

Republic of Lithuania

Rating report

Rating rationale

Sound institutions: Lithuania's effective policymaking is anchored 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. After contracting by 0.3% in 2023, we expect the Lithuanian economy to grow by 1.7% this year and 3.1% in 2025, benefitting from improving external demand, continued disinflation and a gradual loosening of financing conditions. Growth should subsequently converge towards an estimated potential of 2.5% annually.

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 an estimated 37.3% by end-2023. Contained deficits and resilient growth should support a gradual deleveraging path over the medium-term, down to around 34% by 2028.

Rating challenges: i) moderate income levels, though gradual convergence towards euro-area averages over the past decades, and exposure to external shocks given the Lithuanian economy's relatively small-size and openness; ii) adverse demographic trends that increase labour shortages and fiscal pressures; and iii) financial sector risks related to the dependence on Nordic banks and elevated cross-border financial flows.

Figure 1: Lithuania's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	bbb	EUR	Lithuania	0	A
Public finance risk		20%	aaa			0	
External economic risk		10%	bb			0	
Financial stability risk		10%	aaa			0	
ESG risk	Environmental factors	5%	aa-	[+1]	[-0]	0	
	Social factors	7.5%	ccc			- 1/3	
	Governance factors	12.5%	aaa			- 1/3	
Sovereign Quantitative Model		a+				-1	
Additional considerations						0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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Credit strengths and challenges

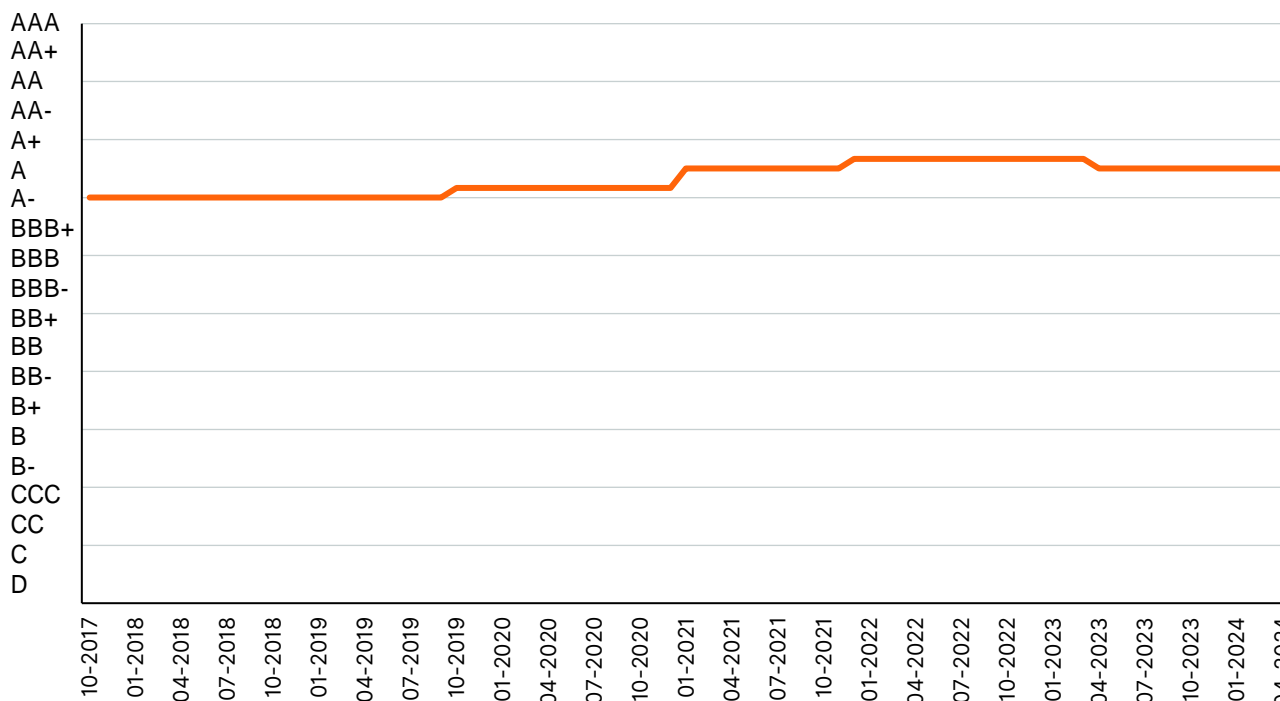
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Sound institutional set-up underpinned by euro area and NATO memberships • Improved economic resilience; solid medium-run growth prospects • Moderate public debt 	<ul style="list-style-type: none"> • Exposure to external economic and financial shocks • Moderate income levels • Adverse demographic trends • Financial spill-over risks

