

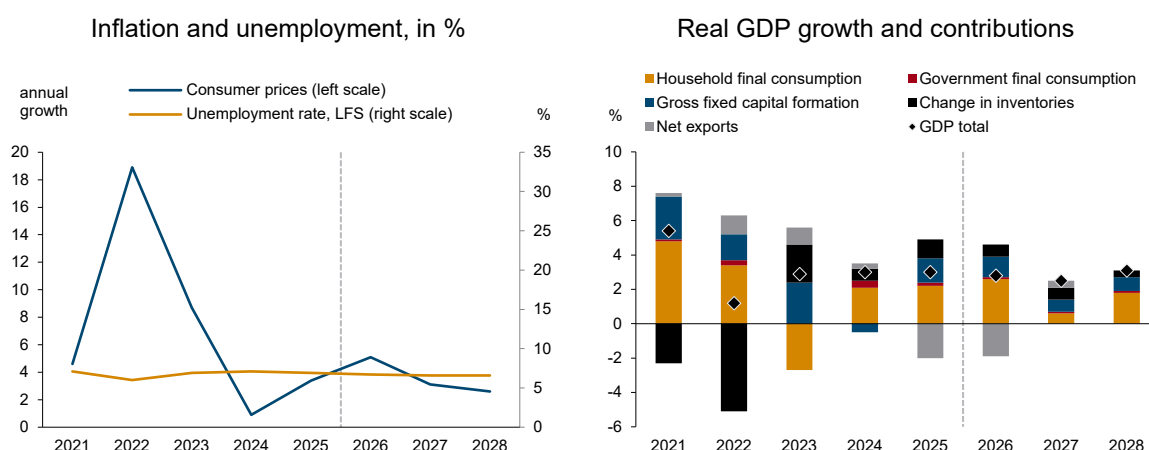


LITHUANIA: The current boost to growth is likely to be short-lived

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The story of resilient Lithuanian growth continues, but is becoming increasingly dependent on investment-inducing policies. In 2026, the economy has benefited from unusually strong defence expenditure and a temporary spike in private consumption. In 2027, these factors may weaken, making slower growth likely. By 2028, the economy could return to a more normal growth pattern, assuming resolution of the Middle Eastern conflict. The key medium-term challenge is to replace temporary fiscal support with stronger productivity and private investment.

Figure 3.12 / Lithuania: Main macroeconomic indicators



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

Growth remains solid, but is heavily dependent on policy-related spending. Despite ongoing uncertainty due to global conflicts and the increase in the number of Russia's hybrid actions in Lithuania and the neighbouring countries, GDP is forecast to grow by 2.7% in 2026, 2.4% in 2027 and 3.1% in 2028. Strong growth relative to the rest of the EU is supported by investment, defence spending, an increase in household consumption and EU-funded projects. This makes growth relatively resilient to weak external demand, but also more dependent on policy-related domestic spending. The softer growth expected in 2027 reflects the fading of the temporary spike in private consumption and the completion of some EU-funded investment projects, before a more balanced expansion resumes in 2028.

Manufacturing and construction have performed particularly well. These have been supported by EU-financed projects, public investment and stronger global trade. Manufacturing output rose by 2.5% year on year in the first half of 2026. Growth was especially prominent in rubber and plastics, wood

products and furniture, helped by increased foreign demand and some precautionary production ahead of possible further commodity-price increases. Construction has also expanded significantly, particularly civil engineering linked to EU co-financed infrastructure. By contrast, growth in some service activities has remained comparatively weak.

Investment growth will remain strong, but will depend on the size of the future EU budget. Gross fixed capital formation is expected to rise by 8.2% in 2026, supported by EU-funded infrastructure, the final phase of Recovery and Resilience Facility projects and rapidly expanding defence-related investment. Beyond 2027, however, the outlook for EU funding is unusually uncertain: the Commission has proposed a larger long-term budget (Multiannual Financial Framework) for 2028-2034, while several net contributory member states are pushing for substantial cuts. Investment growth could therefore either weaken as current programmes expire, or else remain strong if Lithuania benefits from an expanded EU budget. However, defence infrastructure and other public projects should in any case continue to provide support for the growth of investment and GDP.

