

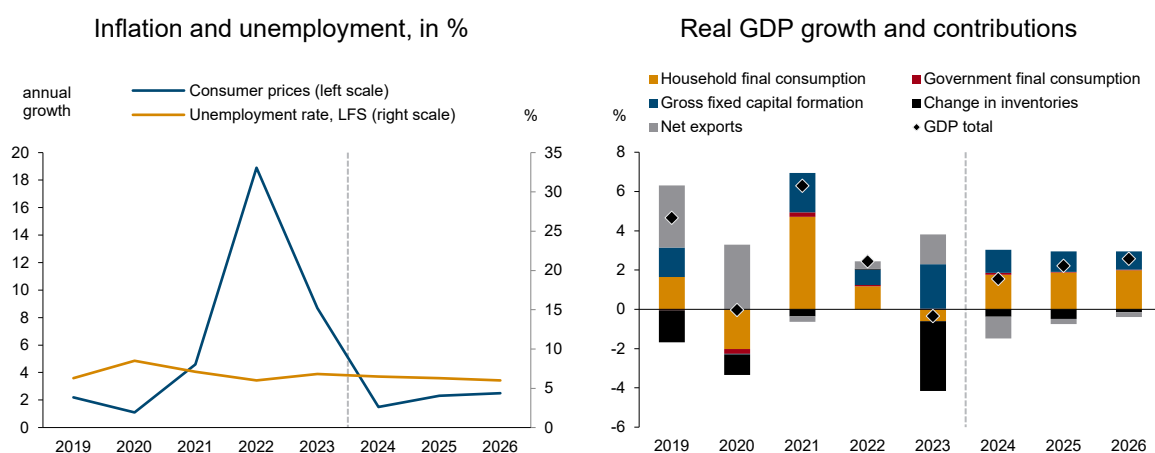


LITHUANIA: End of stagnation, but only a restrained upswing in sight

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The economy performed worse than expected in 2023, with GDP declining by 0.3%. With the substantial fall in inflation, real incomes had already started to pick up by the end of last year and will continue to do so in 2024; this will support household consumption. Despite the stagnation, the labour market remains robust, and unemployment is likely to decline further. Private investment activity is ailing, since external demand is in the doldrums; meanwhile the government will further raise infrastructure investment. We expect real GDP to increase by 1.6% in 2024; this will be followed by a modest acceleration to 2.2% in 2025 and thereafter to 2.6% in 2026.

Figure 6.12 / Lithuania: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Exports declined substantially last year, and we can foresee no substantial upswing in 2024. In particular, exporters of chemicals, plastics, furniture and mineral products are suffering at the moment, and those industries have already cut back on staff. The still sluggish EU-wide economic growth is likely to result in an almost stagnant Lithuanian manufacturing sector this year. Lithuania is continuing to disentangle itself economically from Russia, but still that neighbouring country is Lithuania's fourth most important trade partner in terms of exports (imports from Russia have become negligible). Given the reduction in transit trade, the transport sector – which used to profit from shipments between Lithuanian ports and the country's eastern neighbours of Russia and Belarus – is facing a permanent diminution in importance. Nevertheless, overall service exports are still developing well, thanks to tourism, IT, etc.

Inflation has recently been falling faster than expected, which will support the growth in household income and consumption towards H2 2024. In 2023, an inflation rate of close to 9% resulted in real net incomes growing by no more than 2.3%. However, by March 2024 the inflation rate had declined to 0.3% year on year. At the moment, we see the cost of housing and energy plummeting; the price of foodstuffs stagnating; and the cost of hospitality and other services rising sharply. Overall, in 2024 consumer price inflation (CPI) is expected to average 1.5%, resulting in a 6.5% growth in real net incomes. This will bolster household consumption in the second half of the year. In order to maintain the purchasing power of low earners, the government has introduced a 10% rise in the minimum wage from January 2024. In addition, public pensions and the wages of public-sector employees are to rise steeply this year. Moreover, the net income of low-wage earners has been bolstered by a 20% rise in the non-taxable income threshold. Given the anticipated upswing in GDP growth in 2025, we expect the CPI to rise again next year, but to remain close to the European Central Bank (ECB) target of 2%.