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Geopolitical risks in the region declining • 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/or financial sector vulnerabilities continuing to decline 	<ul style="list-style-type: none"> • Heightened geopolitical risk undermining macroeconomic stability • 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

Figure 2: Rating history¹



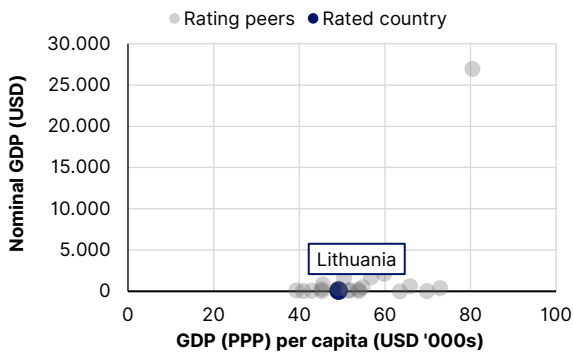
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Lithuania's Domestic Economic Risk

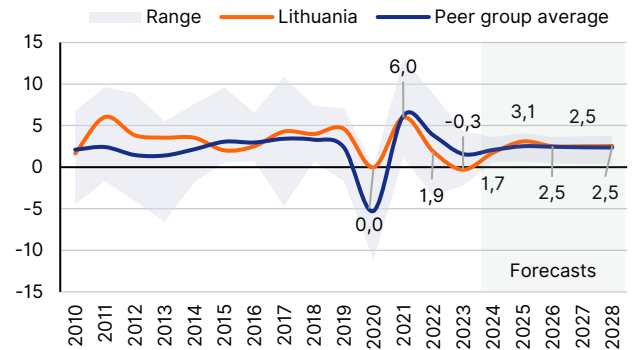
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Neutral	0	Robust economic prospects supported by EU funds, although adverse demographic trends are a challenge
	Monetary policy framework	Neutral	0	ECB is a credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Improved macroeconomic resilience and flexible labour market, but labour shortages and large regional disparities

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



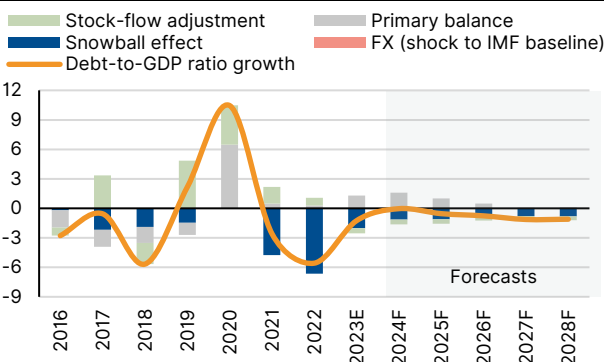
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Lithuania's Public Finance Risk

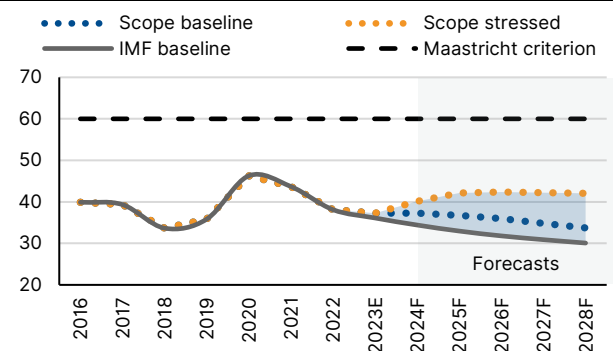
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Track record of fiscal prudence, but sizeable shadow economy and comparatively restricted tax base
	Long-term debt trajectory	Neutral	0	Moderate debt; stabilisation and gradual decline 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

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

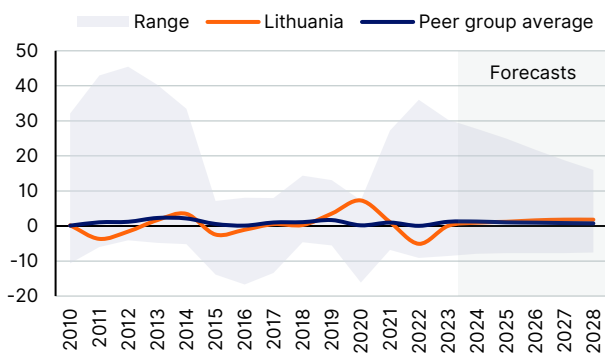
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Lithuania's External Economic Risk

