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Economic Perspectives for Lithuania in Times of COVID-19

Economic Promotion Programme and a Corona Package of Measures to Help the Shrinking Lithuanian Economy

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The quarantine imposed on Lithuania on 16 March was recently extended until 31 May. As of 15 April, quarantine measures have been gradually relaxed: Each phase allows an increasing number of businesses and facilities to resume activities. On the other hand, educational institutions, coffee houses without seating areas outside, sports clubs, cinemas and concert halls are to remain closed. Various institutions estimate that we can expect the Lithuanian economy to shrink from 7.3 to 8.1 per cent in the year 2020 owing to the coronavirus pandemic. It is expected, however, that economic growth in 2021 will offset the losses of this year. The decline of the Lithuanian economy is to be greater and its revival longer than was anticipated at the onset of the crisis. In March, the Parliament adopted a programme concluded by the government to promote the economy and mitigate the effects of Covid-19. The programme is to be endowed with 5 billion euros, which corresponds to ten per cent of GDP. On 7 May the Parliament approved an additional corona package of measures amounting to some 1 billion euros. One of the newly planned measures met with sharp criticism especially in light of the deadline for its implementation: shortly before parliamentary elections set to take place in October, approx. 910,000 people, almost one third of the entire Lithuanian population, are to receive a one-off direct payment amounting to 200 euros each (so-called helicopter money). President Gitanas Nausėda signed the law on 15 May.

The COVID-19 quarantine imposed on 16 March has been in force for almost two months. Pursuant to the most recent government decree, the quarantine will initially last until 31 May, the rules on quarantine were relaxed on 15 April, however. The first phase allowed shops to reopen which have direct access to the street, regulate the flow of customers and can limit contact with the customer to 20 minutes. As of 27 April, hair salons, libraries, museums, street cafés and shopping centres were allowed to open if certain hygiene requirements are met. From 18 May, nurseries and crèches are allowed to resume caring for children, the entire spectrum of dentist and beauty care may provide services and outdoor events with up to 30 participants are permitted. From 15 May, travel between Lithuania, Latvia and Estonia are allowed without restrictions and an obligation to self-isolate. The obligation to wear a mask was lifted on 14 May, but continues to be in force among larger groups of people, in shops and on public transport.

Economic Shock: Increasing Unemployment, Decreasing Exports

Lithuania can expect to encounter dramatic effects caused by the pandemic. A recession in Lithuania is an inevitable fact. At the start, the economy was expected to decline by 2.8 per cent of GDP. On 20 April, during a press conference the Minister of Finance Vilius Šapoka announced an expected decline of up to 7.3 per cent. The prerequisite for this would be that the coronavirus pandemic in Europe could be contained within the first half of the year,

otherwise economic collapse could soon reach the double-digit range.¹ In a recent report published by the International Monetary Fund (IMF) on the development of the global economy, an 8.1 per cent decline in GDP is forecast for Lithuania.² Forecasts provided by the European Commission (EC) from May are somewhat more optimistic, it anticipates the Lithuanian economy to contract by approx. 7.9 per cent this year.³ In the coming year 2021, the growth of the Lithuanian economy should be able to reach approx. 6.6 per cent according to the Lithuanian Ministry of Finance, 7.4 per cent according to the EC, and 8.2 per cent according to the IMF. The dynamic situation in Lithuania and other countries will certainly make it necessary to update these forecasts.

Since Lithuania is a small national economy, forecasts depend to some extent on developments throughout Europe and the country's export partners.⁴ There is expected to be a contraction of 15 per cent for Lithuanian exports and of 10.3 per cent for imports. The growth anticipated for 2021 is accordingly estimated at 13.7 per cent and nine per cent.⁵ Unemployment in Lithuania rose by 1.5 per cent during the first month of quarantine; according to data it amounted to 10.8 per cent on 14 April.⁶ Following a further increase, unemployment reached 11.5 per cent (status on 4 May).⁷ According to experts, a stabilisation of the labour market can be observed. With a gradual relaxation of quarantine regulations and a resumption of an increasing number of economic activities, unemployment is not likely to continue to rise dramatically.⁸ At least the level of unemployment should remain below the 16 per cent threshold that Lithuania had achieved in the wake of the financial crisis 2008/09.

