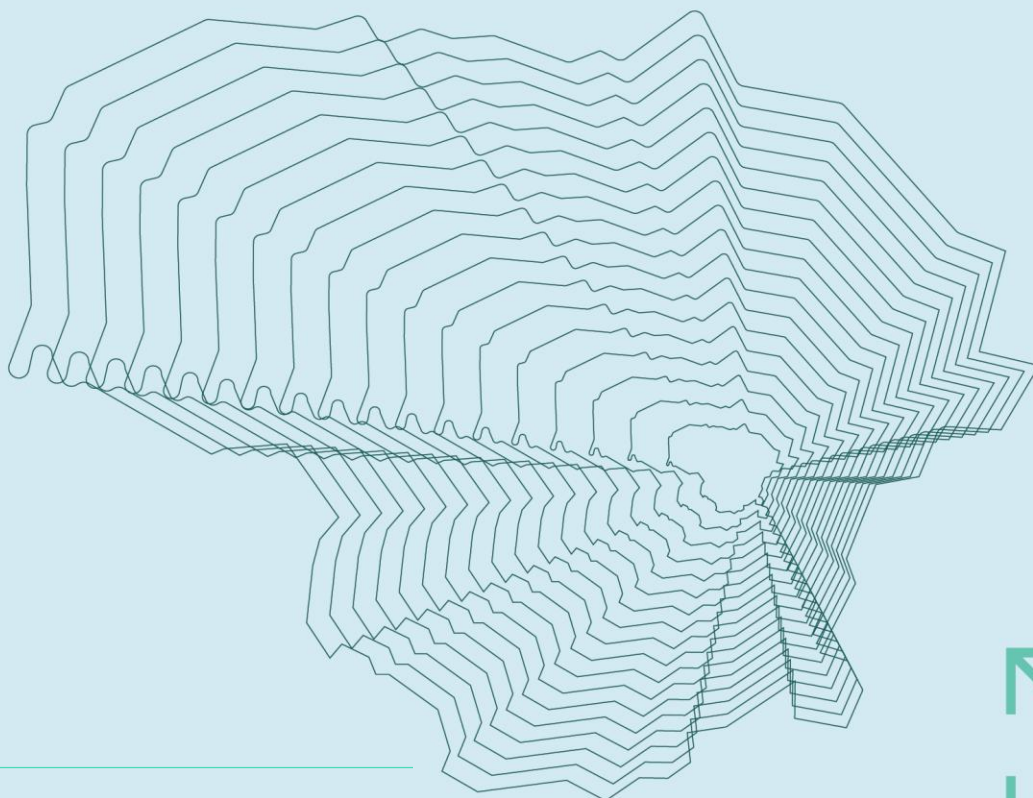
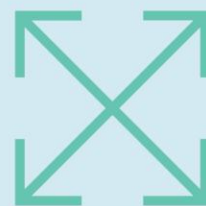


Lithuanian Economic Review



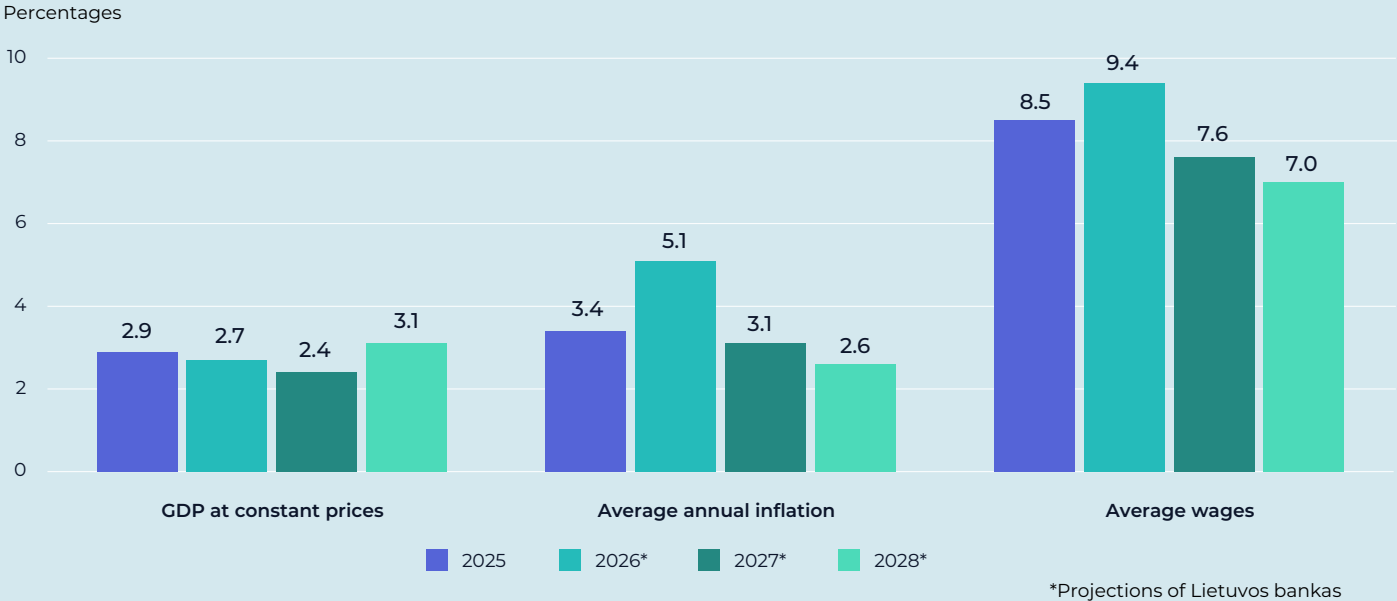
September 2026



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Despite the energy price shock, the Lithuanian economy remains resilient and stable: in the first half of 2026, it grew by more than 3%, with its growth rate among the highest in the EU.



Most relevant risks

As the conflict in the Middle East continues, geopolitical tensions and uncertainty about the future remain high.

Energy prices are highly volatile: if they were to stabilise at a higher level, inflationary pressures would persist for longer, while economic growth would be slower.

Economic activity

The Lithuanian economy is able to adapt to the economic shocks it has faced: in the first half of 2026, economic growth picked up to 3.3%.

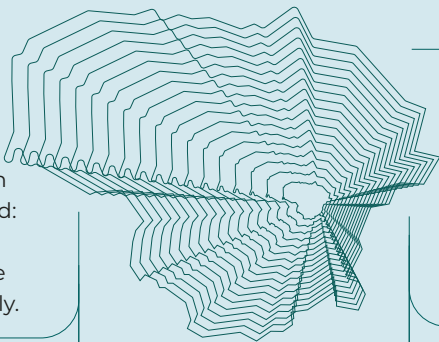
In the future, the economy will continue to grow: consumption will be supported by rising purchasing power of the population, investment – by the implementation of EU-funded projects and increasing defence spending, and exports – by gradually rising foreign demand.

Labour market

In the first half of 2026, the situation on the Lithuanian labour market improved: following last year's stagnation, employment began to rise again, while unemployment contracted significantly.

As the labour market situation improved, wage growth accelerated to 10.1% in the second quarter of 2026.

In the short term, the labour market situation will remain favourable for employees: in 2026, wages will go up by 9.4%.



Inflation

Energy prices, affected by the war in the Middle East, were the main driver behind the rise in price level, with annual inflation in Lithuania going over the 5% mark between May and August.

Rapid wage growth also contributed to price increases, particularly in services. Annual inflation was dampened only by falling food prices.

Inflation will remain elevated in 2026 but is expected to moderate in subsequent years as energy prices decline, wage growth slows down and tax increases become more limited.

Lithuania's economic development and outlook

15 September 2026

Global economic growth forecasts are revised only marginally; they continue to be shaped by both positive and negative factors. Military activity in the Middle East has subsided from the levels seen in spring 2026; however, it continues to weigh on economic activity in a number of countries. Global oil prices remain below the peaks recorded between March and May 2026; however, in US dollar terms, they are still almost one-third higher than the 2025 average. Global natural gas markets are less interconnected, therefore their development across regions is rather different. In the euro area, Lithuania's most important market, gas prices in euro terms are more than 60% higher than the 2025 average. The impact of higher energy commodity prices, supply disruptions, and heightened uncertainty is partly offset by stronger global demand for information technology products, driven by the increasing use of artificial intelligence across sectors and countries. These products are manufactured predominantly in Asian economies¹, even leading to upward revisions to their economic growth forecasts. This information technology cycle has partly resulted in exports of goods from advanced Asian economies (excluding Japan) and emerging Asian economies (excluding China) being 24.5% and 10.6% higher, respectively, in January–April this year than in the corresponding period a year earlier². The shift in demand for information technology products is also benefiting manufacturing and services companies in other regions: as a result, sentiments reflected in purchasing managers' indices have improved not only in Asian economies but also in the United States and the euro area. According to recent surveys of euro area manufacturing purchasing managers, manufacturing activity is at its strongest since the first half of 2022, i. e. the launch of the wide-scale war in Ukraine. Against this backdrop, the global economy is expected to grow more moderately in 2026–2028 than it has in recent years; however, growth forecasts are revised only marginally.

Economic activity in Lithuania is expanding at a solid pace; however, developments vary considerably across sectors. Manufacturing output expanded notably in the first half of 2026. This was likely supported by stronger global international trade and efforts to boost production amid concerns that the ongoing conflict in the Middle East could lead to higher prices for a range of commodities. Among the major industrial branches, the strongest growth was recorded in the manufacture of rubber and plastic products, as well as wood products and furniture. Notably, manufacturing output as a whole has continued to grow at, or even above, its long-term rate. Construction activity has also increased significantly. European Union (EU) co-financed projects have contributed to a marked expansion of civil engineering activity. Residential and non-residential construction also increased. Retail trade activity has likewise picked up in recent months. Following the introduction of the option for households to withdraw and use funds accumulated in the second-pillar pension funds, retail trade has been growing above its previous trend since March this year. The strongest increase was recorded in sales of non-food products, including audio, video, information and communication equipment, clothing and footwear, and furniture. Retail trade in food, and food and beverage service activities were affected to a much lesser extent. By contrast, growth in some business services slowed. This was particularly evident in the information and communication, and professional, scientific and technical services sectors.

Sustained economic growth has supported employment and strengthened the bargaining power of both workers and jobseekers. The unemployment rate stood at 6.8% in the first half of 2026. It was around 0.3 percentage point lower than the average over the previous six years, a period characterised by greater volatility in economic activity. Unemployment declined in urban areas, among both women and men, as well as among the most active population (aged 25–64). This reflected growing labour demand, favourable employment opportunities and persistent labour shortages, which strengthened the bargaining power of both employees and

¹ Largest production of these goods is recorded in South Korea, Malaysia, Taiwan, and Thailand.

² The figures are based on data from the Netherlands Bureau for Economic Policy Analysis, which, at the time of drafting, were available up to April 2026.

jobseekers. The shortage of workers has been further exacerbated by the decline in the working-age population. Domestic demographic trends remain negative, while net international migration is less positive compared with a few years ago³. In the first seven months of this year, net international migration was slightly more positive than a year earlier, albeit without materially altering the overall picture. Notably, compared to last year, a greater positive contribution to the international migration balance this year was made by foreign nationals, while net migration of Lithuanian citizens declined from 7.2 thousand to 0.9 thousand⁴, reflecting both higher emigration and lower immigration among Lithuanian citizens. Wage developments also point to strong bargaining power on the part of workers. Although the economy continues to face a range of shocks, including heightened geopolitical uncertainty, changes in international trade policies, significant fluctuations in commodity prices and supply chain disruptions, and the labour share has reached a historical high, exceeding both the euro area and EU averages, wage growth remains robust and has slowed only marginally. For around three years, quarter-on-quarter growth in private sector wages has remained close to 2.2%⁵, while annual growth has been close to 8.9% for approximately two years. With labour productivity lagging behind wage growth, the labour share has continued to increase.

The economy is expected to continue growing gradually, albeit with potentially significant short-term fluctuations. Rising household income, the absorption of EU funds and strengthening external demand are expected to support economic activity in the coming quarters. This will be further supported by renewed improvement in consumer sentiment and by overall confidence across economic sectors remaining at a relatively favourable level, close to its long-term average. However, unlike in recent months, a significant additional boost to private consumption is unlikely, as households intending to spend their withdrawals from the second-pillar pension funds have probably already used a substantial share of them. The use of those funds in the future cannot be ruled out; however, they are unlikely to provide a significant additional support to domestic demand in the near term. Owing to base effect, the impact may even turn negative in the second half of 2026 and in 2027. Households' financial situation remains relatively strong; for a prolonged period of time, household income has exceeded expenditure, while the saving rate has stayed markedly elevated. As a result, withdrawals from the second-pillar pension funds have been used for consumption only to a limited extent, and less than previously expected. However, some of these funds may be spent later, as the impact of higher prices becomes more pronounced, for example in late autumn and winter, when households pay their heating bills. However, as noted above, this will not provide an additional boost to private consumption but will rather help cushion the impact of higher prices. Investment expenditure is also expected to remain volatile. As projects financed under the Recovery and Resilience Facility are brought to completion and defence expenditure increases, investment growth is expected to be relatively higher this year before moderating over the remainder of forecast horizon. External demand is expected to exert a stronger stabilising effect on the economy. Rising investment in artificial intelligence, higher defence spending across a number of countries and the gradual decline in energy commodity prices are expected to support a steady expansion of global international trade and, consequently, demand for Lithuanian exports throughout the forecast period. Real GDP is projected to increase by 2.7% this year. In 2027, as the positive impact of withdrawals from the second-pillar pension funds fades and an adverse base effect comes into play, real GDP growth is expected to moderate to 2.4%. In 2028, as the economy returns to a more typical growth trajectory, real GDP is projected to grow by 3.1%.

