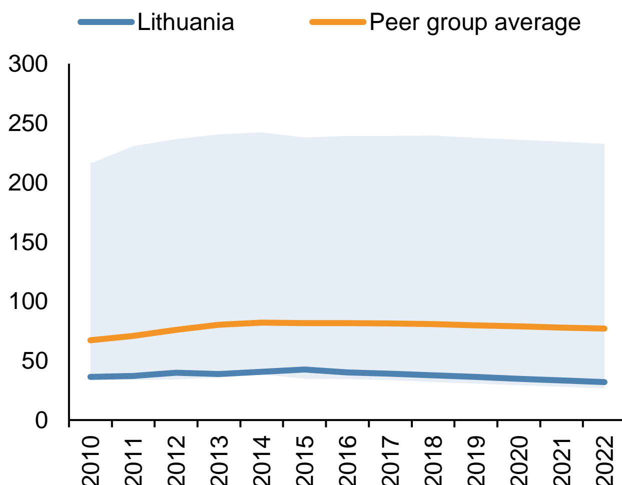
Source: IMF, Calculations Scope Ratings AG

Figure 18: General government primary balance, % of GDP



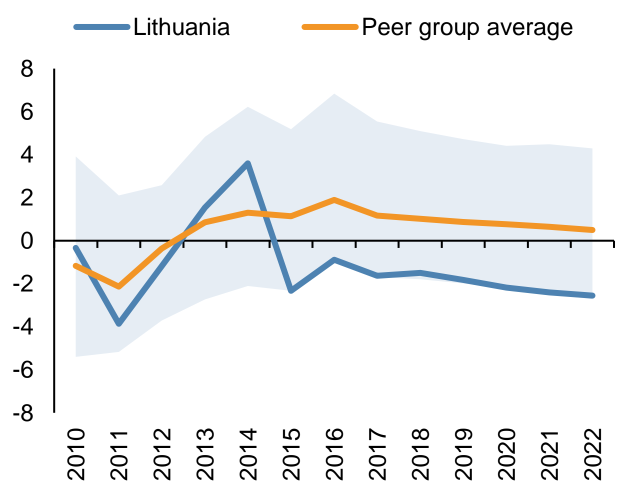
Source: IMF, Calculations Scope Ratings AG

Figure 19: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 20: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (Mil.EUR)	33,348	34,960	36,568	37,427	38,668	41,378	43669
Population ('000s)	2,988	2,958	2,932	2,905	2,871	2,838	2805
GDP-per-capita PPP (Int'l USD)	24,658	26,717	28,179	28,936	29,966	-	-
GDP per capita (EUR)	11,162	11,820	12,471	12,884	13,482	14,580	15566.2
Real GDP growth, % change	3.8	3.5	3.5	2.0	2.3	3.5	3.5
GDP growth volatility (10-year rolling SD)	7.4	7.0	7.0	6.8	6.6	5.8	5.9
CPI, % change	3.2	1.2	0.2	-0.7	0.7	3.5	2.0
Unemployment rate (%)	13.4	11.8	10.7	9.1	7.9	7.0	6.5
Investment (% of GDP)	19.4	19.5	19.0	20.6	17.2	17.6	17.6
Gross national savings (% of GDP)	18.2	20.8	22.3	17.6	15.5	16.0	16.2
Public finances							
Net lending/borrowing (% of GDP)	-3.1	-2.6	-0.7	-0.2	0.3	0.1	0.5
Primary net lending/borrowing (% of GDP)	-1.2	-0.9	1.0	1.3	1.6	1.4	1.9
Revenue (% of GDP)	32.1	32.1	33.3	34.2	33.8	34.8	36.0
Expenditure (% of GDP)	35.2	34.7	34.0	34.4	33.5	34.8	35.6
Net interest payments (% of GDP)	2.0	1.7	1.7	1.5	1.4	1.3	1.4
Net interest payments (% of revenue)	6.2	5.4	5.0	4.4	4.0	3.8	3.9
Gross debt (% of GDP)	39.8	38.7	40.5	42.7	40.2	37.5	35.0
Net debt (% of GDP)	33.4	34.2	32.7	35.1	32.8	30.6	28.5
Gross debt (% of revenue)	124.0	120.8	121.5	124.8	119.0	107.7	97.3
External vulnerability							
Gross external debt (% of GDP)	78.1	70.3	69.8	75.9	85.7	-	-
Net external debt (% of GDP)	34.0	29.2	27.7	25.8	24.7	-	-
Current-account balance (% of GDP)	-1.2	1.5	3.6	-2.3	-0.9	-1.6	-1.4
Trade balance [FOB] (% of GDP)	-	-2.6	-2.6	-5.3	-4.3	-5.6	-5.9
Net direct investment (% of GDP)	-0.7	-0.6	0.0	-1.9	-0.4	-	-
Official forex reserves (EOP, Bil. USD)	8,530.0	8,072.7	8,728.4	1,692.6	2,604.6	-	-
REER, % change	-2.0	0.9	2.7	0.3	2.1	-	-
Nominal exchange rate (EOP, USD/EUR)	1.3	1.4	1.2	1.1	1.1	-	-
Financial stability							
Non-performing loans (% of total loans)	10.9	8.5	6.5	5.2	3.8	-	-
Tier 1 ratio (%)	14.6	17.0	20.9	24.3	19.1	-	-
Private debt (% of GDP)	61.1	56.3	53.9	54.9	56.2	-	-
Domestic Credit-to-GDP gap (%)	-22.5	-20.4	-19.0	-13.3	-5.6	-	-

Sources: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by John Francis Opie, Lead Analyst

Person responsible for approval of the rating: Dr Stefan Bund, Chief Analytical Officer

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were assigned by Scope for the first time.

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Rating Committee: the main points discussed were: (1) Economic growth potential and outlook, (2) demographics and productivity growth, (3) public finance performance and debt sustainability analysis, (4) external position and resilience, (5) economic structural imbalances and structural reforms, (6) the banking sector's performance, (7) recent political and geopolitical developments, (8) peer considerations.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of the Republic of Lithuania, Bank of Lithuania, European Commission, European Central Bank, OECD, IMF, WB, and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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