

Republic of Lithuania

Rating Review Annex



A

STABLE
OUTLOOK

Credit strengths

- Sound institutional set-up underpinned by euro area and NATO memberships
- Improved economic resilience; solid medium-run growth prospects
- Moderate public debt

Credit challenges

- Moderate income levels
- Exposure to external shocks
- Adverse demographic trends
- Financial spill-over risks

Rating rationale:

Sound institutions: Lithuania's effective policymaking is underpinned by its euro area and NATO memberships, which ensure a robust framework for fiscal and economic policy and banking supervision. They also strongly mitigate external security risks in the context of the heightened geopolitical tensions.

Solid growth prospects: the country's solid economic growth and improved macroeconomic resilience has favoured a rapid convergence to euro area income levels over the past years. We expect the economy to shrink by 0.7% this year from the impact of the inflation shock, before growing by 2.0% and 2.8% in 2024 and 2025, respectively, and converging towards an estimated potential growth of 2.5% in subsequent years.

Moderate public debt: Lithuania's record of prudent fiscal policies has resulted in the country having one of the lowest debt-to-GDP ratios in the euro area, at 38.1% by end-2022. Contained deficits and resilient growth should keep the debt ratio moderate in the medium run.

Rating challenges include: i) moderate income levels despite continued convergence over the past decades; ii) the exposure to external shocks given the small size and openness of the economy; iii) adverse demographic trends that increase labour shortages and fiscal pressures; and iv) financial sector risks related to the dependence on Nordic banks and elevated cross-border financial flows.

Lithuania's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bbb-	EUR [+1]	0	A	
Public Finance Risk	20%	aa		0		
External Economic Risk	10%	b		0		
Financial Stability Risk	10%	aaa		0		
ESG Risk	Environmental Factors	5%		aa+		0
	Social Factors	7.5%		b-		0
	Governance Factors	12.5%		aa-		0
Indicative outcome	a		0			
Additional considerations			0			

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Solid economic growth and income convergence continuing through structural reform and investment
- Debt-to-GDP remaining anchored to moderate levels thanks to broadly balanced government finances
- External and financial sector vulnerabilities continuing to decline
- Geopolitical risks in the region declining

Negative rating-change drivers

- Fiscal fundamentals weakening, leading to a significant increase in debt-to-GDP
- Macroeconomic imbalances increasing, weakening growth prospects
- External and financial sector vulnerabilities increasing substantially
- Heightened geopolitical risks undermining macroeconomic stability

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

Lead Analyst

Brian Marly
+33 1 86 26 18 82
b.marly@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com



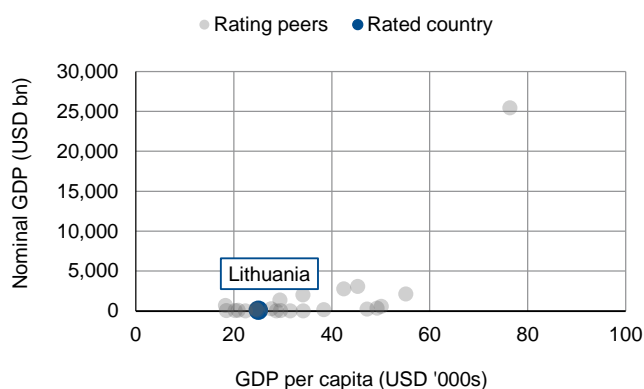
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Lithuania's *Domestic Economic Risk*

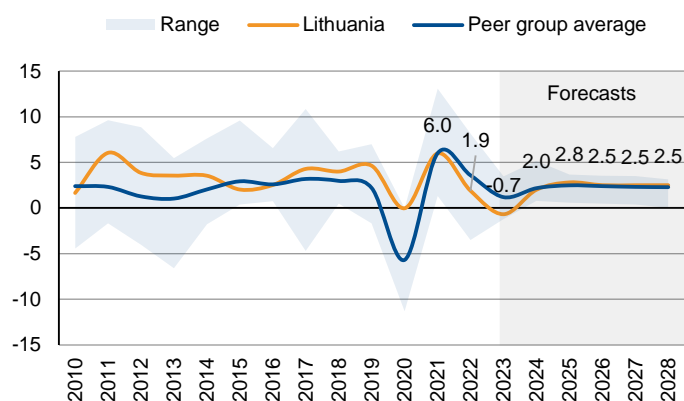
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential of the economy	Neutral	0	Robust economic prospects supported by EU funds, although adverse demographic trends are a challenge
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Improved macroeconomic resilience and flexible labour market, but labour shortages, overheating risks and large regional disparities