Annual inflation is still rising, albeit at a slower pace. After a significant surge following the outbreak of the war in the Middle East, annual inflation in Lithuania continued to rise in recent months, albeit at a relatively slower pace. According to flash estimate, annual inflation stood at 5.8% in August. Energy prices, which were around one-fifth higher than a year earlier, made the largest contributor to inflation and accounted for the largest share of the overall inflation. Among energy products, fuel, wood-based fuel and heat energy recorded

³ Net immigration in Lithuania amounted to 72.1 thousand in 2022, 45.0 thousand in 2023, 23.1 thousand in 2024 and 16.8 thousand in 2025.

⁴ The comparison is based on the data of the first seven months of 2025 and 2026.

⁵ Based on seasonally adjusted data.

the largest year-on-year price increases⁶. Their development was influenced by oil prices that remained higher than before the outbreak of the war in the Middle East, elevated gas prices, the abolition of the reduced VAT rate on district heating and firewood, as well as stronger demand for wood-based fuel following a colder-than-usual heating season last year. Higher fuel prices also affected the evolution of service prices. Transport services were affected the most, with prices rising by around 10% year-on-year in recent months and contributing substantially to the acceleration in overall services inflation, which reached 6.6% in July. Price growth for industrial goods has also picked up slightly in recent months, reaching 1.1% in July. These trends were driven by increased price pressures along the production chain. While imported durable consumer goods remained cheaper than a year earlier, rising prices of imported intermediate goods contributed to domestic industrial producer price inflation accelerating to around 5%. The increase in prices across the aforementioned groups of goods and services was partly offset by slower year-on-year growth in food prices. Owing to easing supply chain pressures, food products, excluding alcohol and tobacco, have recently been already cheaper than a year earlier.

Inflation will remain elevated this year, but it is expected to moderate in the years ahead. Annual inflation is expected to rise further in the remaining months of this year, with average annual inflation projected to reach 5.1% this year. Energy is expected to be the main component driving inflation, in contrast to previous years. In the subsequent years, average annual inflation will decline, reaching 3.1% in 2027 and 2.6% in 2028, mainly due to falling energy prices, lower tax increases and slower growth of wages.

⁶ In July, fuel and wood-based fuel prices increased by one quarter, while heat energy prices increased by more than 40%.

Outlook for Lithuania's economy

	September 2026 projection ^a			June 2026 projection		
	2026 ^b	2027 ^b	2028 ^b	2026 ^b	2027 ^b	2028 ^b
Price and cost developments (% , annual percentage change)						
Average annual HICP inflation ^e	5.1	3.1	2.6	5.1	3.0	2.6
GDP deflator ^c	5.0	3.3	3.1	4.2	3.1	3.0
Wages	9.4	7.6	7.0	8.7	6.9	7.2
Import deflator ^c	5.9	3.6	1.3	7.5	2.4	1.3
Export deflator ^c	6.3	3.0	1.8	6.8	1.9	1.5
Economic activity (constant prices; % , annual percentage change)						
GDP ^c	2.7	2.4	3.1	2.7	2.0	3.3
Private consumption expenditure ^c	3.0	1.0	3.0	4.1	-0.2	4.6
General government consumption expenditure ^c	0.4	0.4	0.4	0.2	0.4	0.4
Gross fixed capital formation ^c	8.2	5.7	5.1	10.1	3.7	4.6
Exports of goods and services ^c	4.8	3.6	3.6	0.4	3.6	3.7
Imports of goods and services ^c	7.8	2.6	3.8	3.9	2.5	4.6
Labour market						
Unemployment rate (annual average as a percentage of labour force)	6.7	6.6	6.6	6.8	6.7	6.6
Employment (% , annual percentage change) ^d	0.1	-0.3	-0.3	0.3	-0.3	-0.2
External sector (% , percentage of GDP)						
Balance of goods and services	2.3	2.5	2.7	1.0	1.5	1.0
Current account balance	-1.0	-0.8	-0.7	-1.9	-1.6	-2.4
Current and capital account balance	1.1	0.2	0.3	0.5	-0.5	-1.5

^a The macroeconomic projections are based on external assumptions, constructed using information made available by 19 August 2026, and other data and information made available by 1 September 2026.

^b Projection.

^c Adjusted for seasonal and workday effects.

^d National accounts data; the number of employed persons is defined based on the domestic concept.

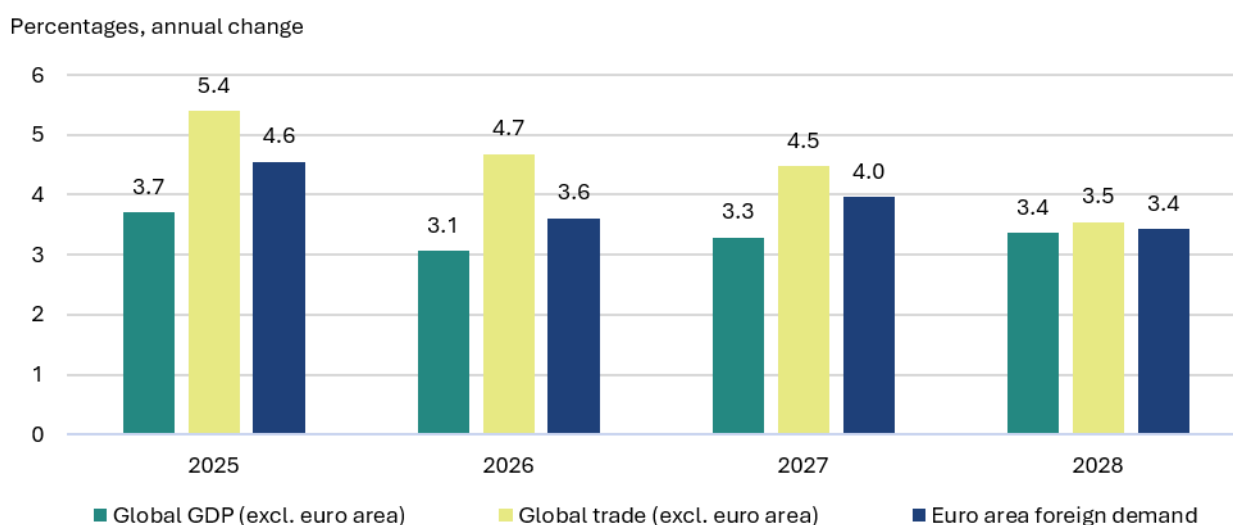
^e Harmonised Index of Consumer Prices.

1. International environment

The global economy has so far weathered the energy price shock triggered by the war in Iran better than expected but its growth will remain moderate. Global GDP growth, which stood at 3.5% in 2025, is expected to slow to 3.0% this year before picking up again to 3.4% in 2027.⁷ The negative impact of the war in the Middle East has been partly offset by the growing expansion of the technology sector driven by the accelerating adoption of artificial intelligence (AI). Although global economic activity has slowed, international trade and foreign demand for euro area goods have remained resilient and are expected to grow significantly faster than the global economy (see Chart 1). On the other hand, higher energy and food commodity prices will push global headline inflation to 4.7% in 2026 before it declines to 3.9% in 2027.

The growth of international trade and euro area foreign demand will slow slightly but will remain robust.

Chart 1. Growth of global trade, euro area foreign demand and global GDP



Source: ECB.

The US economy continues to grow at a fairly rapid pace, with growth supported by private consumption and rising investment in AI infrastructure. The US GDP is projected to grow by 2.3% in 2026 and 2.2% in 2027.⁸ Economic activity will be supported by fiscal policy, favourable financing conditions, effect of the previous cycle of interest rate cuts, high labour productivity and investment in technology.⁹ Although the impact of the war in the Middle East on the US economy is expected to be less severe than in the EU and South-East Asia, its consequences, combined with trade restrictions, will have a negative effect on Lithuania's economic development. Inflation will ease only gradually, as the weakening impact of energy prices will be partly offset by resilient demand and higher AI-related import prices, with core inflation projected to approach the 2% target only by the end of 2027.

China's economic growth model remains one of the most unbalanced in the world: growth is underpinned by resilient exports and rising investment in AI infrastructure but is held back by sluggish domestic demand. China's GDP growth is projected to slow to 4.6% this year and to 4.1% in 2027¹⁰ due to weak domestic demand and structural factors (ongoing downturn in the RE market, shrinking labour supply and slower growth

⁷ Macroeconomic projections of the IMF, July 2026.

⁸ Ibid.

⁹ It is estimated that AI-related investment boosted GDP growth in the USA by around 0.5 percentage points in 2025 (macroeconomic projections of the IMF, April 2026).

¹⁰ Macroeconomic projections of the IMF, July 2026.

of labour productivity). In the near term, economic growth will be supported by fiscal stimulus measures and lower than expected¹¹ US tariffs on Chinese imports. Furthermore, the decline in exports to the US will continue to be partly offset by a redirection of trade flows to other Asian countries, Africa and Europe. Inflation is expected to rise gradually, but the impact of elevated oil prices on consumer prices in China remains limited due to fuel price controls, excess production capacity, accumulated oil reserves and alternative energy sources.

The euro area economy will remain resilient: despite high energy costs and challenges to export competitiveness, moderate growth will be underpinned by a recovery in domestic demand. Euro area GDP growth is projected to slow from 1.3% in 2025 to 0.9% in 2026, before picking up again to 1.4% in 2027.¹² This year, private consumption and investment will grow more slowly due to rising energy prices and increased uncertainty, but domestic demand should subsequently be supported by recovering real incomes, resilient labour market, higher government spending on infrastructure and defence (particularly in Germany) and investment in AI. Headline inflation is expected to rise to 3.0% in 2026 due to the energy price shock, before falling to 2.5% in 2027.

Economic recovery in Germany, the euro area's largest economy and Lithuania's major trading partner, is expected to be slow, as the energy shock will dampen domestic demand in the near term, while growth will be supported largely by expansionary fiscal stance. GDP is projected to rise to 0.7% in 2026 and 1.0% in 2027.¹³ German exports will be outpaced by Germany's major export markets; consequently, the country's share of the global export market will continue to decline due to structural competitiveness issues. Private consumption will be constrained by slower growth in real wages and a rising savings rate, while business investment will be held back by uncertainty and tighter financing conditions. In 2026–2027, growth will be significantly boosted by expansionary fiscal stance, particularly rising defence and infrastructure spending. Due to higher energy prices, inflation will rise to 2.9% in 2026, before falling to 2.7% in 2027.¹⁴

Poland, Lithuania's second-major trading partner, is expected to remain one of the fastest-growing economies in the EU – it's growth will be underpinned by investment driven by the intensive absorption of EU funds and expansionary fiscal policy, which will lead to a rapid increase in public sector debt. GDP is expected to grow by 3.7% in 2026 and 2.8% in 2027.¹⁵ Private consumption will remain an important driver of growth: it will grow more slowly due to higher inflation and slower growth in real incomes, but this impact will be partly offset by a decline in the historically high savings rate. Next year, as the absorption of EU funds declines, investment and economic growth will slow, although the negative impact of the energy price shock will gradually fade. Headline inflation is expected to stand at 2.9% in 2026 and to fall to 2.7% in 2027 as cost and wage pressures ease.

The economies of Latvia and Estonia will grow moderately. Latvia's GDP is expected to be 2.0% in 2026 and 2.4% in 2027.¹⁶ The negative impact of external shocks will be partly offset by investment in defence and production of dual-use goods as well as other major public projects; however, faster growth will be constrained by weaker external demand and increased caution by households and private investors. Headline inflation is projected to be at 3.6% in 2026 and 3.8% in 2027. In the near future, Estonia's growth will be driven mainly by strong domestic demand on the back of expansionary fiscal stance. GDP is expected to grow by 2.4% in 2026 and 2.5% in 2027; however, the rapidly rising general government deficit, which is set to reach around 4.2% of

¹¹ A year ago, the ECB's projections for the international environment assumed an effective US tariff rate of 18.7%; however, following the reduction of some tariffs and exemptions for certain goods, the rate fell to 13.4%, even taking into account the new tariffs introduced in July (ECB's projections for the international environment, September 2026).

¹² Macroeconomic projections of the ECB, September 2026.

¹³ Macroeconomic projections of the IMF, July 2026.

¹⁴ Macroeconomic projections of Deutsche Bundesbank, June 2026.

¹⁵ Macroeconomic projections of Narodowy Bank Polski, July 2026.

¹⁶ Macroeconomic projections of Latvijas Banka, June 2026.

GDP in 2026, and still sluggish private investment pose risks to more sustainable growth.¹⁷ Headline inflation is expected to be 3.4% in 2026 and fall to 2.7% in 2027.

