

Lithuania

Economic dependence on Russia

Nordea Research, 20 March 2014

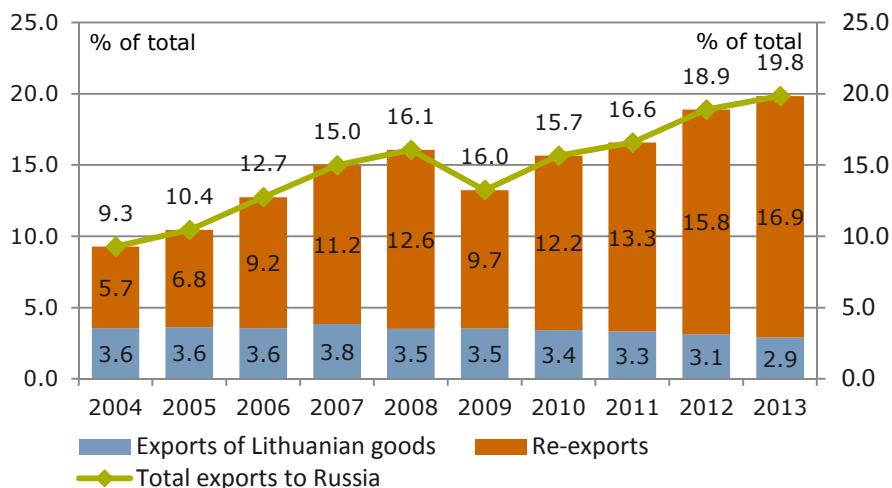
- Statistically, Russia is the largest export partner for Lithuania, accounting for a 20% of total goods and 25% of total service exports
- However, majority of exports to Russia are re-exports (85%), which is essentially a west-east transit of “Made in the EU” goods
- Hence the dependence of Lithuanian producers on Russian economy is limited as it was evidenced by a “milk war” with Russia in end-2013
- The most vulnerable is transport service sector with 31% of total export revenues coming from Russia

The vast majority of exports to Russia are re-exports

Russia is the largest export partner of Lithuania, accounting for 20% of total goods exports (€4.9bn out of €24.5bn in 2013) and 3% of service exports (€4.9bn out of €4.6bn in 2012). However, large majority (85%) of goods exports are re-exports (€4.2bn), which is essentially a west-east transit of goods from the Western Europe to Russia and other CIS countries.

Exports of Lithuanian origin (excluding re-exports) to Russia accounted for a mere 4.8% (€0.7bn) of overall exports of Lithuanian producers. In this respect, Russia is only the 8th largest export partner of Lithuania after Germany, Latvia, Estonia, UK, Netherlands, Poland and Sweden. This implies that the effect of slowdown of Russian economy and potential trade disruptions would have limited effect for Lithuanian producers.

Exports of goods to Russia



Source: Statistics Lithuania

Žygimantas Mauricas

+370 612 66291

zygimantas.mauricas@nordea.com

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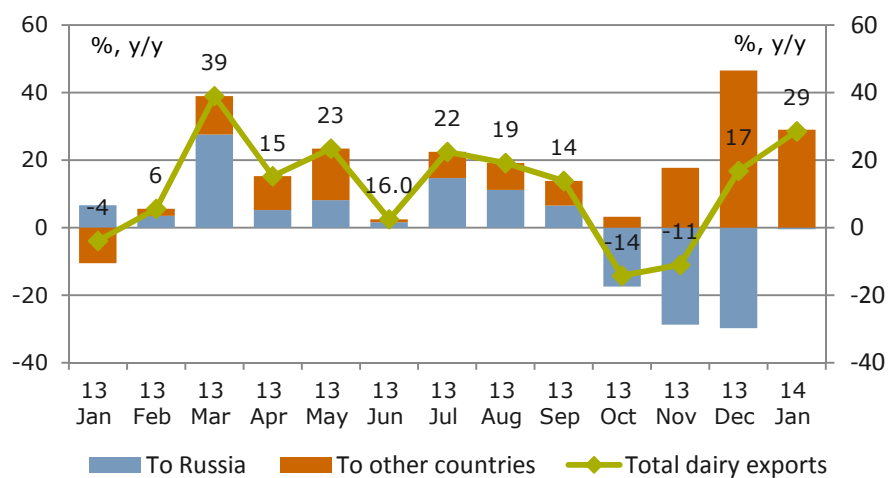
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“Milk trade war” between Russia and Lithuania - good stress test exercise

