

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 supported a rapid convergence towards euro area income levels over the past years. After contracting by 0.3% in 2023, we expect the Lithuanian economy to grow by 2.2% this year and 2.8% in 2025, benefitting from robust household demand, strong public investment 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 with public debt falling to around 35% of GDP by 2029.

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; and ii) adverse demographic trends that increase labour shortages and fiscal pressures.

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% | a- | EUR | Lithuania | 0 | A |
| Public finance risk | | 20% | aaa | | | 0 | |
| External economic risk | | 10% | bbb- | | | 0 | |
| Financial stability risk | | 10% | aaa | | | 0 | |
| ESG risk | Environmental factors | 5% | aa- | [+1] | [-0] | 0 | |
| | Social factors | 7.5% | cc | | | - 1/3 | |
| | Governance factors | 12.5% | aaa | | | - 1/3 | |
| Sovereign Quantitative Model (SQM)**** | | 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](#). ****The Rating Committee approved an indicative SQM rating of 'a+'. Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A/Positive

Senior unsecured debt

A/Positive

Short-term issuer rating/Outlook

S-1/Positive

Local currency

Long-term issuer rating/Outlook

A/Positive

Senior unsecured debt

A/Positive

Short-term issuer rating/Outlook

S-1/Positive

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Credit strengths and challenges

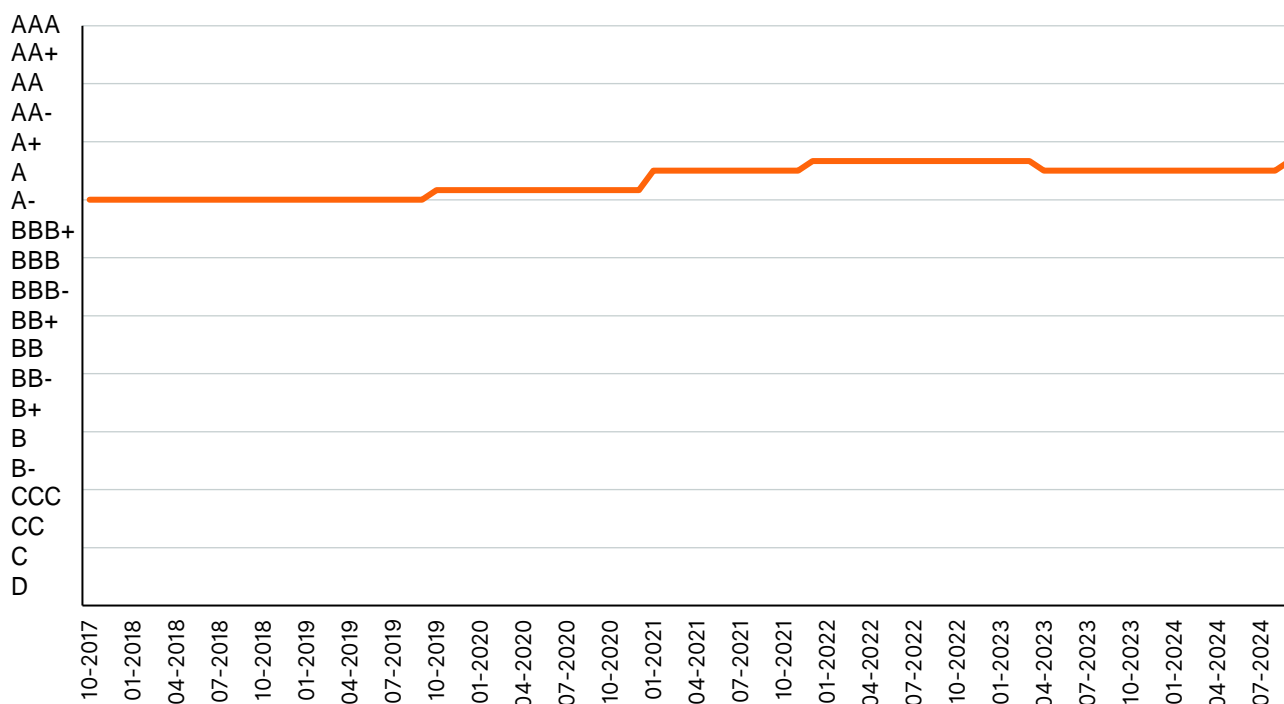
| Credit strengths | Credit challenges |
|---|--|
| <ul style="list-style-type: none"> • Sound institutional set-up underpinned by euro area and NATO memberships • Improved economic resilience; solid medium-run growth prospects • Moderate public debt | <ul style="list-style-type: none"> • Exposure to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

Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are tilted to the upside.

| Positive rating-change drivers | Negative rating-change drivers |
|--|---|
| <ul style="list-style-type: none"> • Solid economic growth and income convergence continued through structural reform and investment • Debt-to-GDP remained anchored to moderate levels thanks to broadly balanced government finances | <ul style="list-style-type: none"> • Heightened geopolitical risk undermining macroeconomic stability • Fiscal fundamentals weakened, leading to a significant increase in debt-to-GDP • Macroeconomic imbalances increased, weakening growth prospects • External and financial sector vulnerabilities increased substantially |

Figure 2: Rating history¹



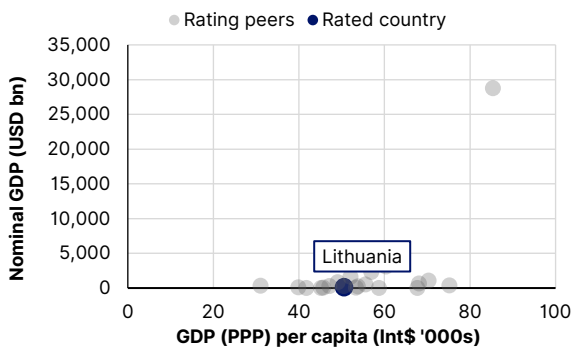
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

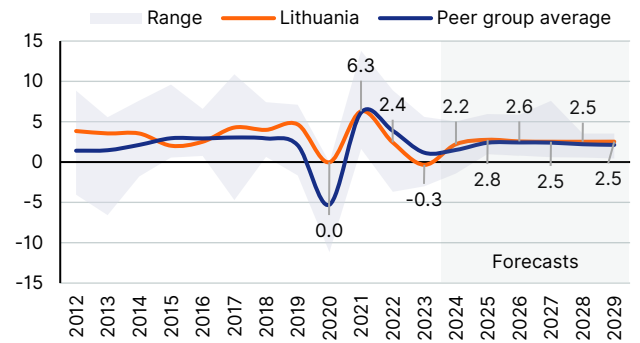
| SQM* indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|------------------------|--|------------|------------------|---|
| a- | Growth potential and outlook | Neutral | 0 | Robust economic prospects supported by EU funds, although adverse demographic trends are 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 (2024F)



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

Figure 4: Real GDP growth, %



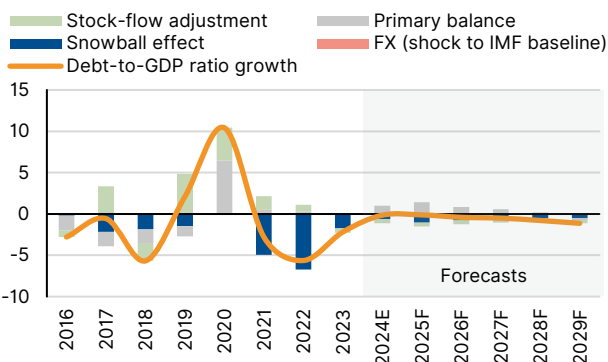
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