2. Real sector

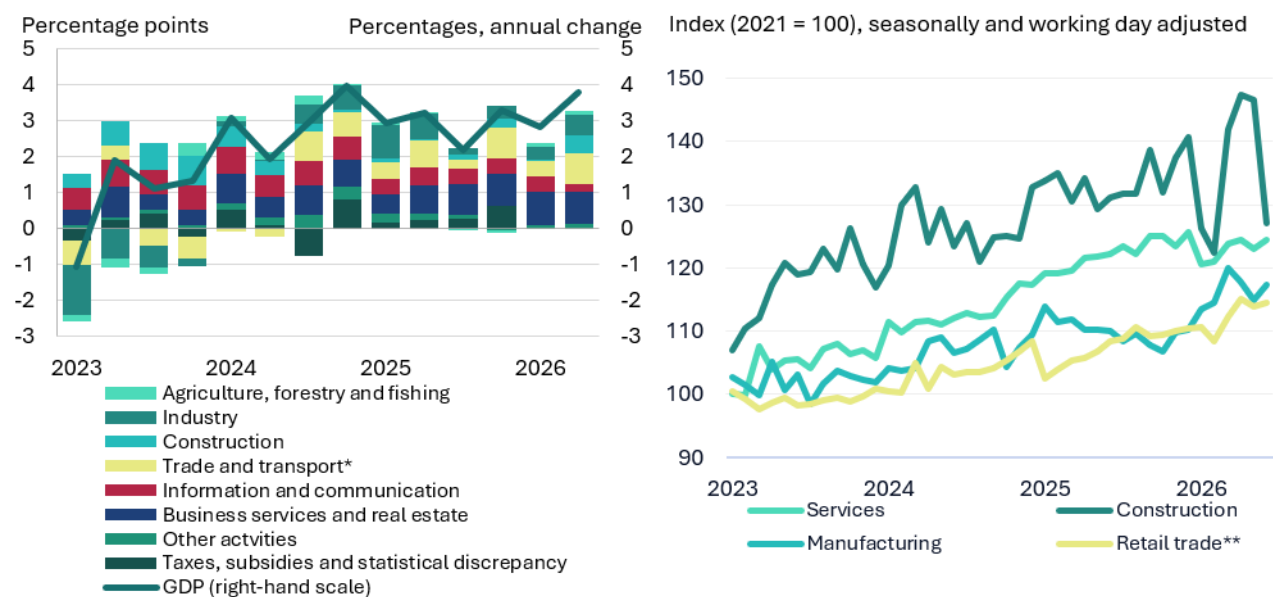
In the first half of 2026, economic growth in Lithuania was uneven: a slowdown was recorded in the first quarter, while the second quarter saw robust growth. The quarter-on quarter change was negative at -0.1% in the first quarter and -1.7% in the second quarter; annual growth stood at 2.8% and 3.8% respectively (see Chart 2). In the first half of 2026, annual GDP growth stood at 3.3%. The main contributors to growth in the first half of the year were trade, transport, accommodation and catering services, manufacturing and construction, with construction of civil engineering works growing particularly rapidly. Growth in the latter was likely driven by increased public sector investment in infrastructure, including defence infrastructure. Meanwhile, growth in the information and communications sector was more moderate. Quarter-on-quarter growth in this sector was negative in the first quarter, at -0.4%, and around -0.01% in the second quarter, although annual growth stood at 7.3% and 4% respectively. Business sentiment among firms in the services sector improved, with the current business landscape viewed more favourably and expectations regarding external demand improving.

Industrial output rose by 2.5% year-on-year in the first half of this year. Industrial output grew rapidly in the first quarter, by 6.9% quarter on quarter and 3.3% year on year, but in the second quarter, quarter-on-quarter growth turned slightly negative (-0.3%), although year-on-year growth remained robust at 5.2%. Among the industrial sectors, petroleum products contributed most to growth over the six months as their production rose by more than 13% in the first quarter but contracted slightly in the second quarter (-1.5%). The chemical industry grew by 7.4% in the first quarter but fell by 9.2% in the second quarter, with output returning to its previous level, or even falling slightly below it. This mainly reflected a decline in fertiliser production. Due to high gas prices and the cost of emission allowances, fertiliser production in Lithuania has been running below capacity for some time. The future performance of fertiliser producers will depend on gas and fertiliser prices, which will be strongly affected by the situation in the Strait of Hormuz. Exports of goods grew in both quarters by 1.4 and 0.6% respectively. As regards the short-term outlook, confidence of manufacturing firms declined in the second quarter, with production expectations worsening and stocks of finished goods increasing; however, confidence and expectations improved slightly in July.

The main contributors to growth in the first half of the year were trade, transport, accommodation and catering services, manufacturing and construction.

¹⁷ Macroeconomic projections of Eesti Pank, June 2026.

Chart 2. GDP developments and contributions (by production approach, left-hand panel) and developments in manufacturing, retail trade, construction and services (right-hand panel)



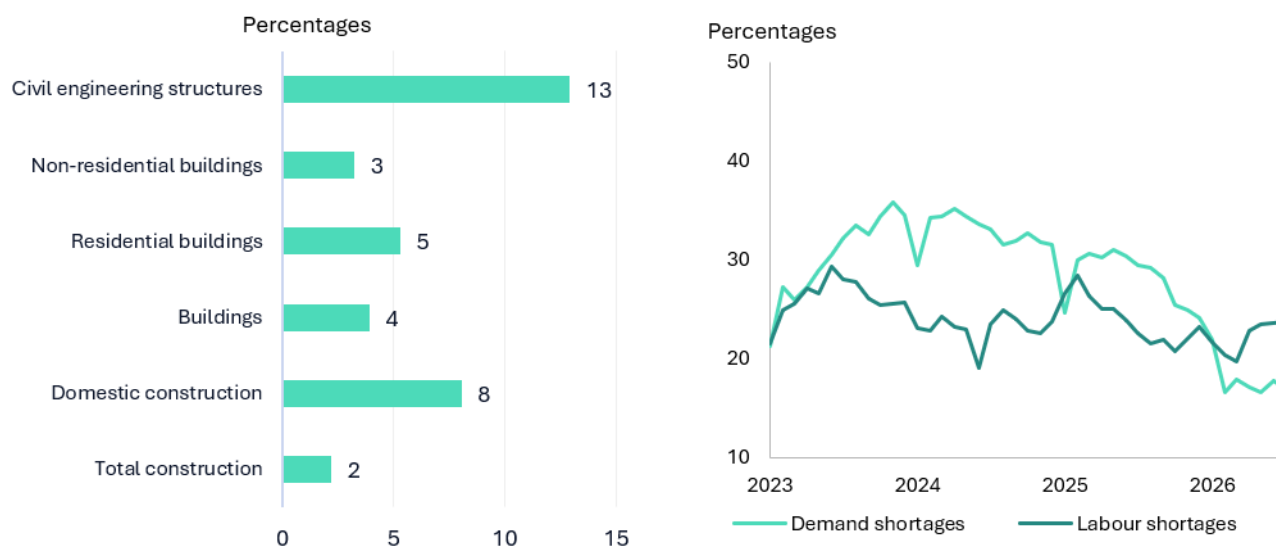
Sources: State Data Agency and Lietuvos bankas calculations.

* Including accommodation and catering services.

** Excluding trade in motor vehicles and motorcycles.

The performance of the construction sector differed significantly between the first and second quarters. In the first quarter, the sector contracted (quarter-on-quarter growth of -1.9%), but in the second quarter the construction sector recovered (quarter-on-quarter growth of 6.1%). In the first half of the year, compared to the same period last year, the volume of construction work in Lithuania increased by 8%, with the construction of civil engineering works growing particularly rapidly at 12.9%. The growth in the construction of civil engineering works was likely driven by increasing public sector investment in infrastructure, including defence infrastructure. Furthermore, an increasingly smaller proportion of construction firms report demand shortages (see Chart 3), which suggests that, once the labour shortage has been resolved, the construction sector should continue to grow.

Chart 3. Year-on-year changes in the construction sector for the second half of the year (left-hand panel) and constrains reported by construction firms (right-hand panel)

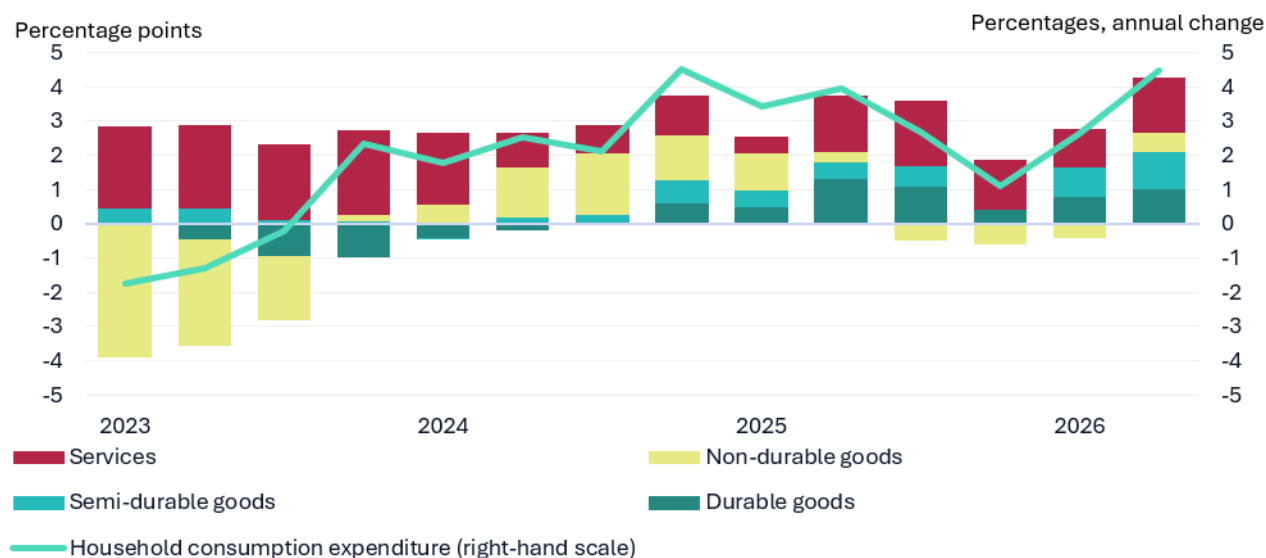


Sources: State Data Agency and Lietuvos bankas calculations.

Retail trade grew strongly in the second quarter, while market services grew more moderately. Retail turnover (excluding trade in motor vehicles) rose by 3.6% quarter on quarter and 7% year on year. Trade growth was supported by rising household purchasing power, as wages grew by 9.3% in the first quarter, and rising household consumption (see Chart 4), which was further bolstered by the 2nd pension pillar reform (for more see Box 3). Consumer confidence improved but confidence in the retail sector fell in May and continued to deteriorate in June, mainly due to a decline in expectations regarding business activity.

Overall, economic growth in the first half of 2026 was underpinned by rising purchasing power and household consumption.

Chart 4. Household consumption developments and contributions



Sources: State Data Agency and Lietuvos bankas calculations.

Investment remains a key driver of further economic growth and its outlook in 2026 is expected to be supported by higher public sector investment and recovering demand for investment from private firms.

Although the overall investment growth slowed in the first quarter, investment in the second quarter was supported by increased construction activity, particularly in civil engineering. Investment growth is expected to continue to accelerate, driven by higher public sector investment, including defence and infrastructure spending as well as the absorption of EU funds. Investment is forecast to grow by 8.2% in 2026, 5.7% in 2027, and 5.1% in 2028.

Looking at the bigger picture, economic growth should continue to be driven by domestic demand, particularly household consumption and investment. Consumption growth will be further boosted by withdrawals from the second pension pillar as data indicate that a large proportion of these funds has not yet been spent. Hence, the impact of the reform on consumption may still be felt in the coming quarters. The outlook for external demand is improving but the developments in the world economy remain subject to considerable uncertainty exacerbated by geopolitical tensions and risks relating to the supply of energy resources, including through the Strait of Hormuz. Real GDP is projected to grow by 2.7% in 2026 and by 2.4 and 3.1% in 2027 and 2028 respectively.

Box 1. Energy dependence of Lithuania's economy: a shift towards renewables and lower energy intensity

Prepared by Ernestas Virbickas

Following the outbreak of war in the Middle East, usual supply chains for energy commodities were disrupted and the prices of these commodities soared. Although a surge in inflation on the scale seen in 2022 is not expected, it is nevertheless important to examine how the energy dependence of the economies of Lithuania and other countries is changing and to what extent economies are becoming more resilient to energy price shocks. This box provides a more detailed overview of gross available energy^{18, 19} in Lithuania, neighbouring Baltic states and the whole EU, and discusses how the role of energy sources and energy intensity are changing.

A significant share of energy needed in Lithuania is imported, but the dependence on these imports is declining. In 2024, 66.0% of energy needs in Lithuania was met by imports (see Chart A)²⁰; the share of imported energy exceeded the EU average, which stood at 57.3% at the time, and also exceeded the relevant figures for Estonia and Latvia, which stood at 4.6%²¹ and 29.3% respectively. Historically, the highest share of imported energy in Lithuania's overall energy balance was recorded in 2010, when the Ignalina Nuclear Power Plant was decommissioned. In subsequent years, dependence on energy imports declined. Compared to 2021, that is the period prior to the previous energy crisis, the share of imported energy fell by about a tenth.

Two-thirds of energy needs in Lithuania are met by imports, but this dependence is declining.

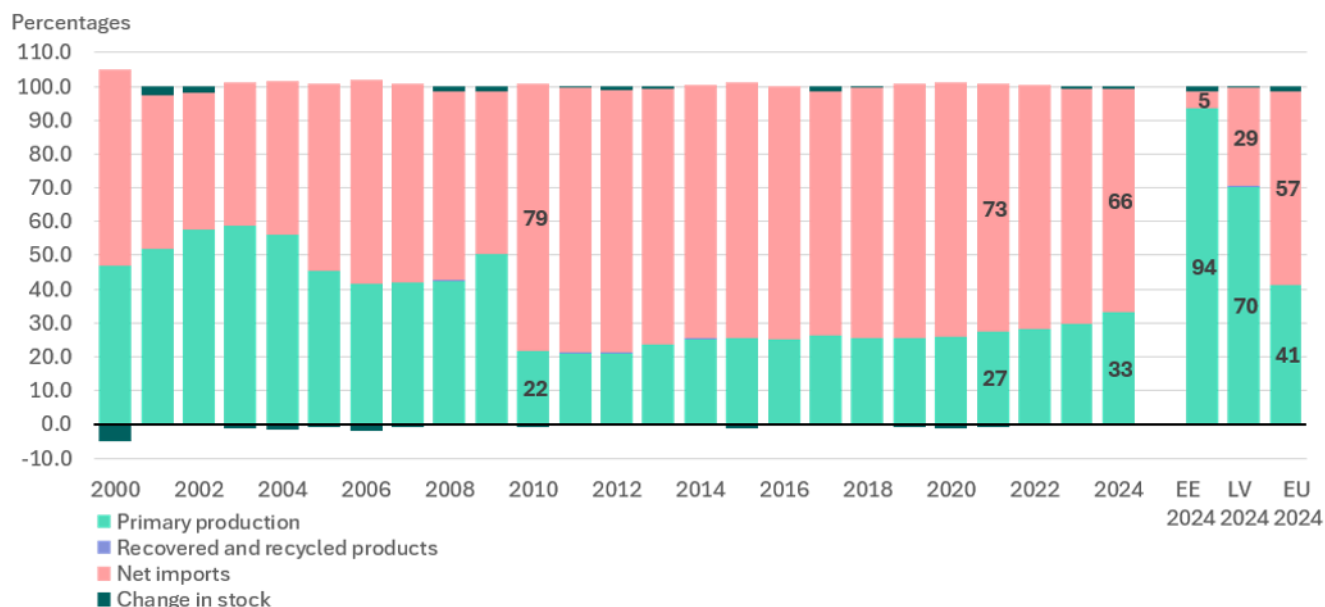
¹⁸ This box is based on data on energy from different sources, measured in tonnes of oil equivalent.