Corona Package of Measures Billions in Aid for the Economy

The repercussions of the coronavirus pandemic on the country's population and economy should be mitigated by programme approved by the government and Parliament in March for promoting the economy and reducing the consequences of COVID-19. The programme earmarks five billion euros or ten per cent of GDP for implementing the entire package of measures.⁹ Funds included in the plan will be deployed to ensure a functioning health system and protective measures (500 million euros), preserving of jobs and income (500 million euros), securing the liquidity of companies (500 million euros) and promoting the economy (one billion euros). The Lithuanian bank should be called upon to adopt measures for increasing the credit capacity of banks (2.5 billion euros). In order to ensure the liquidity of the treasury, the government intends to take out an additional loan of up to five billion euros.¹⁰ The programme can be updated and supplemented at any time, in order to take the changed situation into account.

¹https://finmin.lrv.lt/uploads/finmin/documents/files/LT_ver/Aktual%C5%ABs_valstyb%C4%97s_finans%C5%B3_duomenys/Ekonomikos%20ap%C5%BEvalga%202020-balandis.pdf

² <https://www.lrt.lt/naujienos/verslas/4/1163309/tarptautinio-valiutos-fondo-prognose-lietuvai-salies-ekonomika-siomet-smuks-8-1-proc>

³ <https://www.lrt.lt/naujienos/verslas/4/1175641/europos-komisija-paskelbe-prognose-lietuvos-ekonomika-siomet-smuks-7-9-proc>

⁴ <https://www.lrt.lt/naujienos/verslas/4/1152259/sapoka-pateike-skaicius-kiek-lietuvos-ekonomika-susitrauks-optimaliu-ir-pesimistiniu-scenarijumi>

⁵ http://finmin.lrv.lt/uploads/finmin/documents/files/LT_ver/Aktual%C5%ABs_valstyb%C4%97s_finans%C5%B3_duomenys/Ekonomikos%20ap%C5%BEvalga%202020-balandis.pdf

⁶ <https://uzt.lt/wp-content/uploads/2020/04/situacija-darbo-rinkoje-2020-04-20.pdf>

⁷ <https://uzt.lt/wp-content/uploads/2020/05/situacija-darbo-rinkoje-2020-05-04.pdf>

⁸ Zum B. <https://www.lrt.lt/naujienos/verslas/4/1176024/ekonomistas-maciulis-nedarbo-lygis-yra-arti-piko>

⁹ <http://finmin.lrv.lt/lt/naujienos/visuomenes-sveikatos-apsaugai-ir-salies-ekonomikai-5-mlrd-euru>

¹⁰ According to data from 6 April, Lithuania has now borrowed 1.5 billion euros from international credit institutes.

Supportive Measures for Companies and Self-Employed

On 20 March, the State Tax Inspectorate announced a list of 32,000 companies most severely affected by COVID-19.¹¹ Following an update on 9 April, the list now includes a total of 50,000 companies. Experts believe that the tourism, hotel and catering sectors are those most affected by the corona pandemic and the imposed quarantine. A large part of the list includes wholesalers and retailers.¹² The absolute majority of those most affected is made up of small- and medium-sized enterprises.

Current measures for protecting income and support the economy are as follows:

- Payments for social insurance and income tax may be deferred. Tax payers on the list of companies affected by COVID-19 and who are liable to pay taxes during the period from 16 March until the end of the exceptional situation plus two months thereafter, will automatically be exempted from paying a default penalty and fiscal enforcement measures will be suspended. Upon request, an agreement can be reached regarding an interest-free deferral of tax payments;¹³
- Where reduced working hours are ordered by the employer, state aid is available to maintain jobs: either 90 per cent of the salary, but not exceeding 607 euros gross, or 70 per cent of the salary, but not exceeding 910,50 euros gross;
- For freelancers, the deadline for the tax payment and tax declaration is deferred by two months to 1 July;
- Self-employed persons who do not have a work contract and are not in receipt of an earned income, can apply for a monthly grant of 257 euros. The grant is also available to self-employed persons for two months following the quarantine.