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



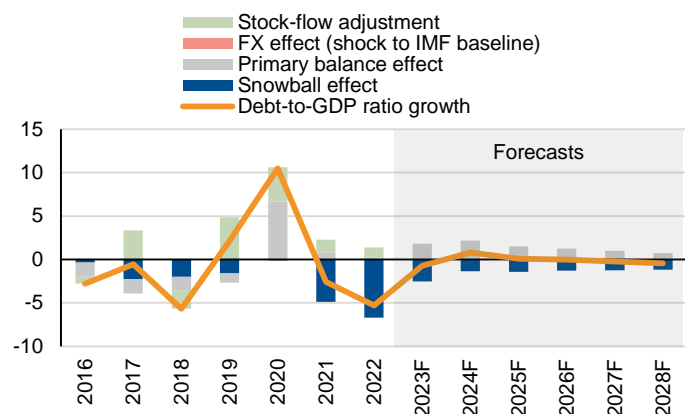
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Lithuania's *Public Finance Risk*

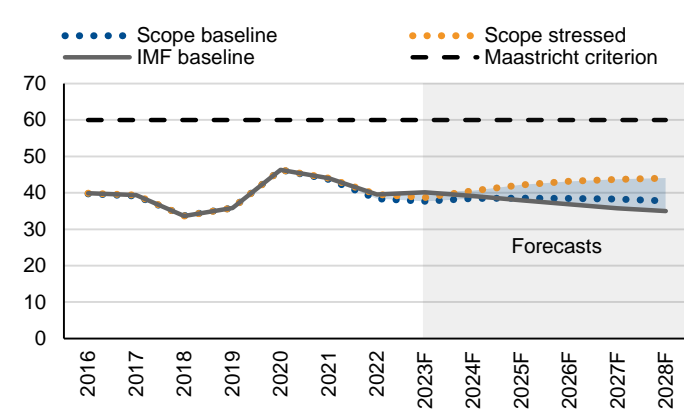
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Track record of fiscal prudence, but sizeable shadow economy and restricted tax base
	Debt sustainability	Neutral	0	Moderate debt; stabilisation and gradual fall of the debt ratio in the medium run
	Debt profile and market access	Neutral	0	Prudent debt management, low funding needs, ability to issue on favourable terms

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



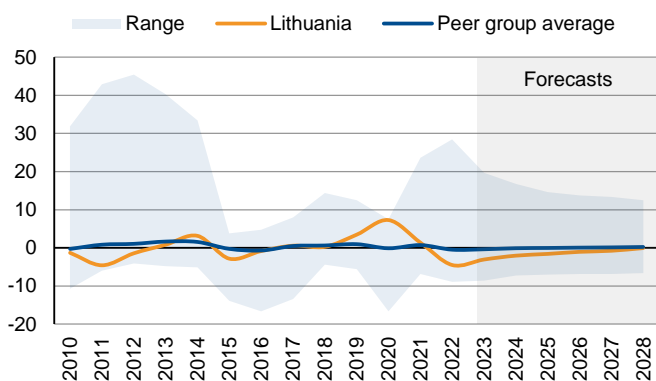
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Lithuania's *External Economic Risk*

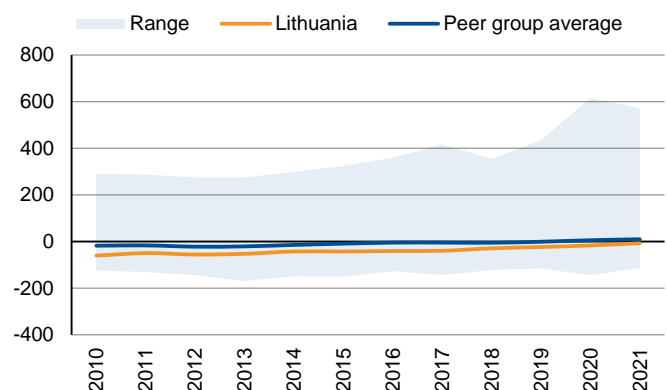
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Current account resilience	Neutral	0	Risks from reliance on low value-added export sectors, though competitiveness and diversification are improving
	External debt structure	Neutral	0	Falling levels of net external debt, sizeable share of foreign direct investments in external liabilities
	Resilience to short-term external shocks	Neutral	0	Small and open economy; euro-area membership mitigates exposure to international markets