¹⁹ Gross available energy is not the same as the energy consumed as some energy is lost, for instance, during the production and supply of energy products.

²⁰ At the time of drafting this review, data on energy supply were only available up to and including 2024.

²¹ The fact that the share of imported energy in Estonia is so low does not mean that the country's imports of all the main energy commodities and products are low. Estonia imports quite a lot of petroleum products for domestic needs, while also exports a considerable amount of energy products generated from sources such as wind, solar energy and oil shale.

Chart A. Structure of gross available energy by energy origin in Lithuania, other Baltic states and EU as a whole



Sources: Eurostat and Lietuvos bankas calculations.

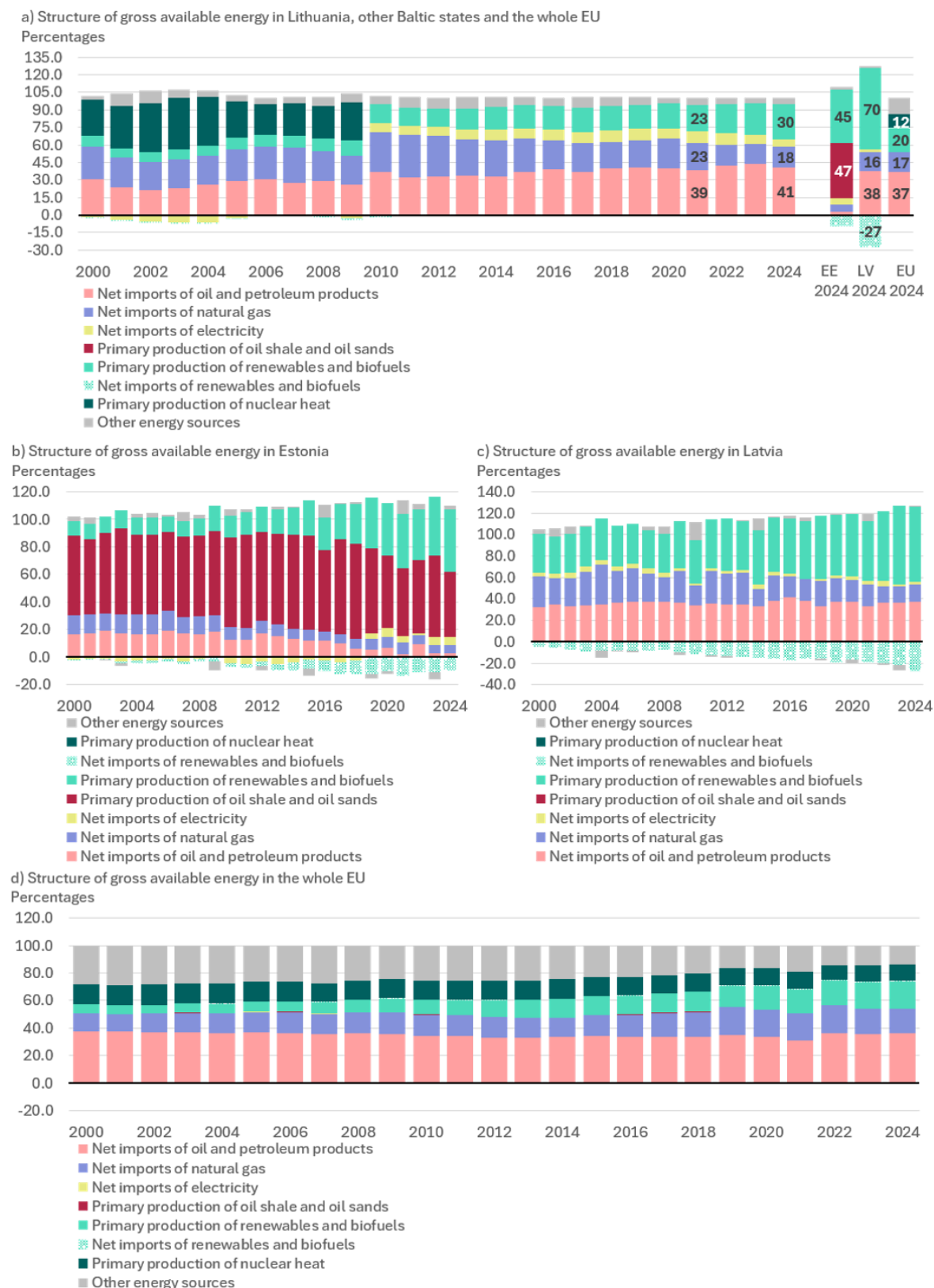
Note: Calculations are based on data on energy from various sources, measured in tonnes of oil equivalent; net imports are calculated as the difference between energy imports and exports.

Renewables are becoming increasingly important. In the overall energy balance, energy produced from renewable sources and biofuel accounted for 29.9% in Lithuania in 2024 (see Chart B, panel a). With increasing investment in wind and solar power stations and extensive use of biofuel, the share of energy from renewable sources and biofuel is rising steadily and already is well above the EU average of 19.8%. Compared to 2021, the period before the previous energy crisis, this share has increased by almost a third in Lithuania. At the same time, dependence on imported natural gas is decreasing. Its share of Lithuania's total energy mix stood at 17.7% in 2024. This is roughly half the share of natural gas in gross available energy compared to the historical high reached following the decommissioning of the Ignalina Nuclear Power Plant. Compared to 2021, the share of natural gas fell by almost a quarter. As the country increasingly relies on domestically generated electricity, its dependence on imported electricity is also declining. Its share of Lithuania's total energy mix stood at a mere 6.1% in 2024. Similar trends have also been seen in the neighbouring Baltic states. In Estonia, renewable energy sources are becoming increasingly important (energy generated from renewable sources and biofuel accounted for as much as 45.4% of Estonia's total energy mix in 2024), while dependence on imported natural gas is steadily decreasing (see Chart B, panel b). The importance of oil shale production has also declined slightly in this country. Latvia stands out for its particularly high share of energy generated from renewable sources and biofuel: in 2024, this accounted for 69.9% of gross available energy (see Chart B, panel c). A significant share of this energy was exported. Like the other Baltic states, Latvia is also steadily reducing its dependence on imported natural gas. The use of solid fossil fuels in the Baltic states is limited compared with some other EU countries. In 2024, imports of solid fossil fuels in Estonia, Latvia and Lithuania accounted for merely 0.0%, 0.1% and 1.2% respectively of gross available energy²². By way of comparison: in 2024, imports of this fuel in the whole EU accounted for 2.9% and its production for 5.1% of gross available energy.

Renewables are becoming increasingly important in Lithuania, while dependence on imported gas and imported electricity is declining.

²² In Chart B, production and imports of solid fossil fuels are classified under 'Other energy sources'.

Chart B. Structure of gross available energy by product type and origin in Lithuania, other Baltic states and EU as a whole



Sources: Eurostat and Lietuvos bankas calculations.

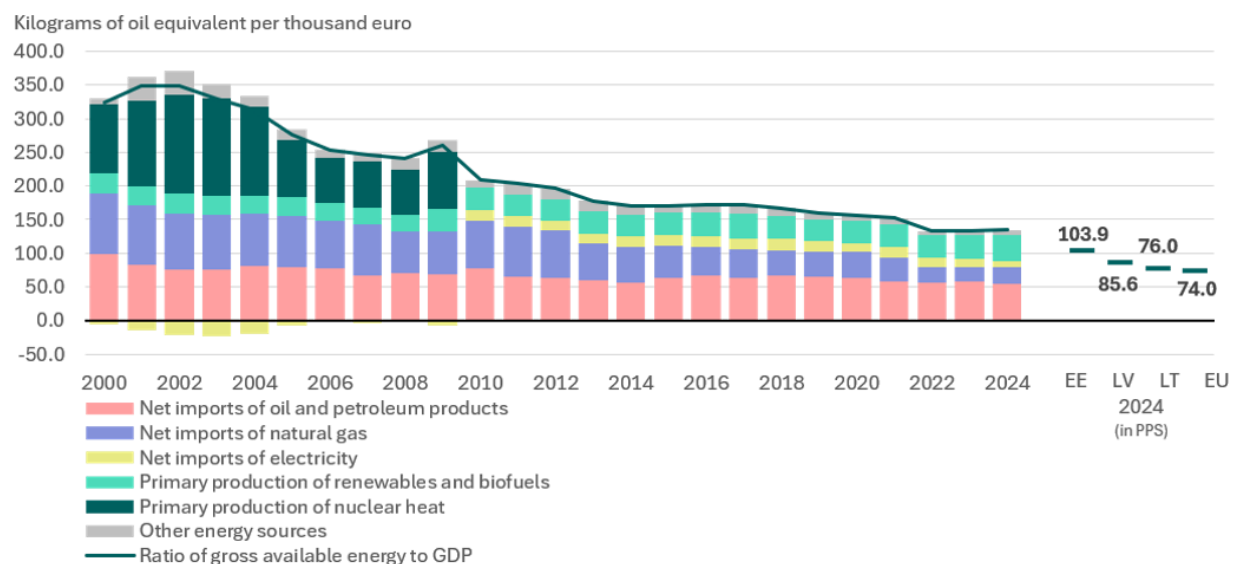
Note: Calculations are based on data on energy from various sources, measured in tonnes of oil equivalent; net imports are calculated as the difference between energy imports and exports.

Economy's resilience is enhanced by declining energy intensity. The ratio of gross available energy (measured in real units: tonnes of oil equivalent) to real GDP in Lithuania has been falling steadily (see Chart C). In other words, an increasingly smaller amount of energy is needed to generate one unit of real GDP. Admittedly, energy intensity in Lithuania is slightly higher than the EU average but lower than in the neighbouring Baltic states²³. The main factors contributing to this downward trend are the declining dependence on imported gas and imported electricity. The contribution of oil and petroleum products is also declining slightly; i. e. dynamics of net imports of oil and petroleum products is outpaced by overall economic growth. Compared to 2021, that is the period prior to the previous energy crisis, the ratio of gross available energy to real GDP fell by about a tenth in Lithuania.

Positive trends in the energy sector are also observed at the EU level, which has a favourable impact on Lithuania's tradable sector. At the EU level, there is a consistent shift towards renewable energy sources; the importance of imported and domestically produced natural gas is declining, as is the role of imported and domestically produced solid fossil fuels (see Chart B, panel d). Energy intensity is gradually declining at the EU level.

In Lithuania, energy intensity is falling, with an increasingly smaller amount of energy being used to generate one unit of real GDP.

Chart C. Energy intensity (ratio of gross available energy to real GDP) in Lithuania and energy intensity in the Baltic states and EU as a whole, in PPS



Sources: Eurostat and Lietuvos bankas calculations.

Note: Calculations are based on data on energy from various sources, measured in tonnes of oil equivalent; net imports are calculated as the difference between energy imports and exports; right-hand panel shows data on energy intensity for Estonia, Latvia, Lithuania and the whole EU in PPS.

In summary, resilience of Lithuania's economy to energy price shocks has increased. The share of imported energy is falling, dependence on imported natural gas and imported electricity is waning, renewables are gaining greater prominence. The economy's energy intensity is steadily declining – an increasingly smaller amount of energy is needed to generate one unit of real GDP. The tradable sector is also benefiting from improved energy resilience across the EU. Admittedly, there is both scope and need to reduce energy dependence further, as the share of imported energy remains relatively high (at 66%), and is higher than in many EU countries.

²³ Data for Estonia, Latvia, Lithuania and EU as a whole are compared in purchasing power standards (PPS).

Box 2. Will Lithuania embrace artificial intelligence?

Prepared by Darius Imbrasas

AI is increasingly seen as a general-purpose technology with the potential to fundamentally transform the economy. Like the steam engine, electricity or the internet before it, AI's potential lies not in any single application but its capacity to reshape entire production processes, business models and economic structures. A distinctive feature of AI is its potential not only to increase productivity levels in the production of goods and services, but also to accelerate the innovation process, in other words, to boost the rate of productivity growth.²⁴ AI possibilities have expanded significantly in recent years: initially, this technology was applied using narrow machine learning systems; subsequently, its capabilities expanded with the emergence of large language models and generative AI tools; and more recently, agent-based AI solutions have emerged capable of performing complex tasks with minimal human supervision.

The adoption of general-purpose technologies is gaining momentum. Historically, general-purpose technologies spread slowly, and productivity gains only materialised after a considerable period of time.²⁵ However, latest research suggests that the pace of technology adoption has accelerated significantly. For instance, Asirvatham, Mokski and Shleifer (2026)²⁶ found that, over the course of the industrial era, the time lag between invention and widespread adoption has shortened by a factor of approximately ten from around 50 years (19th century) to around 5 years (last decade). In the case of AI, this process could potentially be even shorter as AI can be deployed using existing hardware and software, and the barriers to deployment are lower, so the adoption of AI may be faster and more widespread than that of previous general-purpose technologies (Lane, 2026). In view of this, it is important for both businesses and governments to start using AI technologies effectively as early as possible in order to gain an advantage over slower adopters, as research suggests that an early advantage can be significant in the long term as well.^{27, 28}

The use of AI technologies is growing rapidly in Lithuania. In 2021–2026, the share of businesses using at least one AI technology rose from 4.5% to 34.7% (see Chart A). In 2026, Lithuanian companies mostly used AI technologies to analyse written language and to generate images, video or audio content, and these were used by 27.6% and 21.8% of companies respectively. More than a tenth of Lithuanian companies used AI technologies to automate various workflows (14.3%) and to generate written and spoken language (12.4%). The lowest share of companies used AI technologies designed for automated solutions based on environmental monitoring, enabling machines to move physically, and for analysing data using machine learning: these were used by just 3.6% and 6.4% of companies respectively.