Lessons from “milk trade war” with Russia

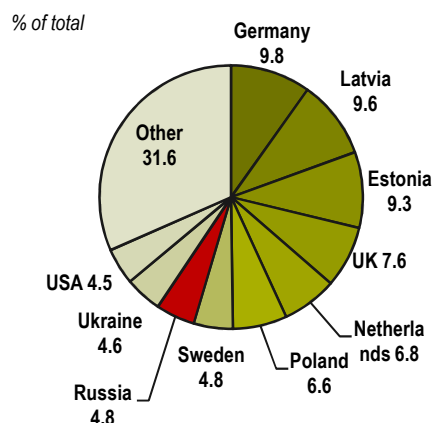
Food producers have the biggest exposure to Russian market (€0.31bn) with 25% of export revenues coming from Russia in 2013. And yet, the effect of possible trade disruptions would be limited as it has been verified in October/December 2013 when dairy products were banned from entering Russian market during the so called “milk trade war”: falling volumes in Russian market were more than offset by growing exports to other export markets (Latvia, Netherlands, Italy, Cuba, Poland and Uzbekistan).

Exports of dairy products



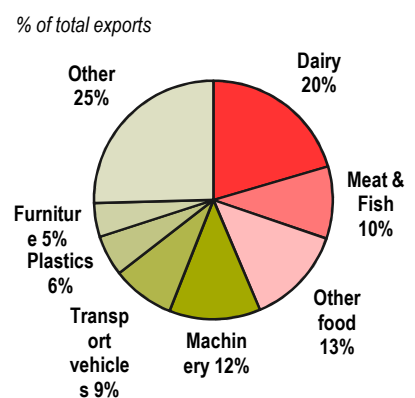
Source: Statistics Lithuania

Exports of Lithuanian origin



Source: Statistics Lithuania, 2013

Exports to Russia by product



Source: Statistics Lithuania, 2013

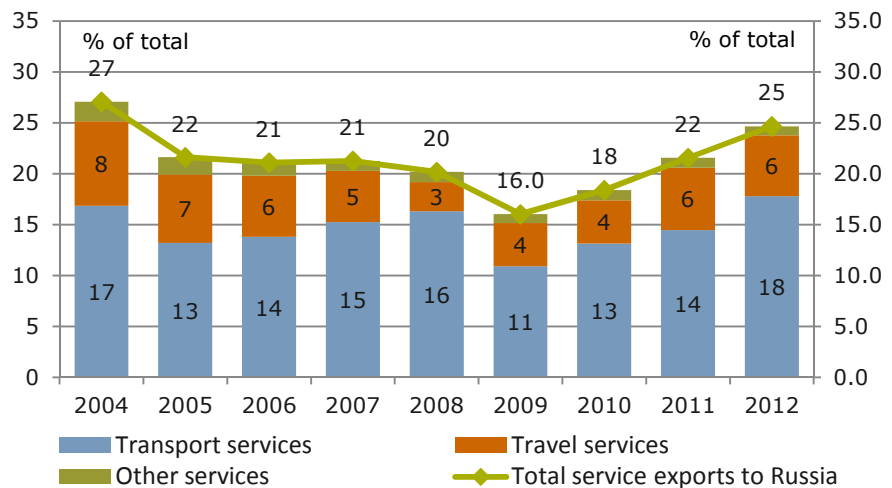
Transport service exports to Russia may fall by as much as 20%...

...but the drop will be to a large extent compensated by improving economic environment in the European Union

Transport sector is the most vulnerable

The most vulnerable sector is by far the transport sector (primarily road transport) with 31% of total export revenues coming from Russia. Volumes of transport service exports to Russia are highly correlated with west-east movement of goods, which are forecasted to decline in line with slowdown of Russian economy, weakening rouble and potential trade disruptions. Under the baseline scenario, the volumes of re-exports to Russia may fall by as much as 20% in 2014 (similar to a fall in 2009, but still much lower compared to a massive drop of 62% during the Russian economic crisis in 1999). In addition, export of travel services to Russia may also be negatively affected. Hence, the effect on the overall growth of service exports in Lithuania is expected to be significant, since Russia constitutes 25% of overall Lithuanian service exports. However, the overall growth is expected to remain positive, since improving situation in European Union will offset negative developments in Russia.

Exports of services to Russia



Source:

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