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



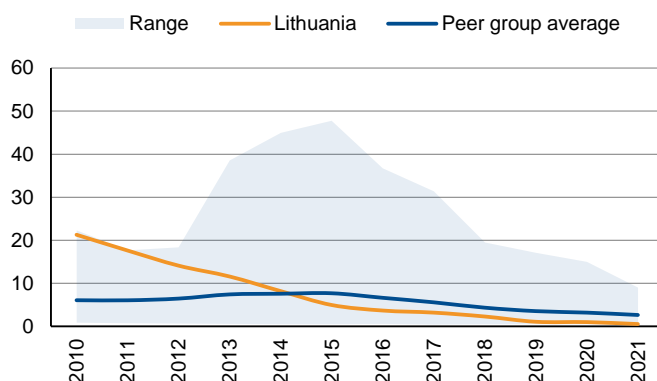
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Lithuania's *Financial Stability Risk*

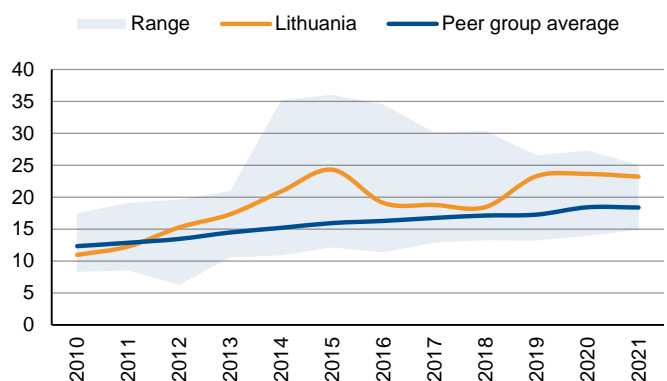
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector
	Banking sector oversight	Neutral	0	Oversight under the Bank of Lithuania and the ECB as part of Banking Union
	Financial imbalances	Neutral	0	Concentration and spill-over risks from dominant Nordic banking groups; elevated cross-country financing flows; low private debt

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



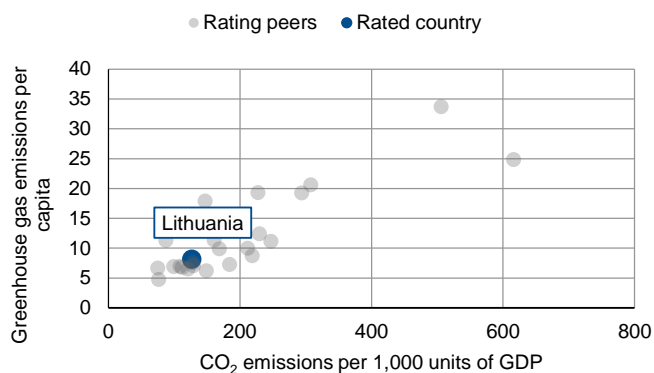
Source: IMF, Scope Ratings

ESG Risk

Overview of Scope's qualitative assessments for Lithuania's ESG Risk

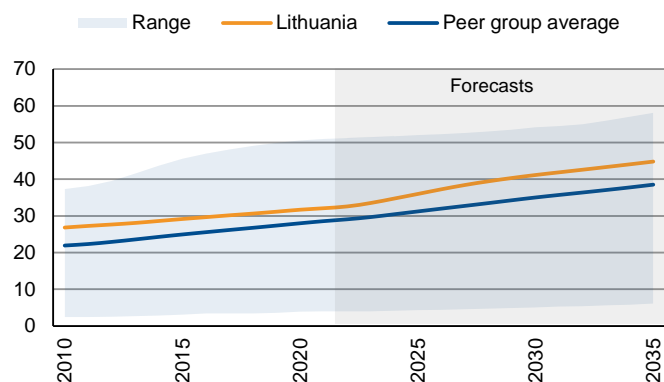
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Neutral	0	Transition risks in line with peers, ambitious climate agenda
	Social factors	Neutral	0	Improving social indicators and inclusive labour market, adverse demographics
	Governance factors	Neutral	0	Stable institutional set-up, supported by EU and euro area memberships; external security risks mitigated by NATO membership