Based on 2025 data, the main areas in which the AI technology was deployed were marketing and sales (7.8% of Lithuanian companies), organisation of business administration processes (7.3%), and accounting, control or financial management (6.6%). In areas such as logistics (2.8%), production processes (3.7%) or research and development (R&D) and innovation (4.7%), AI technologies were used less frequently. However, even in these areas, Lithuanian companies rank between the EU average and the EU leaders: in terms of use of AI technologies in production processes, Lithuania ranked 16th (led by Sweden at 9.2%, Austria at 7.6%, the Netherlands at

²⁴ Lane, P. R. (2026), '[AI and the euro area economy](#)', keynote speech at the ECB-SAFE-RCEA 3CMFI conference, Frankfurt, 23 March.

²⁵ Brynjolfsson, E., Rock, D., Syverson, C. (2021). '[The Productivity J-Curve: How Intangibles Complement General Purpose Technologies](#)', *American Economic Journal: Macroeconomics* 13 (1): 333–72.

²⁶ Asirvatham, H., Mokski, E., Shleifer, A. (2026), '[GPT as a Measurement Tool](#)', NBER Working Paper Series, No 34834, National Bureau of Economic Research, February.

²⁷ McEltheran, K., Yang, M., Kroff, Z., Brynjolfsson, E. (2025). '[The Rise of Industrial AI in America: Microfoundations of the Productivity J-curve\(s\)](#)', Working Papers 25-27, Center for Economic Studies, U.S. Census Bureau.

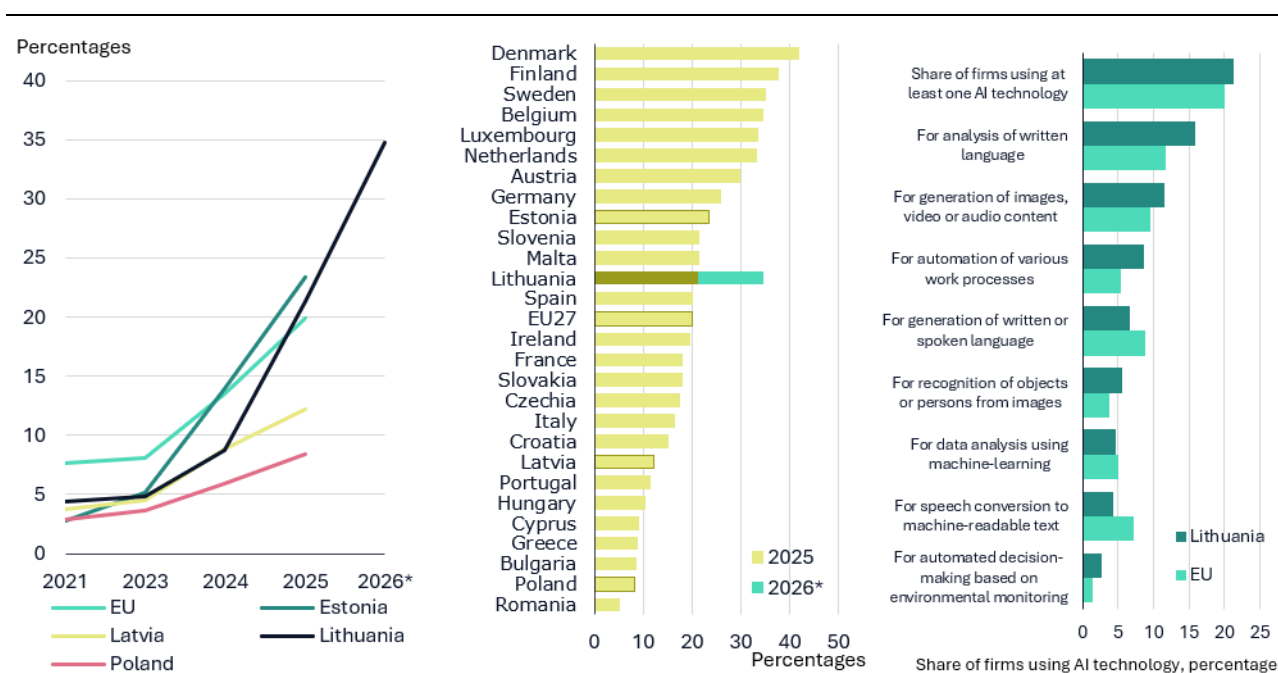
²⁸ Alonso, C., Berg, A., Kothari, S., Papageorgiou, C., Rehman, S. (2020), '[Will the AI Revolution Cause a Great Divergence?](#)', IMF Working Paper WP/20/184.

6.9%); in terms of use in R&D and innovation, it ranked 9th (the Netherlands and Finland at 8.5%, Belgium at 7.6%); and in terms of use in logistics, it ranked 2nd (second only to Denmark at 3.6%).

These figures indicate that AI technologies in Lithuania are primarily used to improve efficiency: they help to automate tasks, reduce costs and speed up administrative, analytical and other processes. Such use of AI technologies can boost labour productivity but early empirical assessments suggest that the impact depends on how the technology is used and how companies integrate AI into their operations.²⁹ Furthermore, this may be a natural first stage in technology deployment: firms start with lower-risk internal processes and only later apply the expertise they have gained to more complex tasks. At the same time, it is important to note that the economic benefits of AI may be greater when its use is more intensive and accompanied by investment in complementary technologies or R&D.³⁰ In Lithuania, this gives larger companies an advantage as they tend to make greater use of AI technologies. In 2026, nearly 72% of firms with more than 250 employees used at least one AI technology, while nearly half of all businesses used at least three technologies. For instance, in companies with 10 and 49 employees these figures stood at 30.8% and 12.5% respectively.

The use of AI technologies is expanding rapidly in Lithuania: the share of firms using at least one AI technology is higher than the EU average.

Chart A. Share of firms using at least one AI technology (left-hand panel), share of firms using at least one AI technology in EU Member States (central panel) and share of firms using certain AI technologies in Lithuania and the EU (right-hand panel)



Sources: Eurostat and Lietuvos bankas calculations.

* Data for 2026 – Lithuania only.

The share of Lithuanian businesses using at least one AI technology is higher than the EU average.

According to the latest data, the share of businesses using at least one AI technology in 2025 stood at 21.3% in Lithuania, compared to 20.0% in the EU (see Chart A). A larger share of Lithuanian firms used AI technologies for purposes such as written language analysis, automation of various work processes, generation of images, video

²⁹ I. Siedschlag, J. Duran (2025). 'Artificial Intelligence and Firm-Level Productivity: Early Evidence from a Small Open Economy', Working Paper No. 063, The Productivity Institute.

³⁰ Lee, Y.S., Kim, T., Choi, S. and Kim, W. (2022). 'When does AI pay off? AI-adoption intensity, complementary investments, and R&D strategy', Technovation, 118, 102590.

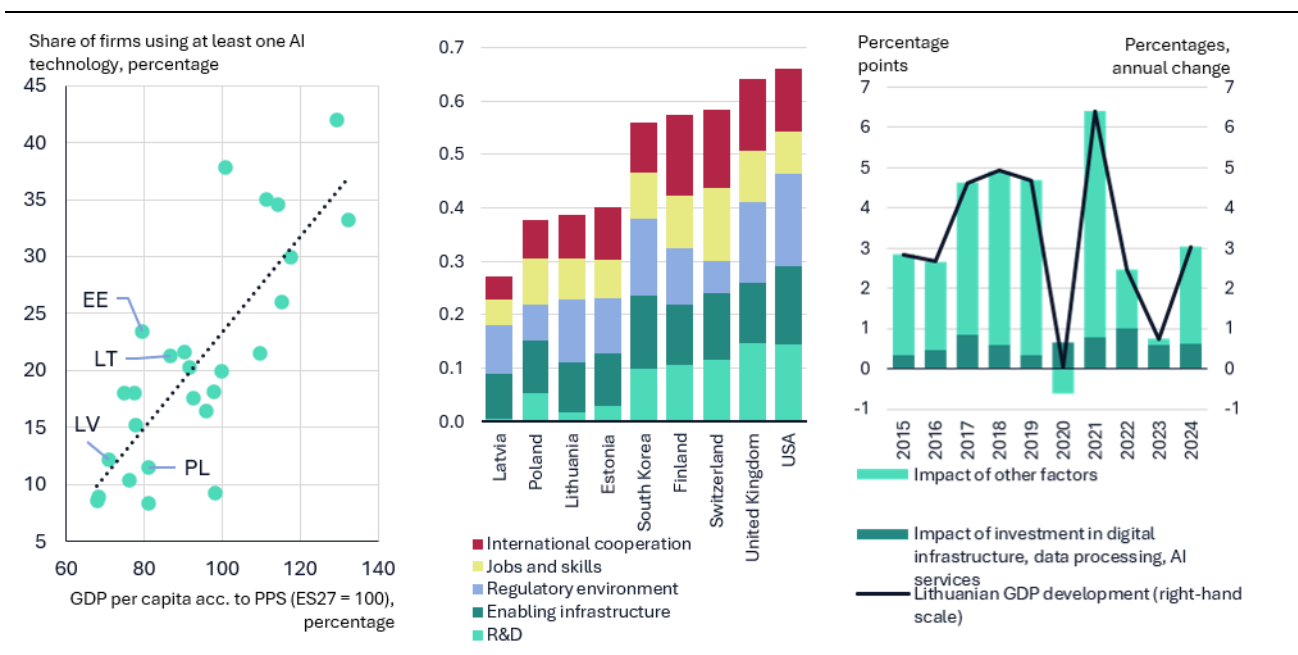
or audio content, and automated decision-making based on environmental monitoring, while a smaller share used speech-to-machine-readable-text conversion and generation of written or spoken language.

In Lithuania, the share of businesses using at least one AI technology is higher than the EU average;

however, Lithuania lags significantly behind the leading countries. In 2025, in the top-performing countries, the share of firms using at least one AI technology was almost double that in Lithuania: it stood at 42.0% in Denmark, 37.8% in Finland and 35.0% in Sweden. On the other hand, among its closest neighbours, Lithuania's figure is quite favourable as it lags only slightly behind Estonia (23.4%), while significantly outperforming Latvia (12.2%) and Poland (8.4%). Lithuania's considerable lag behind the leading EU Member States is in line with general global trends, with research showing that the uptake of AI technologies in businesses correlates positively with a country's income level. This correlation is evident when examining the relationship between the standard of living (measured by GDP per capita adjusted for the purchasing power standard (PPS)) and the share of businesses using at least one AI technology across the EU Member States (see Chart B). It should be noted that Lithuania, like the other Baltic states, ranks above the average level implied by the correlation observed in the data, which indicates that the prevalence of AI technologies is relatively higher than would be expected given Lithuania's level of development.

Lithuania's AI ecosystem is fairly balanced, and the uptake of AI technologies is in line with global trends. Investment in digital infrastructure, data processing and provision and use of AI services have contributed significantly to the Lithuania's economic growth in recent years.

Chart B. Relationship between living standards and the use of AI technologies in EU Member States (left-hand panel), 2024, OECD. AI index* values in certain countries (central panel) and impact of investment in digital infrastructure, data processing and AI services on Lithuania's economic growth** (right-hand panel)



Sources: OECD, Eurostat and Lietuvos bankas calculations.

* The index values are standardised, i.e. the lowest theoretical index value is 0 and the highest is 1. For more information on the methodology used to compile the index see the OECD publication [The OECD.AI Index. Technical paper](#).

** The impact of investment in digital infrastructure, data processing and AI services on economic growth in Lithuania has been calculated using the methodology set out by Carpinelli L., Natoli F. and Taboga M. in 'Artificial Intelligence and the US Economy: An Accounting Perspective on Investment and Production', Bank of Italy Occasional Papers N. 1006, March 2026.

International comparisons show that Lithuania's AI ecosystem is fairly balanced but does not stand out internationally in any particular area. According to the OECD's AI Index (see Chart B), Lithuania's AI ecosystem in 2024 was classified as belonging to the group of OECD countries with an average rating. According to this index, Lithuania's strongest position is in the AI regulatory environment. This component covers the use of AI by

public sector bodies, venture capital investment and AI governance structures. The indicators for enabling infrastructure as well as jobs and skills are in line with the OECD average. The first indicator covers the availability of high-speed internet, access to open data and local computing capacity; the second covers the supply and expertise of employees using AI as well as the number of AI projects. However, the greatest lag is observed in the indicators for international cooperation covering international initiatives and scientific collaboration and R&D, which encompasses the production of high-quality AI publications, AI patents and models. This is particularly true of the R&D sector: Lithuania's index value in this area stood at merely 0.09, while the average for OECD countries was close to 0.34 and that of the leading countries was 0.7. It is also important to emphasise that the success of development of AI technologies is not restricted to government efforts. In addition to factors such as a country's demographic indicators or differences in economic structure, the attitudes of business executives play a significant role for the development of AI technologies. In companies where managers provide the technical resources and actively encourage employees to adopt AI technologies, these technologies spread more rapidly (Bick, 2026).

Although the use of AI technologies in businesses is growing rapidly, research findings on the impact of AI technologies on labour productivity are mixed. The results of studies assessing the impact of AI technologies on labour productivity vary considerably. For instance, according to Filippucci (2025),³¹ AI technologies can accelerate labour productivity growth by 0.4–1.3 percentage points annually in countries where the economic landscape and ecosystem are favourable to the development of AI technologies, i.e. where the economy is more specialised in knowledge-intensive services or where AI is more widely adopted by businesses. However, in a less favourable environment, the positive impact would be significantly smaller at 0.2–0.8 percentage points. An even greater positive impact has been identified in studies that attempt to model the impact of AI technologies on innovation processes. For instance, according to McKinsey (2023),³² a successful integration of generative AI with existing technologies and automation of workflows could lead to labour productivity growth that is up to 3.4 percentage points faster.

