

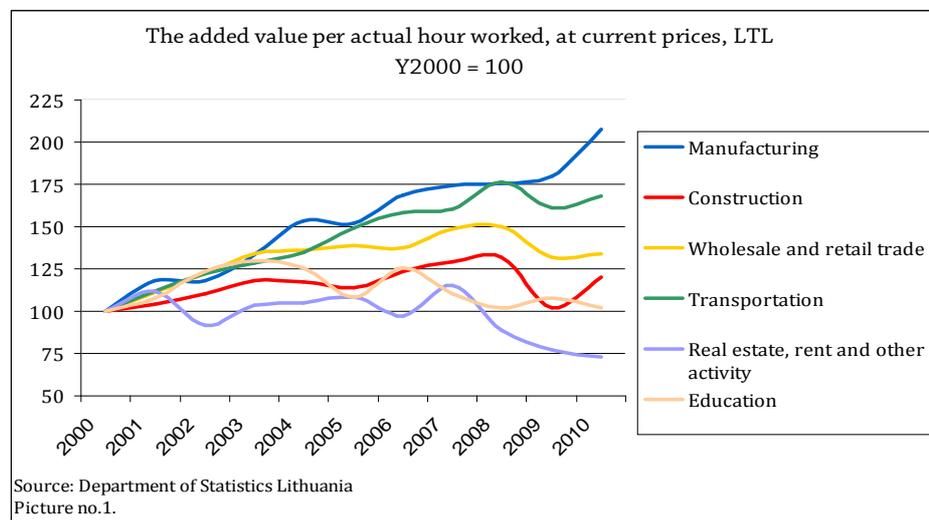
## Competitiveness of Lithuanian economy

Over the years Lithuanian economy tried to gain competitiveness among surrounding countries. Previous economic boom attracted lots of FDI's into Lithuanian economy which resulted not just increasing of GDP, but also reflected on rising productivity in various sectors of Lithuanian economy.

Every year World Economic Forum releases The Global Competitiveness Report, where they rank countries among each other in terms of competitive environment in any particular country. Y2010 Lithuanian economy was ranked in 47<sup>th</sup> place among 138 countries in the world. Leading top 3 was as following: 1<sup>st</sup> place was held by Switzerland, 2<sup>nd</sup> by Sweden and 3<sup>rd</sup> position was held by Singapore. Surprisingly USA dropped from 1<sup>st</sup> place in Y2009 to 4<sup>th</sup> place in Y2010. In Y2010 the competitiveness of Lithuanian economy was leading against Latvia, which was ranked in 70<sup>th</sup> place, but Estonia is a way ahead in 33<sup>rd</sup> position.

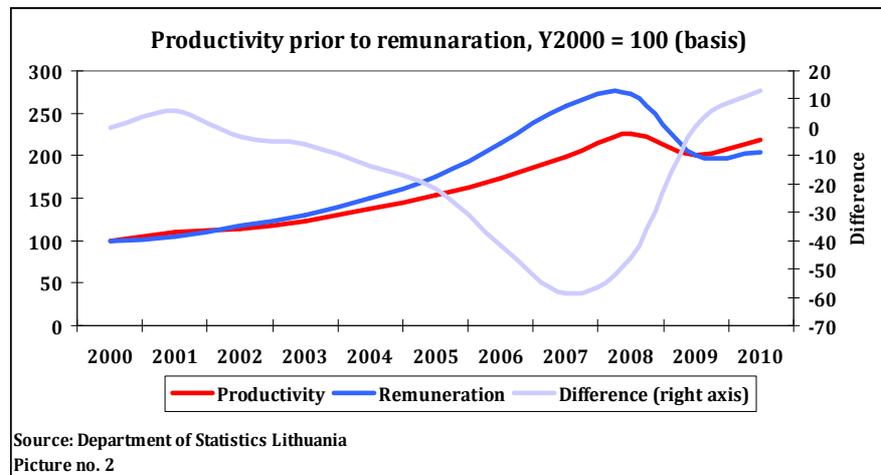
After the Russian crisis in Y1999, Lithuanian economy started a new economic cycle.