CO₂ emissions per GDP, mtCO₂e



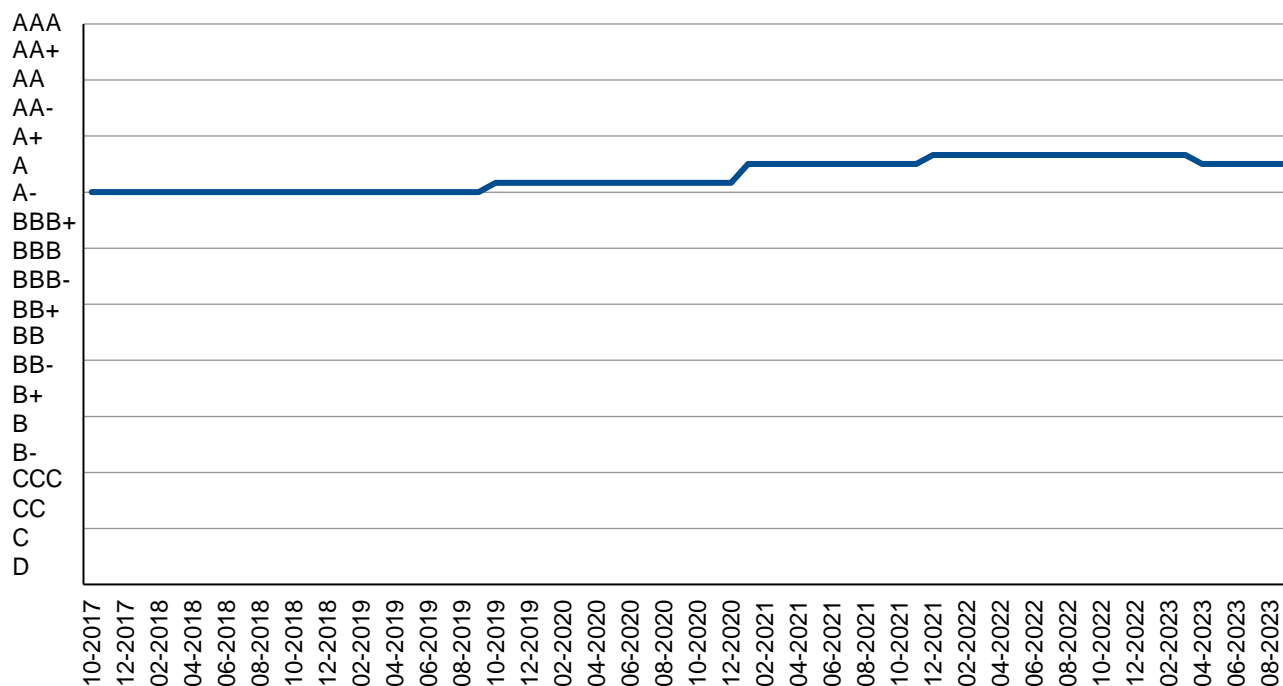
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

Peer group*
Belgium
Croatia
Cyprus
Czech Republic
Estonia
France
Italy
Japan
Latvia
Malta
Poland
Portugal
Slovakia
Slovenia
Spain
United Kingdom
United States

Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	19.2	19.6	20.3	23.7	25.0
	Nominal GDP, USD bn	IMF	53.8	54.8	56.8	66.5	70.5
	Real growth, %	IMF	4.0	4.6	0.0	6.0	1.9
	CPI inflation, %	IMF	2.5	2.2	1.1	4.6	18.9
	Unemployment rate, %	WB	6.2	6.3	8.5	7.1	5.6
Public Finance	Public debt, % of GDP	IMF	33.7	35.8	46.3	44.0	39.6
	Net interest payment, % of revenue	IMF	2.8	2.3	1.7	0.7	-0.2
	Primary balance, % of GDP	IMF	1.5	1.1	-6.6	-0.7	-0.9
External Economic	Current-account balance, % of GDP	IMF	0.3	3.5	7.3	1.4	-4.5
	Total reserves, months of imports	WB	1.6	1.4	1.5	1.2	1.0
	NIIP, % of GDP	IMF	-29.2	-23.6	-16.8	-7.1	-
Financial Stability	NPL ratio, % of total loans	IMF	2.3	1.0	1.0	0.5	-
	Tier 1 ratio, % of risk-weighted assets	IMF	19.3	19.5	22.7	24.2	22.4
	Credit to the private sector, % of GDP	WB	40.4	39.0	37.4	-	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	138.6	135.1	130.7	127.0	-
	Income share of bottom 50%, %	WID	17.9	18.1	18.1	18.1	-
	Labour-force participation rate, %	WB	77.6	78.2	78.9	78.8	-
	Old-age dependency ratio, %	UN	30.6	31.1	31.7	32.1	32.6
	Composite governance indicators*	WB	0.9	0.9	1.0	1.0	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 9 October 2023

Emerging market and developing economy

61.64



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 8295 8254

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2023 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions 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. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5 D-10785 Berlin.