International assessments indicate that Lithuania's potential to accelerate labour productivity growth through the use of AI technologies is currently lower than the EU average. According to both Misch (2025)³³ and Bergeaud (2024),³⁴ Lithuania's growth of total factor productivity resulting from the AI deployment would be among the lowest in the EU and is largely attributed to the lower share of activities in which AI can significantly boost labour productivity, and to relatively lower wages, which reduce incentives for businesses to adopt AI. The slower adoption of AI may also reflect insufficient readiness of some firms to adopt new technologies: in Lithuania, investment in research and development and capital is lower, workforce lacks digital skills and a large share of firms have a low level of digital intensity (Armendariz, 2025³⁵). This setup suggests that, in the case of Lithuania, the impact of AI on labour productivity will depend not only on technological progress itself but also on how rapidly AI technologies are adopted by an increasing number of firms.

Although current assessments of the potential impact of AI technologies on labour productivity in Lithuania are not particularly favourable, investment in and adoption of these technologies contribute significantly to the country's economic growth. Based on the methodology presented by Carpinelli (2026), which attempts to assess the impact of the adoption and development of AI technologies on a national economy, a relevant estimate was also derived for the Lithuanian economy. The analysis shows that investment in digital infrastructure, data processing and provision and use of AI services accounted for a significant share of

³¹ Filippucci, F. et al. (2025), 'Macroeconomic productivity gains from Artificial Intelligence in G7 economies', OECD Artificial Intelligence Papers, No. 41.

³² McKinsey (2023), 'The economic potential of generative AI: The next productivity frontier', McKinsey & Company.

³³ Misch, F., Park, B., Pizzinelli, C. and Sher, G. (2025), 'AI and Productivity in Europe', IMF Working Paper WP/25/67, International Monetary Fund.

³⁴ Bergeaud, A. (2024), 'The Past, Present and Future of European Productivity', paper presented at the ECB Forum on Central Banking, Sintra, 1–3 July 2024.

³⁵ Armendariz, S. and A. Musso (2025), 'The Evolving Growth Model of Lithuania', IMF Selected Issues Paper SIP/2025/139.

Lithuania's economic growth (see Chart B). Between 2015 and 2024, these investments and services accounted, on average, for around one-fifth (0.6 percentage points) of Lithuania's economic growth each year. Meanwhile, between 2020 and 2024, this share increased even further to nearly 30%. The growing impact of investment in digital infrastructure, data processing and AI services on economic growth reflects the ongoing transformation of the Lithuanian economy, which could potentially also boost labour productivity. This should contribute to Lithuania's continued convergence with the world's wealthiest nations.

Box 3. Reform of the 2nd pension pillar: What do the figures for the first half of this year show?

Prepared by Darius Imbrasas and Daumantas Skinkys

In June 2025, the Lithuanian parliament approved the reform of the 2nd pension pillar, which came into force early in 2026. This reform abolished the automatic enrolment of residents in the scheme and provided more flexibility for those already saving by allowing them to suspend contributions for an unlimited number of times, withdraw up to 25% of their accumulated assets on a one-off basis as well as providing for additional options to withdraw due to serious health conditions. However, the greatest short-term impact on the economy comes from the two-year transition period (2026–2027) during which residents who have been saving can opt out of the 2nd pillar entirely. In such cases, they will be paid their own contributions and full investment return, while the contributions previously transferred from the State Social Insurance Fund (Sodra) and public incentive contributions will be transferred to the Sodra and converted into additional pension units.

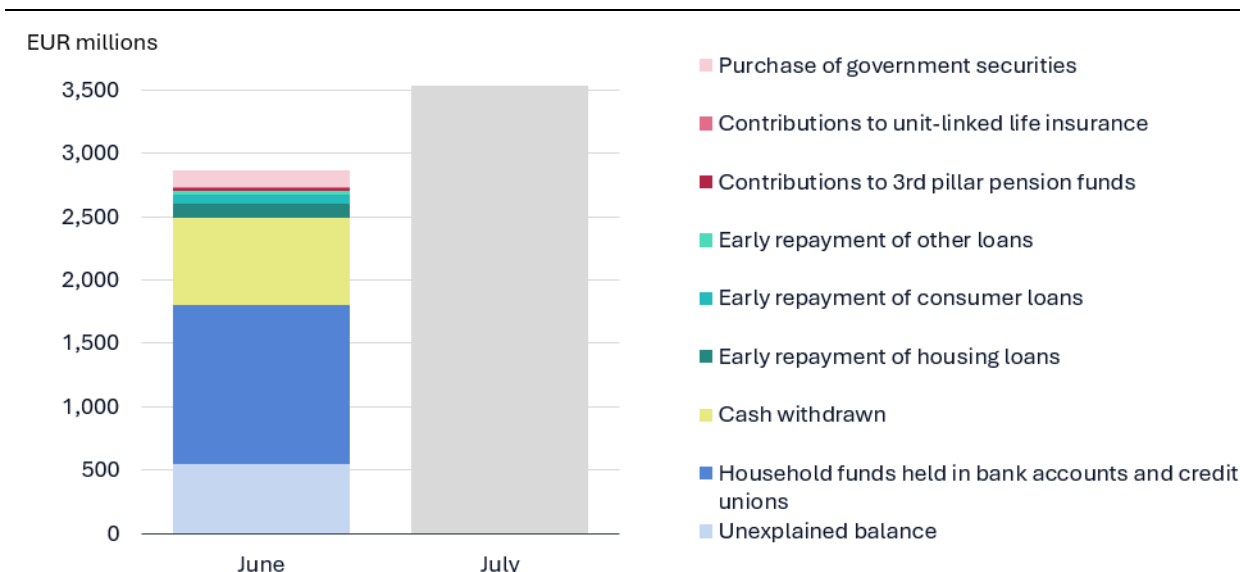
In the first two quarters of the reform, a significant share of participants withdrew from the 2nd pension pillar. In the first quarter of 2026, 514,000, or 37%, participants of the 2nd pension pillar decided to withdraw. As a result, the assets of pension funds contracted by €4.2 billion: €2.9 billion was paid out to residents, while €1.3 billion was transferred to the Sodra. The amount paid out to residents is equivalent to 3.3% of Lithuania's GDP³⁶ and this represents a significant change in the composition of household financial assets. In the second quarter, the rate of withdrawal slowed considerably, with 104,500 more individuals withdrawing from the 2nd pension pillar. In July 2026, €672 million was paid out to these individuals, while €272 million was also transferred to the Sodra. Thus, by the end of July 2026, having made use of the first two opportunities to withdraw from the 2nd pension pillar, households had received €3.5 billion, an amount equivalent to 4.0% of Lithuania's GDP.

A large share of the funds received remained in the households' bank accounts in June. More detailed data on the use of the funds are currently available up to June. These data allow us to assess the households' initial reaction upon receiving the funds. According to the data for June, 44%, or €1.3 billion, paid out to residents remained in deposits. A further €780 million, or 27%, was withdrawn in cash. Residents used nearly €210 million (7%) to repay loans, of which €110 million went towards reducing housing loans, €80 million towards consumer loans and €20 million towards other loans. €160 million (6%) was channelled into investment instruments, of which €130 million was used to purchase Lithuanian government securities, €20 million was transferred to the 3rd pension pillar and €10 million was spent on unit-linked life insurance. The calculation methods used do not yet account for approximately 16% of the use of the funds received. It is important to treat these statistics with caution as they are not final.

Following the withdrawals from the 2nd pension pillar, €3.5 billion was transferred to Lithuanian households, with most of these funds still remaining in their bank accounts.

³⁶ The sum of nominal GDP over four quarters (Q3 2025 to Q2 2026).

Chart A. Funds paid out to residents from the 2nd pension pillar



Sources: Lietuvos bankas calculations; preliminary estimates based on available data and assumptions.

Note: Calculations were carried out by assessing statistically significant deviations from the usual development of indicators.

Households may have used around one-fifth of all funds withdrawn for the purchase of goods and services.

Higher-than-usual expenditure on goods and services was already recorded in March 2026, i.e. before the funds accumulated under the 2nd pension pillar were paid out to households. Following these payments, residents may have spent around €0.5–0.7 billion of these funds on goods and services between April and June. Cash withdrawals may also have been used for this purpose. Goods accounted for around 85% of the amount spent: people were particularly keen to buy goods for home improvements, furniture and other household items as well as cars, and sought to use these funds to partially offset higher fuel costs.³⁷ As regards services, it is likely that more money was spent on transport as well as on accommodation and catering services. Overall, the consumption categories that stood out the most were those classified as non-essential expenditure and more likely to require a larger one-off sum. This behaviour on the part of the population can also be explained by economic logic. A relatively small one-off payment (the average amount transferred was €5,700) may provide little incentive to spend more on food or other everyday goods; however, it may provide the funds needed for a long-planned purchase, such as a car or a new item of furniture, or for home renovations.

Withdrawals from the 2nd pension pillar in the first half of the year are likely to have contributed significantly to the growth of household consumption.

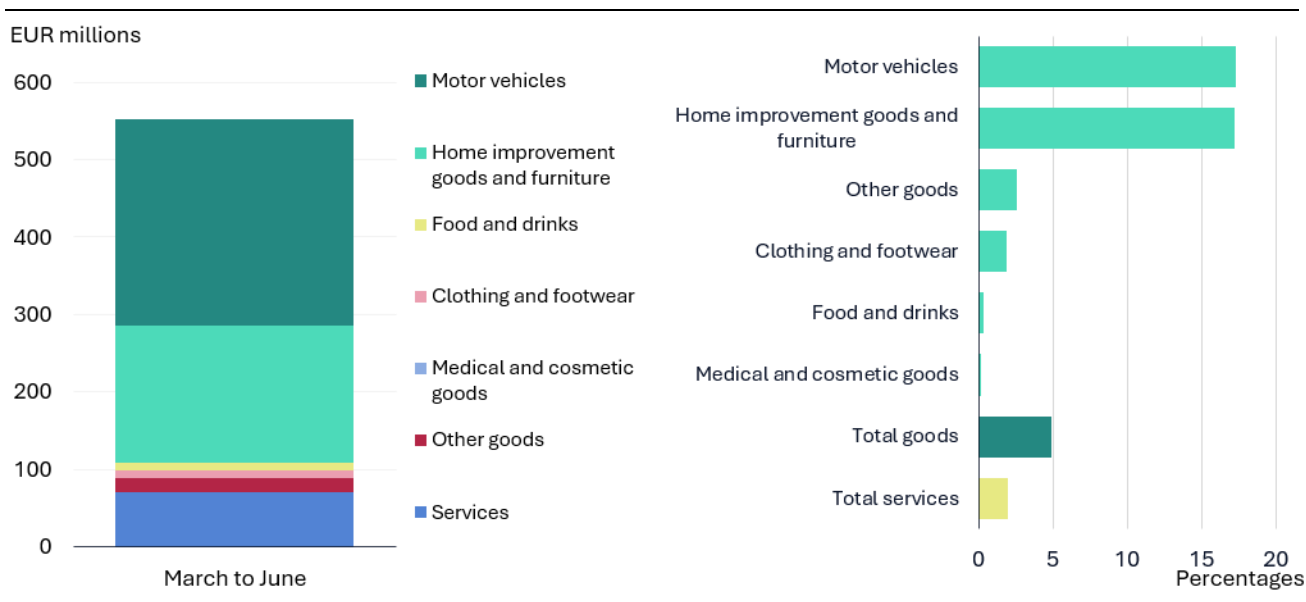
At constant prices, they may have increased household consumption expenditure by around 2.5%. Although the funds were only transferred to account holders in the second quarter of this year, households had already increased their consumption of goods and services in March, which may have accounted to an increase of just over 0.8% of household consumption. The

³⁷ It should be noted that the simulation, based on SARIMA model projections for 2026, did not show any significant deviation in retail turnover for car fuel, at constant prices, from the model's forecast. However, elevated fuel prices due to the conflict in the Middle East meant that, in the second quarter of this year, retail turnover of car fuel at current prices was more than 20% higher than a year ago, while at constant prices it fell by 3.1%. A rise in personal incomes from employment of 8.4% in the second quarter of 2026 suggests that households were able to offset the rise in fuel costs by drawing on their savings (which may also include funds received from the 2nd pension pillar) or by changing the composition of their consumption basket.

use of funds withdrawn from the 2nd pension pillar may have increased household consumption by 4.3% in the second quarter.³⁸

Withdrawals from the 2nd pension pillar in the first half of 2026 are likely to have contributed significantly to the growth of household consumption.

Chart B. Increase in sales of goods and services between March and June compared to the baseline scenario* at current prices (left-hand panel) and estimated increase at constant prices (right-hand panel)



Sources: State Data Agency and Lietuvos bankas calculations; actual turnover surplus compared to the projected trend.

*The forecast is based on actual, seasonally unadjusted turnover data using a SARIMA or other seasonal model, calibrated separately for each expenditure category. Nominal household expenditure figures are derived using sector-specific price deflators and taking VAT into account. Only those segments of expenditure on goods and services are included where the surplus, compared to the projection, is statistically significant (based on a 95% confidence interval), totalling around €0.5 billion. Based on an 80% confidence interval, the total expenditure amounts to €0.7 billion. Home improvement goods and furniture is a spending category that includes the retail sale of audio and video equipment, metal products, furniture and lighting equipment in specialised shops.