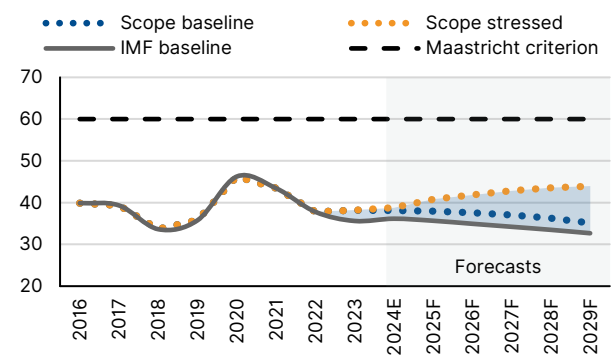
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--------------------------------|------------|------------------|---|
| aaa | Fiscal policy framework | Neutral | 0 | Track record of fiscal prudence, but still important shadow economy and comparatively restricted tax base |
| | Long-term debt trajectory | Neutral | 0 | Moderate debt; slight decline of the debt ratio expected 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

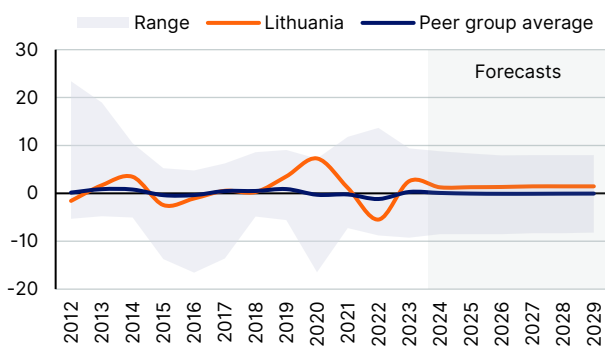
*Sovereign Quantitative Model.

External economic risk

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

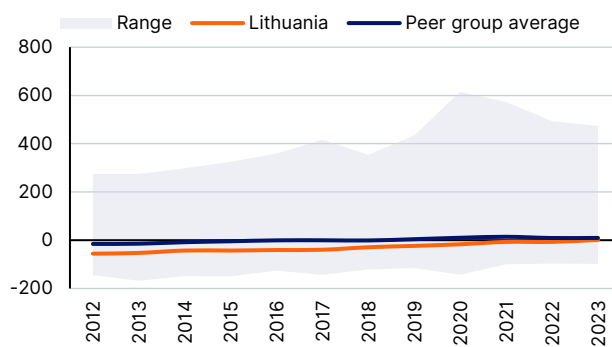
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|--|
| bbb- | Current account resilience | Neutral | 0 | Some risks from persistent reliance on low value-added export sectors, though diversification is 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



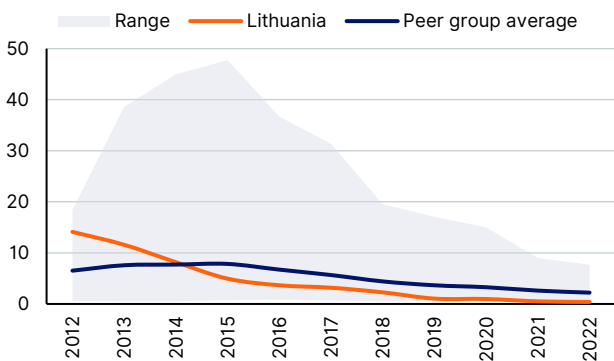
Source: IMF, Scope Ratings

Financial stability risk

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

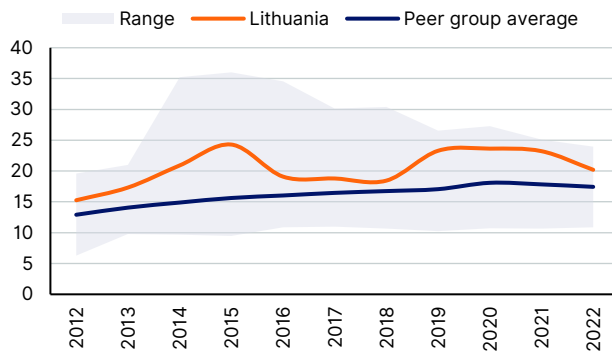
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|---|------------|------------------|--|
| aaa | Banking sector performance | Neutral | 0 | Well-capitalised and profitable banking sector with moderate non-performing loans |
| | Financial 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