The state authority INVEGA "Investment and Economic Guarantees" – provides support mainly for small- and medium-sized enterprises, which enjoyed sustained development prior to the quarantine and have encountered liquidity problems in the wake of the pandemic. INVEGA¹⁴

- assumes 100 per cent of the credit or leasing interest of companies that have applied for a six-month deferral of payments (23 million euros);
- grants favourable government loans (287 million euros);
- Provides state guarantees for payments by credit institutes to small-, medium- and large-sized enterprises (851 million euros).

Together with the additional funds amounting to 145 million euros designated for venture capital investments, INVEGA has a total of over 1.306 billion euros at its disposal.

The programme for economic and financial support owing to COVID-19 was adopted more than one month ago. However, some business representatives and economic experts criticise the fact that aid measures are implemented too slowly and are not effective enough.¹⁵ Others regret the absence of clearer leadership by the Ministry for Economy and Innovation, which for six months has operated without a permanent head following the appointment of the former minister as EU Commissioner. Prime Minister Skvernelis explained that the implementation of the aid programme took longer because intended measures and criteria had to be coordinated with the European Commission. In response to criticism that funds earmarked for companies affected by COVID-19 have not arrived, the government announced

¹¹ <https://www.lrt.lt/naujienos/verslas/4/1159879/parama-verslui-kokiu-priemoniu-labiausiai-tikisi-imonis-ir-ko-jos-gali-tiketis>

¹² <https://www.delfi.lt/verslas/verslas/isnarste-vmi-nukentejusiu-imoniu-sarasa-augancios-skolos-sodrai-ir-garsenybiu-verslai.d?id=84061231>

¹³ <https://www.sodra.lt/lt/naujienos/vmi-ir-sodra-pagalba-verslui-nukentejusiam-nuo-covid-19>

¹⁴ <https://invega.lt/en/covid-2019/financial-measures-business-covid-19-crisis/>

¹⁵ z.B. <https://www.lrt.lt/naujienos/verslas/4/1162372/ekonomistai-bei-ekspertai-negaillestingi-kiekviena-uzdelsta-diena-lietuvai-kainuoja-2000-darbo-vietu>

on 23 April that criteria for using aid had been reviewed and relaxed: Accordingly, credits of up to one million euros can already be borrowed by companies that have lost 30 per cent (previous 60 per cent) of their revenue.

Additional aid was made available to entrepreneurs on 15 April. Small- and medium-sized businesses that were forced to close due to quarantine, can apply for a rental costs allowance corresponding to 50 per cent of the rent.¹⁶ Businesses can only avail themselves of it if the landlord is willing to reduce rental costs by 30 per cent. The rental cost allowance is available to recipients for the entire duration of quarantine (from 16 March) as well as for two months at the end of quarantine. Approximately 100 million euros are earmarked for this instrument of aid.

The conservative opposition party (Fatherland Union - Lithuanian Christian Democrats) consider the adopted aid measures for businesses to be insufficient. The party has drawn up an alternative "programme for economic reconstruction" and is provided help to the government. The programme not only includes measures for mitigating the effects of quarantine on the nation's businesses and economy in the short-term, but also necessary measures over the medium- and long-term for combating the crisis and transforming the economy in the event that the economic crisis lasts longer than originally estimated.¹⁷

Additional Corona Package of Measures

During the government meeting on 29 April, a package with additional social measures was adopted in the amount of one billion euros, that aims to reach up to 1.4 million inhabitants in Lithuania.¹⁸ The decisions were approved by the parliament, but are still to be signed by the president.

