

# Lithuania

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## IN A NUTSHELL

- Economy grew by 4.8% after 0.1% fall in previous year.
- Growing uncertainty related to the conflict in Ukraine.
- Annual inflation of 21% in June 2022.
- Record growth of new mortgage lending along with growth of real estate prices.
- Bank of Lithuania introducing countercyclical measures to cool down real estate and mortgage markets.

## MACROECONOMIC OVERVIEW

The economy rebounded from last year's decline of -0.1% to a growth of 5%. The growth was much higher than last year's Bank of Lithuania forecast of 2.9%. The main growth drivers were export related industries, while internal construction and stagnated. Unemployment dropped to 7.1% from 8.5% in 2020. The main challenge in 2021 was increasing energy, fuel, transportation and food prices. This drove the average inflation to 4.6% and year end inflation to 10.7%, against a forecast 1.5%-2%. Even before the impacts of the conflict in Ukraine, the comparison of actual 2021 figures to forecasts for this period by Bank of Lithuania and other industry experts show how dynamic and unpredictable the situation is.

## LOOKING AHEAD

Due to the conflict in Ukraine, which began in February 2022, the outlook for 2022 is more pessimistic than in it has been at any time in the last decade. The ongoing situation in Ukraine raises many questions regarding the future economic development of Lithuania and the region. Some direct investment projects have halted while others are quietly trying to sell their positions without causing market correction. The Lithuanian real estate market is no exception. The country is already facing construction material supply constraints. However, at the date of this report there is still an optimism in the local residential market, while close to 20% inflation and raising fuel prices are early indicators of the difficult time ahead.

## HOUSING MARKETS

During the year the housing market experienced high growth fuelled by growing household income, low mortgage interest rates, a desire to protect saving in the high inflation environment and positive expectations about further price increases. Lithuania's biggest cities have been experienced price growth rates not seen from 2007. Apartment prices in five major cities (Vilnius, Kaunas, Klaipėda, Panevėžys and Šiauliai) increased on average 22.4%, compared that to last year's post pandemic growth of 4%.

The number of dwellings completions fell by 3.2%, to 6,596 units compared to 2020 growth of 4.7%, while construction permits increased by 37% in 2021,

compared with 18% in 2020, and 3% in 2019. The counterintuitive decline in completed dwelling is related to the construction supply difficulties already experienced in 2021, the situation is expected to deteriorate.

## MORTGAGE MARKETS

It was a record year for mortgage market growth – 11.6%. According to the Bank of Lithuania, outstanding mortgage loans at year end were EUR 10,204 mn, 11.6% more than 2020 (EUR 9,144 mn). New loan issuance grew by 39%, from EUR 1,582 mn to EUR 2,195 mn. Average mortgage rates continued to decline from 2.33% in 2020 to 2.16% in 2021. Mortgage lending has again become the focus of banks.

To counteract the mortgage market growth at the end of 2021 the Bank of Lithuania has introduced two countercyclical measures effective from July 2022. The down payment required for second properties increased from 15% to 30% and an additional 2% capital requirement was introduced for mortgages for banks with biggest exposures. According to the Bank of Lithuania calculations this will create about EUR 30 mn additional capital buffer.

## MORTGAGE FUNDING

As in previous years, deposits remained the primary source of mortgage funding. Despite the majority of banks offering close to zero rate for EUR term deposits, deposits continued to grow. The competitive landscape is dominated by SEB, Swedbank, and Luminor (merged DNB and Nordea banks), who comprise 97% of the mortgage market, since all of them have strong parent banks they are in good position to provide relatively cheap mortgage funding in Lithuania based on local deposits and parent funding.

	LITHUANIA 2020	LITHUANIA 2021	EU 27 2021
<b>MACROECONOMIC VARIABLES</b>			
Real GDP growth (%) (1)	-0.1	5.0	5.4
Unemployment Rate (LSF), annual average (%) (1)	8.5	7.1	7.0
HICP inflation (%) (1)	1.1	4.6	3.0
<b>HOUSING MARKET</b>			
Owner occupation rate (%) (1)	88.6	88.6	70.0
Gross Fixed Investment in Housing (annual change)(1)	4.1	-1.4	6.6
Building Permits (2015=100) (2)	128.4	176.2	134.0
House Price Index – country (2015=100) (2)	141.2	163.8	145.2*
House Price Index – capital (2015=100) (2)	n/a	n/a	146.1*
Nominal house price growth (%) (2)	7.3	16.1	10.3*
<b>MORTGAGE MARKET</b>			
Outstanding Residential Loans (mn EUR) (2)	9,144	10,204	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,984	4,442	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	28.0	29.3	62.8*
Gross residential lending, annual growth (%) (2)	7.0	38.8	12.2
Typical mortgage rate, annual average (%) (2)	2.3	2.2	2.0

\* Please note that this value is the simple average of the available values in 2021.

**Sources:**

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

## LITHUANIA FACT TABLE

<b>Which entities can issue mortgage loans in your country?</b>	Banks and bank' branches.
<b>What is the market share of new mortgage issuances between these entities?</b>	100% banks
<b>Which entities hold what proportion of outstanding mortgage loans in your country?</b>	100% banks
<b>What is the typical LTV ratio on residential mortgage loans in your country?</b>	No statistical data on average LTV is available. New buyers tend to max out with their LTVs, getting close to 80%.
<b>How is the distinction made between loans for residential and non-residential purposes in your country?</b>	Based on type of property and whether this is the first or second mortgage. Second mortgage tends to be treated as an investment with rental purpose.
<b>What is/are the most common mortgage product(s) in your country?</b>	30 year, 6 month EURIBOR mortgages.
<b>What is the typical/ average maturity for a mortgage in your country?</b>	30 years
<b>What is/are the most common ways to fund mortgage lending in your country?</b>	Deposits
<b>What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?</b>	Low to medium level associated
<b>What is the level (if any) of government subsidies for house purchases in your country?</b>	Not available