The impact of funds withdrawn from the 2nd pension pillar on Lithuania's economic growth should be more moderate than expected. Available data show that households have increased their spending on goods and services by a smaller margin than had been forecast in previous assessments by Lietuvos bankas. According to updated estimates, funds withdrawn from the 2nd pension pillar are expected to bolster household consumption growth by 1.3 percentage points this year; however, this impact is likely to be short-lived and should not provide a significant additional boost to domestic demand in the future. Owing to a higher base effect, the impact of these funds is expected to weaken household consumption growth by 1.7 percentage points in 2027, before increasing it again by 0.4 percentage points in 2028. The latter effect is linked to the end of the transitional period during which residents may opt out of the 2nd pension pillar and to a larger likely wave of opt-outs at the end of 2027. Given the significant share of imported goods and services in the structure of household consumption, the projected impact on Lithuania's economic (GDP) growth is expected to be smaller. In 2026, it is expected to amount to 0.4 percentage points, dampen growth by 0.4 percentage points in 2027, before increasing it by 0.1 percentage points in 2028. According to updated estimates, the impact of funds

³⁸ This modelling should be interpreted with caution. It was carried out by analysing the differences between already published actual data and a scenario based on forecasts from SARIMA or other seasonal models for 2026. However, it is important to note that certain factors, such as the exceptionally cold start to the year, conflict in the Middle East and decisions taken by government, may have significantly affected the sentiment and spending of households and businesses, and therefore the actual development of retail and services sales this year, excluding the impact of withdrawals from the 2nd pension pillar, may differ from the technical forecast produced by the models used. It should also be noted that developments of sales in some retail and service groups are highly volatile; consequently, some of these changes may be incorrectly attributed (or not attributed) to the impact of funds withdrawn from the 2nd pension pillar.

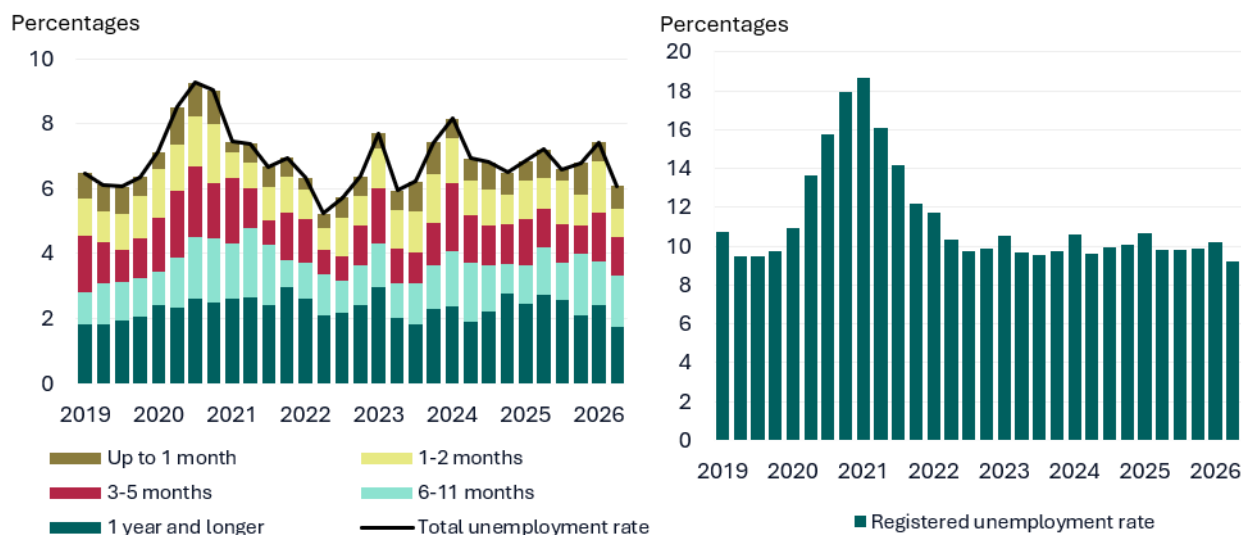
withdrawn from the 2nd pension pillar on inflation should be minor, increasing inflation by just 0.1 percentage points in 2026.

3. Labour market

Following slightly weaker labour market developments last year, more favourable trends have been observed this year, with the number of people in employment rising again and unemployment rate falling significantly. Hiring has picked up: after showing no growth last year, the number of people in employment grew at an annual rate of 1.0% in the first half of this year. However, employment trends varied across economic sectors: manufacturing contributed most to employment growth, with employment in the first half of the year rising by 11.6% year on year, while employment in information and communication fell by almost a fifth year on year and was the main factor holding back employment growth. As employment rose, the unemployment rate in Lithuania fell considerably as it stood at 6.1% in the second quarter of this year, down by 1.1 percentage points year on year (see Chart 5, left-hand panel). The decline in unemployment is also confirmed by the registered unemployment rate, which fell by 0.6 percentage points over the year (see Chart 5, right-hand panel). The decline in the unemployment rate was mainly driven by a reduction in the share of long-term unemployed. In the second quarter, long-term unemployment fell by 0.9 percentage points year on year to 1.8%. The unemployment rate is projected to stand at 6.7% in 2026 and at 6.6% in both 2027 and 2028.

The unemployment rate fell significantly in the second quarter of this year, while employment, which did not grow last year, began to rise again.

Chart 5. Unemployment rate and contributions based on data from the Labour Force Survey (left-hand panel) and registered unemployment (right-hand panel)



Sources: State Data Agency, Employment Service and Lietuvos bankas calculations.

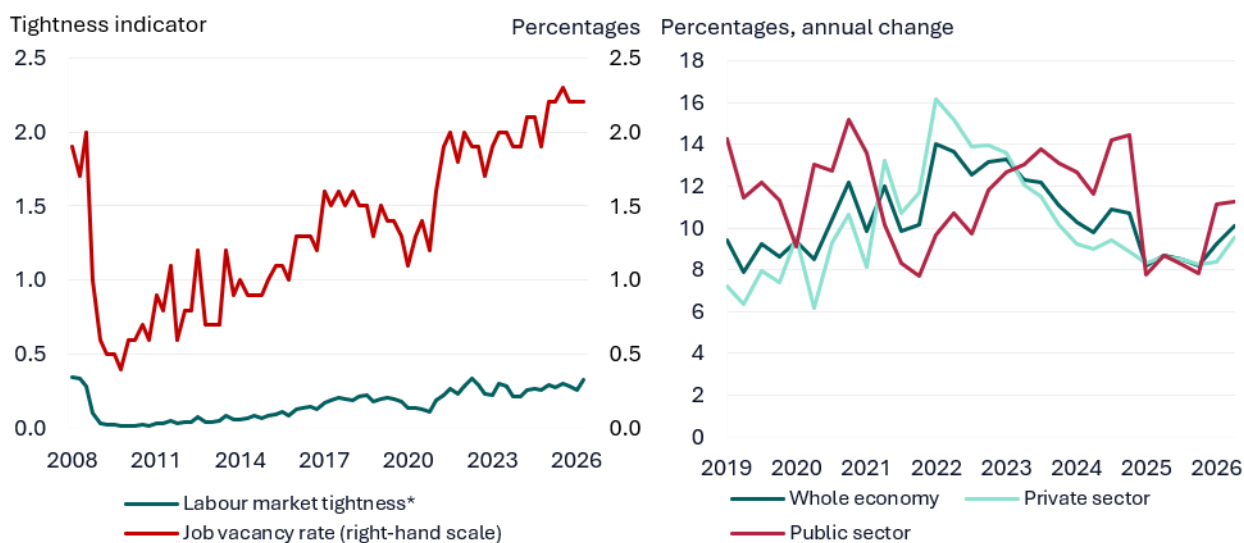
With labour market tightness still elevated and job vacancy rate remaining close to historical highs (see Chart 6, left-hand panel), wages have risen at a faster pace. In the first half of this year, the job vacancy rate in Lithuania stood at 2.2% and was close to historical highs. The highest job vacancy rate continued to be recorded in public administration and defence and compulsory social security, where it continued to rise and was more than triple the national job vacancy rate. Unabated demand for labour sustained rapid wage growth. Following last year's slowdown, wages regained momentum this year: in the second quarter of 2026 they rose by 10.1% year on year (see Chart 6, right-hand panel). With wage growth in the public and private sectors broadly

tracking one another last year, trends diverged this year, with public sector wages rising more rapidly (11.3%), while private sector wages grew at a more moderate rate (9.6%). These trends of private sector wage growth may have been affected for some time by the marked increase in the labour share, which continues to rise.

Looking ahead, it should be noted that the labour market situation will remain favourable for employees. Persistent tightness in the labour market will sustain wage growth, which is projected to reach 9.4% in 2026 and then fall to 7.6% in 2027 and 7.0% in 2028.

With the labour market still tight, wages have risen at a faster rate.

Chart 6. Development of job vacancy rate and labour market tightness (left-hand panel) and wage development (right-hand panel)



Sources: State Data Agency and Lietuvos bankas calculations.

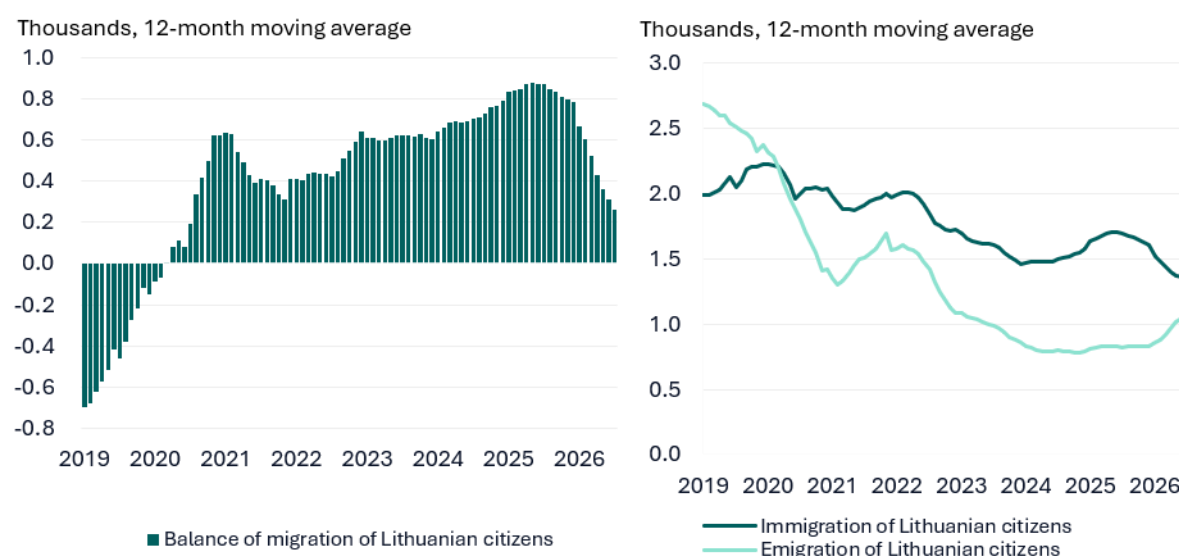
Note: The level of labour market tightness is measured by the ratio of job vacancies to the unemployed.

Net migration of Lithuanian citizens is changing, with the balance for the first seven months of this year remaining positive but declining (see Chart 6, left-hand panel). During this period, returning Lithuanian citizens outnumbered those leaving by 900, while the net migration balance stood at 7,200 over the same period. For the first time in more than four years, net migration of Lithuanian citizens was negative in some months this year. These changes reflected both increased emigration flows of Lithuanian citizens and weaker immigration flows (see Chart 7, right-hand panel). Net migration of Lithuanian citizens in 2024–2025 accounted for almost half of the total migration balance figure, thus contributing significantly to labour force developments. The decline in the migration balance of Lithuanian citizens this year has so far been offset by a higher positive migration balance of foreigners, which stood at 11,200. However, if migration trends amongst Lithuanian citizens remain unchanged, this may further limit the development of the labour force in Lithuania in the future, particularly given that the participation rate in Lithuania exceeds the EU average and is negatively affected by the changing age structure of the population.³⁹

The emigration flow of Lithuanian citizens is increasing, while immigration is slowing down.

³⁹ For more details see Box 4 'Labour force participation rate in Lithuania: developments and long-term prospects'.

Chart 7. Migration balance of Lithuanian citizens (left-hand panel) and international migration of Lithuanian citizens (right-hand panel)



Sources: State Data Agency and Lietuvos bankas calculations.

Box 4. Labour force participation rate in Lithuania: developments and long-term prospects

Prepared by Ernestas Virbickas

Labour force participation rate is a critical economic variable⁴⁰. As shown by previous analyses of Lietuvos bankas, increasing labour force participation rate accounted for roughly 31% of the total real GDP per capita growth in Lithuania between 2010 and 2023, around 15% in Latvia, around 47% in Estonia and around 51% in the EU as a whole⁴¹. The overall participation rate is affected by a variety of factors such as the population's level of education and readiness for the labour market, government policies on taxation, social support, hiring and dismissal, cultural attitudes and economic cycle. The overall participation rate is also affected by demographic changes and age structure of the population, as an ageing society may reduce overall participation in the labour market. This box provides a more detailed analysis of the impact of the latter factor on developments in the overall labour force participation rate and its long-term prospects in Lithuania.

The overall labour force participation rate has been rising for quite some time and currently exceeds the EU average. In 2025, it stood at 63.1% in Lithuania⁴², 6.3 percentage points, or more than a tenth, higher than in 2010 (see Chart B, panel b, and Chart C), when the Lithuanian economy began to recover from the global financial crisis and a period of more steady and sustainable economic development began. The labour force participation rate, which has risen steadily for a dozen of years, is well above the EU average (see Chart A, panel a), which stood at 58.2% in 2025. In Lithuania, the participation rate is higher than the EU average for both women and men (see Chart A, panels b and c). It is higher in most age groups, with the exception of the youngest group (aged 15–19) and several age groups of men. The 55–64 age group contributed most to the overall increase in the labour force participation rate (see Chart C, panel a). This appears to be one of the consequences of the

⁴⁰ The labour force participation rate is defined as the ratio of the number of people in employment and those seeking employment (total number of employed and unemployed people, or the labour force) to the total population of the same age.