Investment in public infrastructure will again be a strong driver of GDP growth in 2024. Using EU funds (including the NextGenerationEU recovery package), the largest chunk of public investment will be devoted to the green transformation, which comprises renewable energy projects including power plants and the renovation of old multi-apartment buildings. Furthermore, greater outlays are planned for rail and road building and maintenance, as well as for research and innovation, health care and digital transformation.

Business sentiment has not yet recovered, which suggests that an upswing in private investment will take longer than expected, particularly in industry. Disappointing developments in the main export destinations within the EU are placing a strain on confidence in all sectors, apart from retail trade. Businesses are running down their stocks and investment plans are being revised downwards. Until the ECB also starts to cut its interest rates, households will refrain from greater investment in dwellings. The rise in interest rates has brought about an additional burden on households, but the rate of non-performing loans has not increased. The figures for construction permits granted suggest that fewer residential and commercial buildings will be erected in the medium term. We expect only a slow revival of private investment towards the end of this year and in 2025.

High inflation brought extra revenue into the government budget in 2023, resulting in a budget deficit of a mere 0.8% of GDP – despite the economic stagnation. Since the government plans to increase both investment and social benefits, and since inflation is falling (and with it the tax revenue), the budget deficit will be somewhat higher in 2024, at 2.5%.

Despite the economic stagnation, employment increased in 2023 by 1.4%. And it is expected to continue to grow this year, albeit at a lower rate. The substantial influx of Ukrainian refugees (12,000 in 2023) offers a considerable additional supply of well-educated workers. More than two thirds of the Ukrainian population in Lithuania are reported to be in employment. Looking at overall employment by sector, jobs in manufacturing are stagnating, while the service sector is still seeking additional personnel. Although the economy is projected to grow only slowly this year, the unemployment rate will likely even decrease slightly, to 6.5% on average. In the following two years we expect unemployment to fall back to 6%.

Considering the continued low external demand and the weakness of private-sector investment, we have kept our growth forecast for 2024 almost unchanged at 1.6%. Otherwise, we have slightly altered our baseline scenario for the coming two years, in expectation of a more rapid upswing. GDP growth will pick up in 2025 to 2.2%, and then to 2.6% in 2025. Nevertheless, much will depend on the dynamics of the war in Ukraine and on how economic activity evolves in Western Europe – and in the Scandinavian countries, in particular. The latter will also be influenced by the coming decision of the ECB on interest rate cuts.