Part of the recent spike in household consumption is temporary. Consumer spending is forecast to grow by 3.0% this year, as more funds have become available to households that took advantage of the option to withdraw from the second-pillar pension scheme. That has helped lift retail spending, particularly on non-food goods. However, the effect appears to have been smaller than initially expected, as households chose to save a substantial share of the funds withdrawn. This impulse to private consumption will fade in the second half of 2026 and in 2027, but over the next few years household spending should build momentum again, as real incomes continue to rise and inflation eases.

Inflation has picked up again markedly, mainly because of higher energy prices linked to the Middle East conflict. HICP inflation is expected to end up at 5.1% in 2026, which is higher than in the rest of the euro area. This is predominantly energy driven: oil prices remain substantially above their 2025 average, while euro-area gas prices are more than 60% higher. In addition, strong wage growth continues to sustain domestic price pressures. The expected decline in inflation in 2027-2028 will depend crucially on a normalisation of global energy prices. Protracted conflict in the Middle East is one of the clearest risks to inflation and GDP growth.

Defence spending has become one of the central features of Lithuania's fiscal and economic outlook. The 2026 budget allocates around **EUR 4.8bn (5.38% of GDP) to defence**, following the commitment to spend at least 5% of GDP on defence in 2026-2030. Much of the additional expenditure is directed towards military equipment and infrastructure, including training grounds, barracks and preparations for the German brigade, which is due to be fully established by 2027. This provides a substantial short-term stimulus to construction, infrastructure and related industries, but also increases the pressure on public finances.

The general government deficit is forecast to widen from 2.3% of GDP in 2026 to 2.8% in 2027 and 3.4% in 2028. Meanwhile, the government debt is projected to rise from around **45% to 51% of GDP**. Although this remains relatively moderate by EU standards, Lithuania's fiscal space is becoming noticeably narrower. Lithuania is thus moving from a relatively comfortable fiscal position towards a more constrained one, as spending on defence, infrastructure and social needs is all rising at the same time. The medium-term challenge will therefore be to preserve the growth benefits of higher public investment, without allowing permanent expenditure commitments to weaken fiscal sustainability.

The labour market remains tight, despite unemployment of around 6.5-7%. Wage growth has picked up again in 2026 across the economy, though it is strongest in areas where labour shortages are most acute: public administration and defence. Manufacturing employers are also reporting persistent shortages of skilled workers, particularly construction workers, and electrical and mechanical engineering technicians. This labour-market tightness is likely to persist. The working-age population is shrinking, and net migration is no longer adding to labour supply as much as it did in previous years. Net migration remains positive, but there are more foreign nationals now arriving in the country, while the influx of returning Lithuanian citizens has declined sharply. As a result, wage growth is forecast to remain strong, even as GDP growth moderates. The key medium-term risk is that wage growth will continue to outpace productivity, which would gradually weaken cost competitiveness and place additional pressure on services inflation.

On the external front, both exports and imports are recovering. Exports should benefit from the gradual improvement in global and euro-area trade, with real exports projected to grow by 4.8% in 2026 and 3.6% in both 2027 and 2028. Imports have been rising even faster in 2026, at 7.8%, reflecting strong investment, household demand and higher energy costs. However, the figure should moderate to 3.2% in 2027 and 3.8% in 2028. As a result, the current account is projected to move from a small surplus in 2025 to a deficit of around **1% of GDP in 2026**, before narrowing gradually in 2027-2028. The latter improvement assumes stronger foreign demand and easing energy import prices.