Picture no 1. shows how productivity in various economic sectors was changing over the years. Y2000 stands as a basis point. Most progress could be spotted in manufacturing sector, which could be described as most improved in terms of productivity and



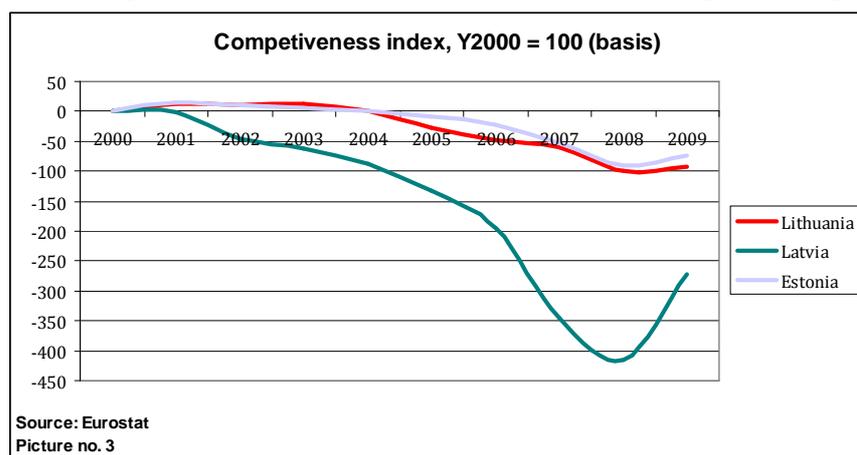
competitiveness. Such progress could be explained by the inflows of FDI's to the country. The picture no. 1 shows a significant increasing trend of productivity after Y2004 when Lithuania enter the EU. Such increase in manufacturing productivity also supported soaring GDP during years of economic boom. Nevertheless productivity in services sectors was not appreciating as much as in manufacturing sector, which is because of limited possibilities to increase it with investments flow. This situation could also be the reason for the GDP growth in the future, because services account 63% of Lithuanian GDP whereas manufacturing just 19%. Productivity in services sector could be affected more difficult than in manufacturing industry, because for instance in wholesale and retail trade sector it is possible to raise productivity just to a particular point, because it is possible to improve by using more modern selling channels etc. but it does not raise productivity as for example new modern equipment or production line in factory.

To reveal actual competitiveness level of the economy it is necessary to measure not just productivity alone, but also to take into consideration the change in wages and salaries of employees. For this comparison I used the data provided by Department of Statistics Lithuania. To represent actual change, not percentage YoY change was taken, but the data expressed in numbers, where Y2000 is basis and represents value of 100. As the picture no. 2 shows



since Y2002 labour productivity started to increase less than the increase in wages. After joining EU in Y2004 the gap started to increase significantly, while opened new job markets resulted a trend, where companies in local market had to keep wages increasing to keep employees in the positions. Booming real estate market and soaring GDP also affected the level of remuneration of labour force. Increasing flows of FDI's into Lithuanian economy, couldn't keep such growth rates in productivity as in remuneration. The difference curve with is located on right axis could be described as the competitiveness index, which represents the gap between increasing labour productivity and remuneration. Y2005-2007 period was most significant in competitiveness of Lithuanian economy, where skyrocketing level of remuneration reflected as the temporary shock and decreased competitiveness in a very significant way.

For the final comparison of competitiveness of 3 Baltic states, the data of compensation per employee and productivity per employee was taken (Data source: Eurostat). Picture no. 3 provides the difference between labour compensation and productivity. It is obvious that the worst situation is in Latvia, where the gap is huge and significant. Lithuania and Estonia are in quite similar positions.



As a conclusion – Lithuanian economy is still competitive. It seems we are leading against Latvia and are on quite similar level as Estonia.