Table 6.12 / Lithuania: Selected economic indicators

	2020	2021	2022	2023 ¹⁾	2024	2025 Forecast	2026
Population, th pers., average	2,795	2,801	2,832	2,887	2,915	2,920	2,920
Gross domestic product, EUR m, nom.	49,873	56,478	67,437	71,986	74,200	77,600	81,600
annual change in % (real)	0.0	6.3	2.4	-0.3	1.5	2.2	2.6
GDP/capita (EUR at PPP)	26,300	29,190	31,650	32,560	.	.	.
Consumption of households, EUR m, nom.	28,626	32,410	39,227	42,168	.	.	.
annual change in % (real)	-3.4	8.2	2.0	-1.0	3.0	3.2	3.4
Gross fixed capital form., EUR m, nom.	10,664	12,259	14,432	16,768	.	.	.
annual change in % (real)	-0.2	9.4	3.6	10.6	5.0	4.5	4.0
Gross industrial production (sales)							
annual change in % (real)	0.2	20.5	9.1	-6.4	1.0	5.0	5.0
Gross agricultural production							
annual change in % (real)	10.3	-4.5	8.1	-2.4	.	.	.
Construction industry							
annual change in % (real)	-1.6	4.6	4.6	12.6	.	.	.
Employed persons, LFS, th, average ²⁾	1,358	1,369	1,421	1,441	1,450	1,460	1,470
annual change in %	-1.5	0.8	3.8	1.4	0.8	1.0	1.0
Unemployed persons, LFS, th, average ²⁾	126	105	90	106	101	98	94
Unemployment rate, LFS, in %, average ²⁾	8.5	7.1	6.0	6.8	6.5	6.3	6.0
Reg. unemployment rate, in %, eop ³⁾	16.1	10.2	8.9	9.1	.	.	.
Average monthly gross wages, EUR ⁴⁾	1,429	1,579	1,789	2,014	2,180	2,360	2,580
annual change in % (real, gross)	8.9	5.6	-5.4	3.2	6.8	6.0	6.5
Average monthly net wages, EUR ⁴⁾	913	1,002	1,121	1,249	1,350	1,460	1,590
annual change in % (real, net)	9.8	4.8	-6.5	2.1	6.5	5.8	6.0
Consumer prices (HICP), % p.a.	1.1	4.6	18.9	8.7	1.5	2.3	2.5
Producer prices in industry, % p.a.	-8.9	9.5	26.1	-2.4	-1.5	1.0	3.0
General governm. budget, EUdef., % of GDP							
Revenues	36.2	36.3	35.7	37.0	36.0	36.0	36.0
Expenditures	42.7	37.4	36.3	38.0	38.5	38.5	38.3
Net lending (+) / net borrowing (-)	-6.5	-1.1	-0.7	-1.0	-2.5	-2.5	-2.3
General gov. gross debt, EU def., % of GDP	46.2	43.4	38.1	39.0	39.5	39.0	38.0
Stock of loans of non-fin. private sector, % p.a.	-1.6	13.2	14.0	5.4	.	.	.
Non-performing loans (NPL), in %, eop	1.3	0.7	0.5	0.6	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	0.00	0.00	2.50	4.50	.	.	.
Current account, EUR m	3,633	641	-3,687	1,397	1,600	2,200	2,000
Current account, % of GDP	7.3	1.1	-5.5	1.9	2.2	2.8	2.5
Exports of goods, BOP, EUR m	25,536	31,648	41,126	36,343	36,200	38,300	41,000
annual change in %	-1.6	23.9	29.9	-11.6	-0.4	5.8	7.0
Imports of goods, BOP, EUR m	25,940	34,544	48,469	41,165	41,000	43,000	45,500
annual change in %	-8.3	33.2	40.3	-15.1	-0.4	4.9	5.8
Exports of services, BOP, EUR m	10,921	13,571	17,408	20,162	20,000	21,000	22,300
annual change in %	-8.0	24.3	28.3	15.8	-0.8	5.0	6.2
Imports of services, BOP, EUR m	5,886	8,137	11,419	12,575	12,300	12,800	14,300
annual change in %	-14.9	38.2	40.3	10.1	-2.2	4.1	11.7
FDI liabilities, EUR m	4,002	2,534	634	2,940	.	.	.
FDI assets, EUR m	3,438	1,286	-1,072	2,141	.	.	.
Gross reserves of CB excl. gold, EUR m	3,662	4,626	4,715	5,252	.	.	.
Gross external debt, EUR m	40,233	44,565	45,565	49,233	47,500	48,100	50,600
Gross external debt, % of GDP	80.7	78.9	67.6	68.4	64.0	62.0	62.0

Note: Introduction of new index 2021=100 (new weights) for gross industrial production and producer prices in industry.

1) Preliminary and wiiw estimates. - 2) From 2021 new LFS methodology in line with the Integrated European Social Statistics Regulation (IESS). - 3) In % of working age population. - 4) Including the employers' social security contribution and earnings of sole proprietors. - 5) Official refinancing operation rate for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.