Table 3.12 / Lithuania: Selected economic indicators

	2022	2023	2024	2025	2026	2027	2028
					Forecast		
Population, th pers., average	2,832	2,872	2,888	2,889	2,920	2,930	2,930
Gross domestic product, EUR m, nom.	65,590	75,539	79,793	85,112	91,830	97,190	103,300
annual change in % (real)	1.2	2.9	3.0	3.0	2.8	2.5	3.1
GDP/capita (EUR at PPP)	30,570	33,470	35,290	36,540			
Consumption of households, EUR m, nom.	38,277	41,489	43,317	45,799			
annual change in % (real)	6.3	-4.5	4.0	4.2	4.9	1.2	3.4
Gross fixed capital form., EUR m, nom.	15,050	17,701	17,705	19,330			
annual change in % (real)	6.8	10.4	-2.1	6.6	5.7	3.1	3.7
Gross industrial production (sales)							
annual change in % (real)	5.5	-5.3	4.0	3.3	5.8	5.0	5.2
Gross agricultural production							
annual change in % (real)	8.7	-4.8	4.4	1.3			
Construction output							
annual change in % (real)	4.6	12.3	6.3	2.2			
Employed persons, LFS, th, average	1,421	1,441	1,464	1,463	1,460	1,460	1,460
annual change in %	3.8	1.4	1.6	-0.1	0.1	-0.3	-0.3
Unemployed persons, LFS, th, average	90	106	112	108	105	103	103
Unemployment rate, LFS, in %, average	6.0	6.9	7.1	6.9	6.7	6.6	6.6
Average monthly gross wages, EUR	1,789	2,014	2,223	2,411	2,770	3,060	3,340
annual change in % (real, gross)	-5.4	3.2	9.6	4.5	9.4	7.2	6.5
Average monthly net wages, EUR	1,121	1,249	1,368	1,475	1,680	1,840	1,990
annual change in % (real, net)	-6.5	2.1	8.7	3.9	8.6	6.3	5.5
Consumer prices (HICP), % p.a.	18.9	8.7	0.9	3.4	5.1	3.1	2.6
Producer prices in industry, % p.a.	26.1	-2.4	-2.4	-1.9	2.6	3.0	3.0
General governm. budget, EUdef., % of GDP							
Revenues	36.6	35.9	37.8	39.0	40.4	40.6	40.3
Expenditures	37.4	36.6	39.0	40.8	42.7	43.4	43.7
Net lending (+) / net borrowing (-)	-0.7	-0.7	-1.3	-1.8	-2.3	-2.8	-3.4
General gov. gross debt, EU def., % of GDP	39.2	36.5	37.6	39.1	44.9	48.9	50.9
Stock of loans of non-fin. private sector, % p.a.	14.0	5.4	11.6	15.9			
Non-performing loans (NPL), in %, eop	0.5	0.6	0.5	0.4			
Central bank policy rate, % p.a., eop	2.50	4.50	3.00	2.00	2.75	2.75	2.25
Current account, EUR m	-4,869	-586	1,296	-858	-1,830	-1,710	-1,720
Current account, % of GDP	-7.4	-0.8	1.6	-1.0	-2.0	-1.8	-1.7
Exports of goods, BOP, EUR m	40,739	35,912	35,246	35,131	37,730	39,810	41,800
annual change in %	31.3	-11.9	-1.9	-0.3	7.4	5.5	5.0
Imports of goods, BOP, EUR m	48,779	41,732	41,031	42,812	46,320	48,590	50,920
annual change in %	41.1	-14.4	-1.7	4.3	8.2	4.9	4.8
Exports of services, BOP, EUR m	17,412	19,825	22,493	25,530	27,110	28,660	30,010
annual change in %	28.3	13.9	13.5	13.5	6.2	5.7	4.7
Imports of services, BOP, EUR m	11,480	12,396	13,620	15,461	17,700	18,390	19,110
annual change in %	40.9	8.0	9.9	13.5	14.5	3.9	3.9
FDI liabilities, EUR m	2,291	3,548	4,338	3,386	2,592		
FDI assets, EUR m	-785	2,228	730	233	192		
Gross reserves of CB excl. gold, EUR m	4,715	5,252	6,682	5,347			
Gross external debt, EUR m	45,043	51,079	61,161	78,344	90,180	99,810	107,850
Gross external debt, % of GDP	68.7	67.6	76.7	92.0	98.2	102.7	104.4

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