- Those employers affected by the quarantine will be able to apply for a wage subsidy following the quarantine in order to preserve jobs. The grant for the first two months will amount to 100 per cent, but will not exceed the minimum monthly salary of 607 euros gross. Fifty per cent is to be paid for the third and fourth month, 30 per cent for the fifth and sixth month but not exceeding a minimum monthly salary. Funding can be requested by employees who have obtained a short-term work subsidy during quarantine, who employ those receiving social welfare such as workers with a disability, or are included on the tax authority's list of companies affected by COVID-19 (380 million euros).
- Employees who have lost their job will receive a job seekers grant for a period of six months, but no longer until the end of 2020. Thirty three per cent of the minimum monthly salary (200.31 euros) should be paid to those persons who do not receive any other unemployment assistance; seven per cent of the minimum monthly salary (42 euros) should be paid to persons who obtain unemployment assistance (265 million euros).
- The funds intended for vocational education will be doubled, and changes will be made to support for wage costs for trainees. The wage subsidy will be increased from 40 to 70 per cent, but will not exceed 1.5 minimum monthly salaries or 910.5 euros gross (ten million euros).
- In August 2020, a one-off direct payment of 200 euros is to be paid to each recipient of social pension benefits and assistance (pensioners, disabled people, widows,

¹⁶ <https://www.lrt.lt/naujienos/verslas/4/1169959/zalia-sviesa-uzdegta-verslai-jau-nuo-pirmadienio-gali-kreiptis-del-50-proc-nuomos-kompensavimo>

¹⁷ https://tsajunga.lt/wp-content/uploads/2020/04/TSLKD_Ekonomikos-atku%CC%84rimo-planas_pristatymas.pdf

¹⁸ https://www.delfi.lt/verslas/verslas/paskirste-milijarda-pensininkams-ir-bedarbiams-po-200-euru-o-nukentejusiems-darbdaviams-subsidijos.d?id=84164547#cxrecs_s; <https://lrv.lt/lt/naujienos/premjerar-sunkumams-iveikti-1-mlrd-euru-vertes-priemoniu-paketar>; <https://www.lrt.lt/naujienos/verslas/4/1175992/pokarantininis-paramos-planas-patvirtintas-grizusiems-is-prastovu-daugiau-pinigu-ieskantiems-darbo-200-euru-ismokos-puse-metu>

widowers, and orphans etc.). These measures are to affect some 910,000 people – that is almost one third of the entire population of Lithuania (182 million euros).

Heated discussions among politicians, scientists, economic experts and the public triggered the proposal to provide direct assistance of 200 euros. According to some experts and politicians, the support measure targets financially weak people, and thus does not serve to mitigate the effects of COVID-19 on the economy, but instead is a means of solving the problem of social inequality.¹⁹ Criticism has also been levelled against the deadline for payment of the grant in August, only two months prior to the parliamentary elections set to take place in autumn. The government spokesperson and the social security administration explained that payments could not be made earlier due to technical and personnel reasons.

Two-Year Strategy Adopted for Managing the COVID-19 Crisis

On 6 May the Lithuanian government adopted a two-year-strategy for managing the COVID-19 crisis.²⁰ The strategy aims to gain control of the spread of the coronavirus and to be well-prepared for disease outbreaks that can be expected in future so as to curtail the negative effects on public health, the nation's economy and its social and cultural life. A plan for implementing the strategy will be drawn up shortly.

The strategy is to be implemented according to five basic principles:

- 1) protecting people in the high-risk group;
- 2) proactively localising cases and taking the necessary measures immediately;
- 3) providing society with up-to-date and objective information (special attention should be given to the fight against the spread of fake news);
- 4) taking decisions based on proof and facts (with an emphasis on the importance of scientific research);
- 5) International cooperation, particularly in the EU context (special interest should be given to cooperation with the Baltic states, Poland and the Nordic countries; an international coordinator is to be appointed in future).

This is monitored by the Government Committee for managing the COVID-19 situation, led by the Prime Minister. The implementation plan should be subject to careful examination every six months.

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¹⁹ <https://www.lrt.lt/naujienos/verslas/4/1168920/maciulis-apie-vyriausybes-sprendima-skirti-200-euru-ismokas-kritika-pagrista-nes-parama-sprendzia-ne-covid-19-pasekmes>

²⁰ <http://lrv.lt/lt/naujienos/parengta-covid-19-valdymo-strategija>

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