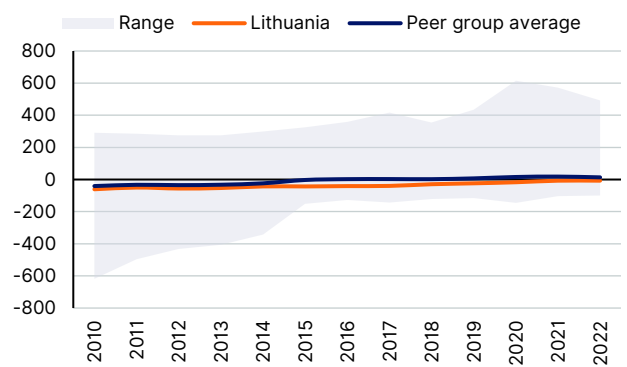
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Current account resilience	Neutral	0	Risks from reliance on low value-added export sectors, though competitiveness and diversification are improving
	External debt structure	Neutral	0	Falling levels of net external debt, 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

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



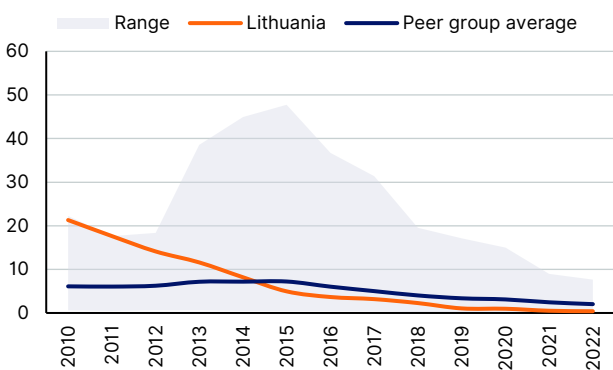
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Lithuania's Financial Stability Risk

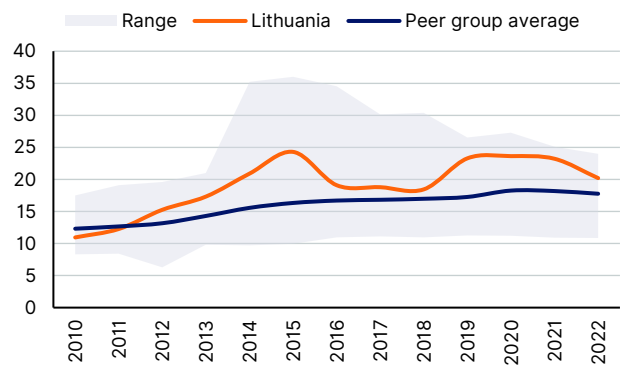
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Well-capitalised and profitable banking sector with moderate non-performing loans
	Financial sector oversight and governance	Neutral	0	Oversight under the Bank of Lithuania and the 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

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



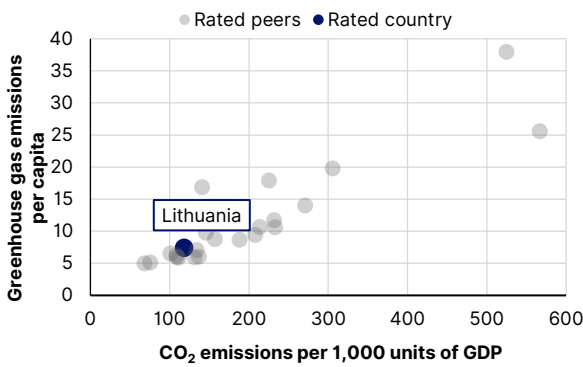
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

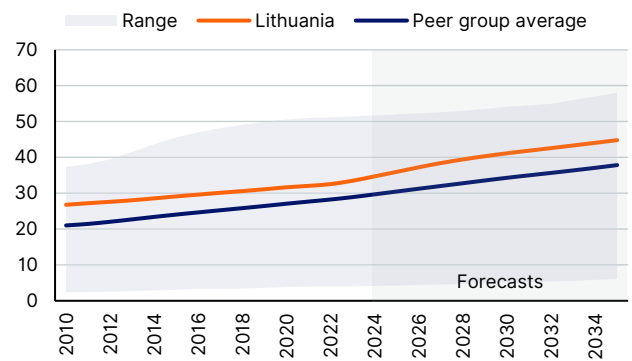
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental factors	Neutral	0	Transition risks in line with peers, ambitious climate agenda
	Social factors	Weak	-1/3	Inclusive labour market but still elevated poverty and income inequality; unfavourable demographic trends
	Governance factors	Weak	-1/3	Stable governance, supported by EU, euro area and NATO memberships; heightened geopolitical uncertainty could impact domestic institutional developments