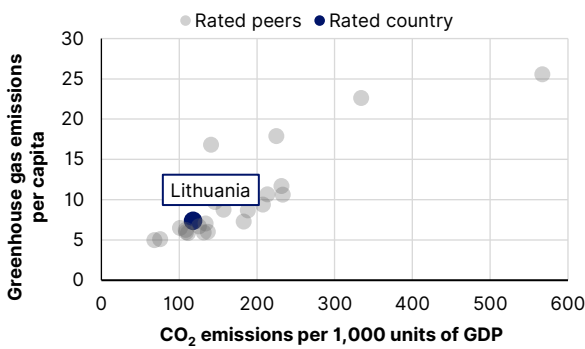
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

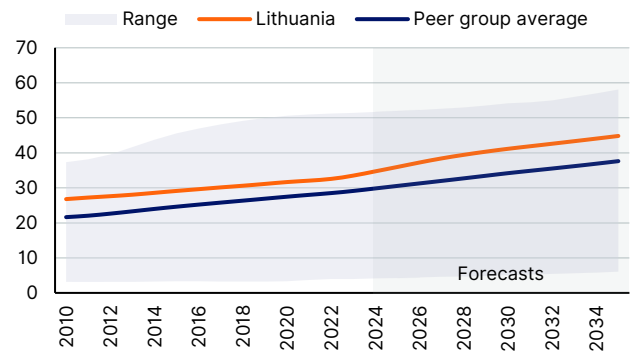
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|-----------------------|------------|------------------|--|
| a- | Environmental factors | Neutral | 0 | Transition risks in line with peers, ambitious climate agenda |
| | Social factors | 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 capita/GDP (2022), mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

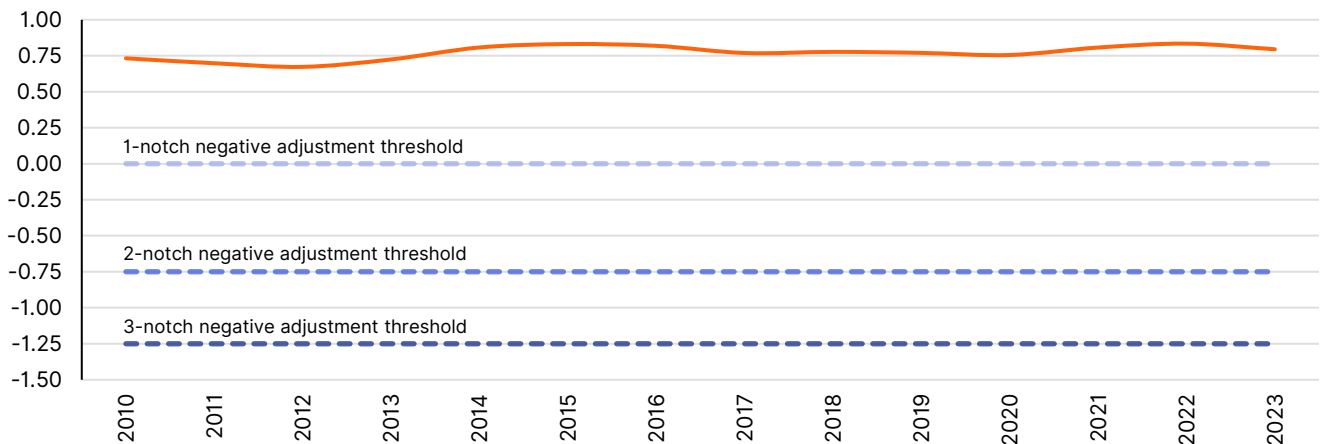
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