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

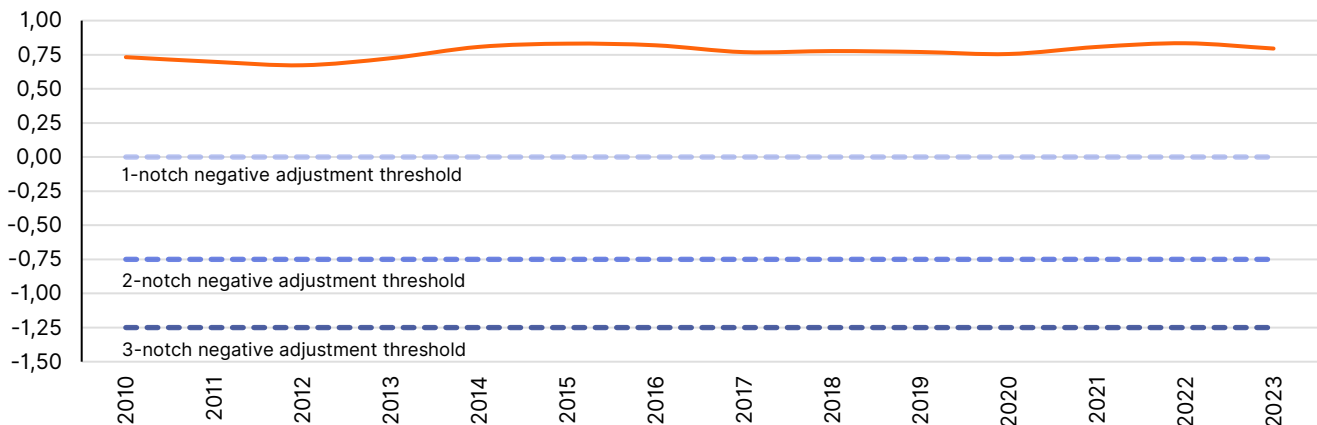
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Lithuania, 3-year moving average



Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Croatia
Cyprus
Czech Republic
Estonia
Latvia
Malta
Slovenia

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 3 April 2024	66.65

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023E
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	36.4	38.8	39.3	43.5	47.1	49.2
	Nominal GDP, USD bn	IMF	54	55	57	66	70	79
	Real growth, %	IMF	4.0	4.6	0.0	6.0	1.9	-0.2
	CPI inflation, %	IMF	2.5	2.2	1.1	4.6	18.9	9.3
	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	43.7	38.1	36.1
	Net interest payments, % of government revenue	IMF	3.1	2.9	2.2	1.4	0.9	1.2
	Primary balance, % of GDP	IMF	1.7	1.2	-6.5	-0.5	-0.3	-1.3
External Economic	Current-account balance, % of GDP	IMF	0.3	3.5	7.3	1.1	-5.1	0.0
	Total reserves, months of imports	WB	1.6	1.4	1.5	1.2	1.0	-
	NIIP, % of GDP	IMF	-29.2	-23.6	-16.9	-7.1	-7.1	-
Financial Stability	NPL ratio, % of total loans	IMF	2.3	1.0	1.0	0.5	0.4	-
	Tier 1 ratio, % of risk-weighted assets	IMF	19.3	19.5	22.7	24.2	22.4	20.2
	Credit to the private sector, % of GDP	WB	40.4	39.0	37.3	37.3	35.7	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	141.1	137.5	137.2	127.7	118.2	-
	Income share of bottom 50%, %	WID	17.5	7.5	7.5	7.5	7.5	-
	Labour-force participation rate, %	WB	77.5	78.3	78.9	78.8	-	-
	Old-age dependency ratio, %	UN	30.6	31.1	31.7	32.1	32.6	33.5
	Composite governance indicators*	WB	0.9	1.0	1.0	1.0	1.0	-
	Political stability, index	WB	0.7	0.8	0.9	0.8	0.7	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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