| 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



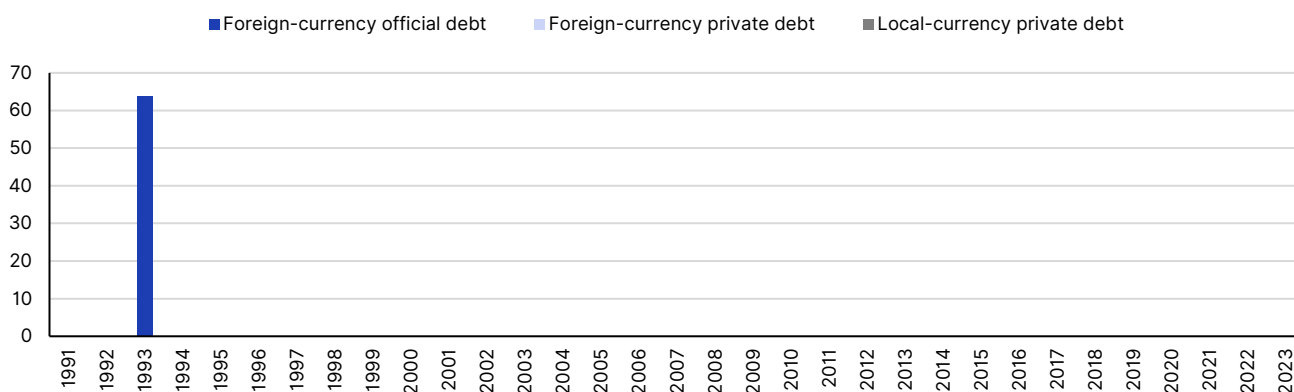
Source: WB, Scope Ratings

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* |
|----------------|
| Austria |
| Belgium |
| Croatia |
| Cyprus |
| Czech Republic |
| Estonia |
| Finland |
| Malta |
| Portugal |
| 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 17 September 2024 | 62.2 |

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) , Int\$ '000s | IMF | 36.3 | 38.8 | 39.3 | 43.5 | 47.4 | 47.9 |
| | Nominal GDP , USD bn | IMF | 54 | 55 | 57 | 67 | 71 | 78 |
| | Real growth , % | IMF | 4.0 | 4.7 | 0.0 | 6.3 | 2.4 | -0.3 |
| | CPI inflation , % | IMF | 2.5 | 2.2 | 1.1 | 4.6 | 18.9 | 8.7 |
| | Unemployment rate , % | WB | 6.1 | 6.3 | 8.5 | 7.1 | 6.0 | 7.0 |
| Public Finance | Public debt , % of GDP | IMF | 33.7 | 35.8 | 46.2 | 43.4 | 37.8 | 35.6 |
| | Net interest payments , % of government revenue | IMF | 3.1 | 2.9 | 2.2 | 1.4 | 0.9 | 1.9 |
| | Primary balance , % of GDP | IMF | 1.7 | 1.2 | -6.5 | -0.5 | -0.3 | -0.1 |
| External Economic | Current-account balance , % of GDP | IMF | 0.3 | 3.5 | 7.3 | 1.1 | -5.5 | 2.6 |
| | Total reserves , months of imports | WB | 1.6 | 1.4 | 1.5 | 1.2 | 1.0 | 1.2 |
| | NIIP , % of GDP | IMF | -29.2 | -23.6 | -16.9 | -7.1 | -7.0 | - |
| 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 | 35.2 |
| ESG | CO₂ per EUR 1,000 of GDP , mtCO ₂ e | EC | 141.1 | 137.5 | 137.2 | 127.7 | 118.2 | - |
| | Income share of bottom 50% , % | WID | 18.1 | 8.1 | 8.1 | 8.1 | 8.1 | - |
| | Labour-force participation rate , % | WB | 77.5 | 78.1 | 78.5 | 78.2 | 78.5 | - |
| | 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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