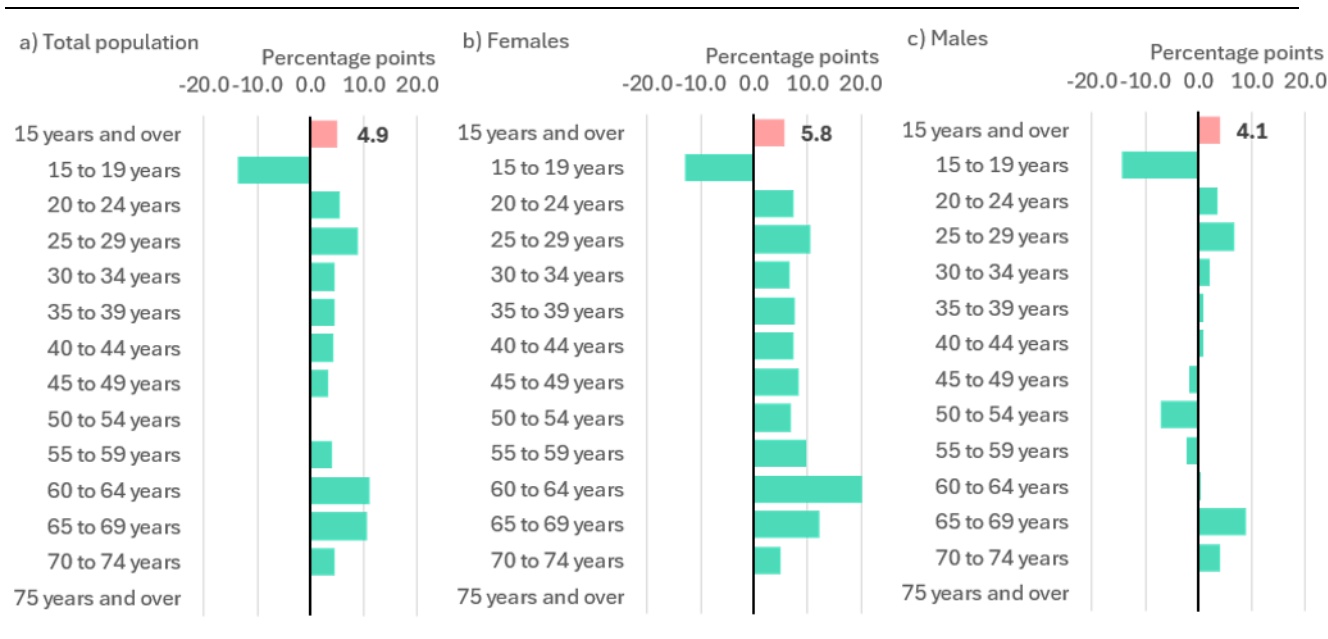
⁴¹ The impact of labour force participation rate and other macroeconomic factors on Lithuania's economic growth over longer term is analysed in greater detail in the box entitled 'Impact of labour market developments on economic growth in the Baltic countries and the EU as a whole' of the September 2024 issue of the Lithuanian Economic Review.

⁴² This box examines the participation rate of population aged 15 and over.

gradual increase in the retirement age. The participation rate in this and other age groups was also positively affected by economic growth, rising demand for labour and improved employment prospects. Similar trends were observed in the other Baltic states and across the EU. In Estonia, Latvia and across the EU, the overall labour force participation rate was driven primarily by the increased participation of older people (aged 55 and over) in the labour market.

The labour force participation rate in Lithuania is well above the EU average. It is higher in most age groups, with the exception of the youngest group (aged 15–19).

Chart A. Difference between the labour force participation rates in Lithuania and the EU in 2025



Sources: Eurostat and Lietuvos bankas calculations.

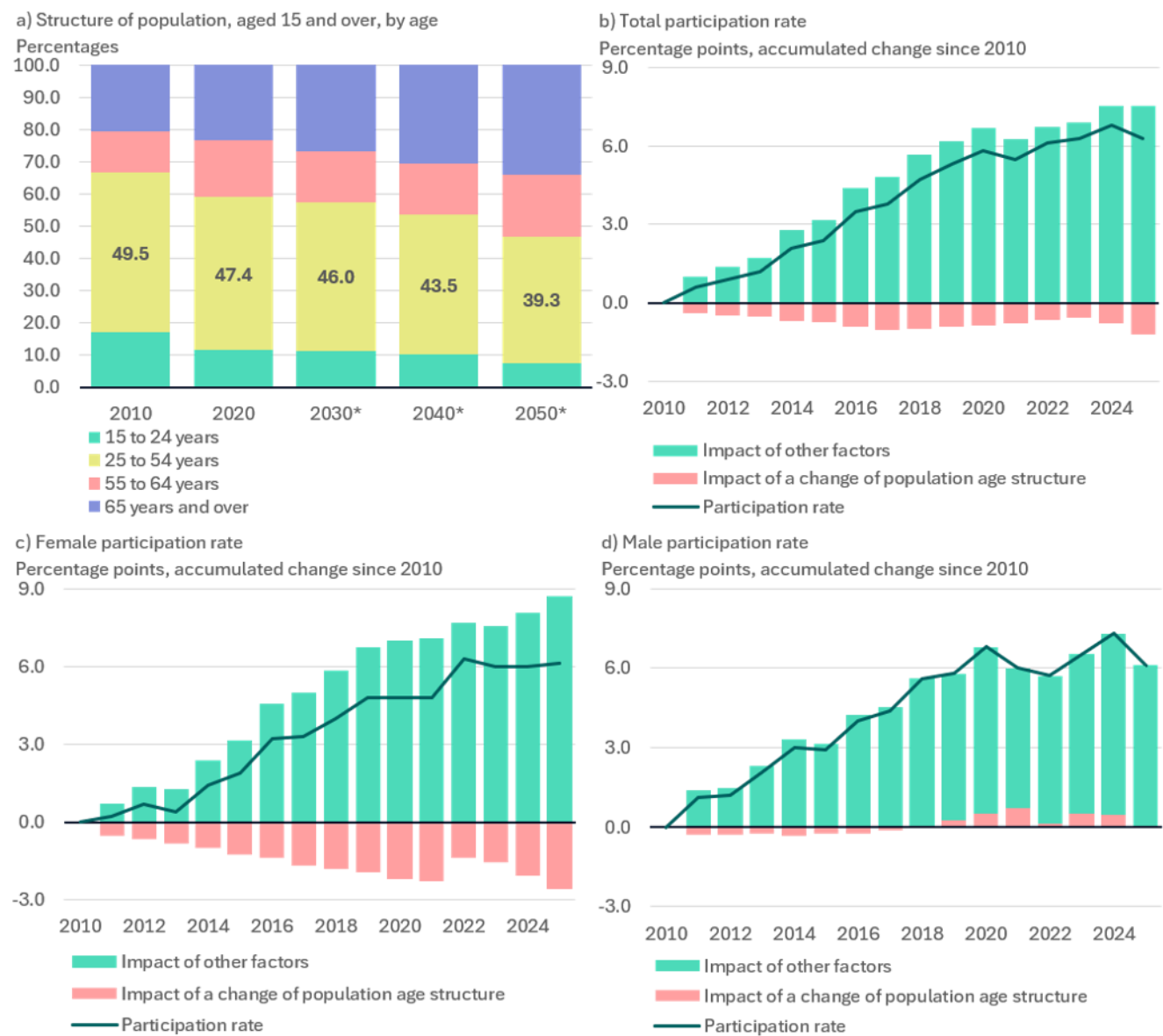
The changing age structure of the population makes a negative impact on the overall participation rate. The highest participation rate is observed in the 25–54 age group. In 2025, the participation rate for this age group in Lithuania stood at 91.4%. However, its share has been declining. Compared to the total population aged 15 and over, the 25–54 age group accounted for 49.5% in 2010 and 47.4% in 2020 (see Chart B, panel a). If the age structure of the population had remained the same as it was in 2010, the overall labour force participation rate in 2025 would have been 1.2 percentage points higher⁴³ (see Chart B, panel b). The age structure of female and male populations changed differently. Among workers recruited from abroad, particularly to fill labour shortages in the transport, construction and manufacturing sectors, the majority were men. Most of them are likely to have belonged to the 25–54 age group. This mitigated the negative impact of changes in the age structure of the male population driven by domestic demographic trends on the overall participation rate. At the end of the previous decade and at the beginning of the current one, the changing age structure of the male population actually increased the overall participation rate (see Chart B, panel d). The age structure of the female population was more affected by domestic demographic changes and therefore had a negative impact on the overall participation rate (see Chart B, panel c). This impact, however, became less negative in 2022, when immigration gained momentum after the outbreak of the large-scale war in Ukraine. Looking ahead, it should be noted that the share of the population with the highest participant rate may continue declining. As shown by the EC projections published in 2026, demographic trends that have persisted for several decades may eventually

⁴³ Changes in the age structure of the population have had a negative impact on the overall participation rate in the other Baltic states and the whole EU. The cumulative negative impact over the review period amounted to 1.4 percentage points in Estonia, 2.7 in Latvia, and 3.8 in the whole EU.

reduce the share of the population aged 25–54 to below 40%, while the share of older people (particularly those aged 65 and over) may gradually increase.

The changing age structure of the population makes a negative impact on the overall participation rate in Lithuania. The share of the population with the highest participation rate is declining and is projected to continue falling.

Chart B. Age structure of the population and labour force participation rate in Lithuania



Sources: Eurostat, State Data Agency and Lietuvos bankas calculations.

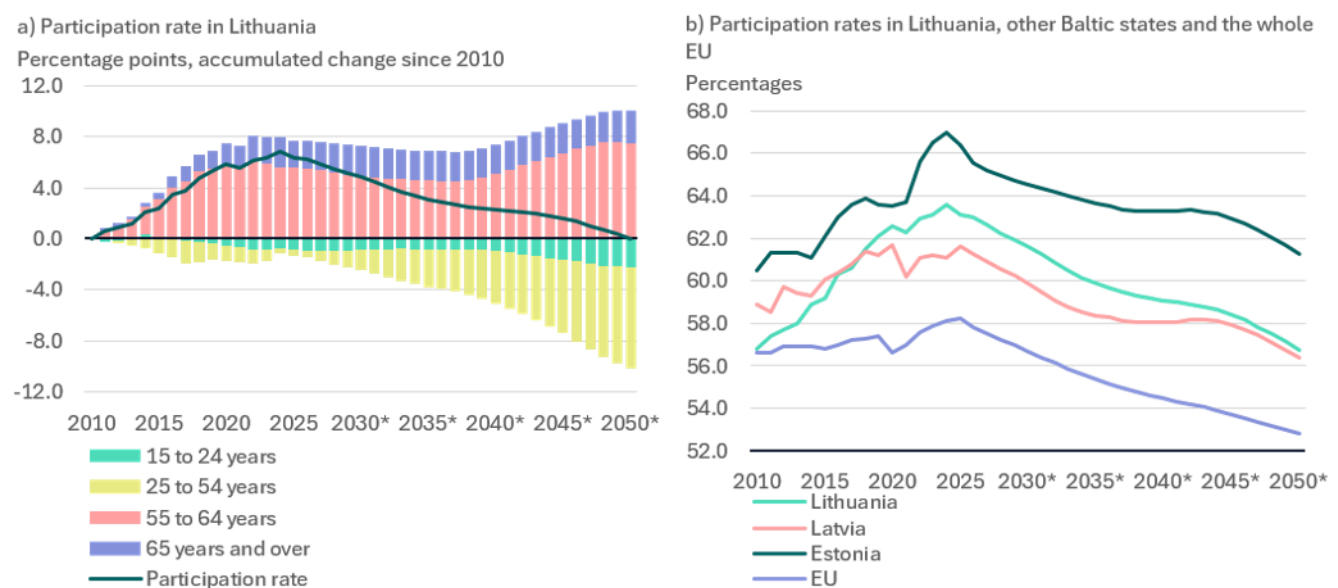
* Projection; based on the EC projections published in 2026.

Due to changes in the age structure of the population, the overall labour force participation rate may decline in time. Assuming that the participation rates for different age groups of women and men remain at their recent levels (specifically, those of 2025), the overall participation rate in Lithuania, all else being equal, could fall by one tenth over the next 25 years (see Chart C, panel a), i.e. from 63.1% (in 2025) to 56.8% (in 2050) and then return to the level observed in 2010. The participation rate for women would drop from 58.6% to 52.0%, while that for men from 68.1% to 61.5%. The analysis is based on historical data on population, labour force participation rates and the labour force from the Labour Force Survey for five-year age groups of women and men (aged 15–19, 20–24, etc.). It also draws on detailed population projections compiled by the EC and published in

2026. The analysis shows that the overall labour force participation rate will be reduced most significantly by the projected decline in the share of the population with the highest participation rate (aged 25–54) relative to the total population⁴⁴. The decline in the proportion of the youngest people (aged 15–24) will also put a downward pressure. Similar trends may also emerge in other EU countries. Analogous calculations show that, due to unfavourable changes in the age structure of the population, the overall labour force participation rate may decline in the neighbouring Baltic states and in the EU as a whole (see Chart C, panel b). However, the decline in Lithuania may be more significant. Over the review period, the overall labour force participation rate may fall by around 5.1 percentage points in Estonia, around 5.2 in Latvia, around 5.4 in the EU as a whole and around 6.3 in Lithuania.

Due to changes in the age structure of the population, the overall participation rate in Lithuania may fall by one tenth over the next 25 years. It may also decline in many other EU countries.

Chart C. Labour force participation rates in Lithuania, other Baltic states and the EU as a whole



Sources: Eurostat and Lietuvos bankas calculations.

* Projection; the projection horizon begins in 2026.

In summary, demographic trends are weighing on the long-term outlook for the labour force participation rate. The labour force participation rate in Lithuania has been rising for quite some time and currently exceeds the EU average, but is unlikely to continue increasing significantly. Due to demographic trends that have been underway for several decades, the share of the population with the highest participation rate will decline, which will have a dampening effect on the overall participation rate. For this reason, all else being equal, the overall participation rate in Lithuania could fall by one tenth over the next 25 years⁴⁵. Lower participation rate will make an adverse impact on economic developments as it is an important contributor to economic growth. Similar trends are projected for the other Baltic states and the EU as a whole, however analysis suggests that the decline in the labour force participation rate in Lithuania may be more pronounced.

⁴⁴ Compared to the total number of people aged 15 and over.

⁴⁵ This analysis assumes that the retirement age will remain unchanged.

Box 5. A closer look at labour migration in Lithuania

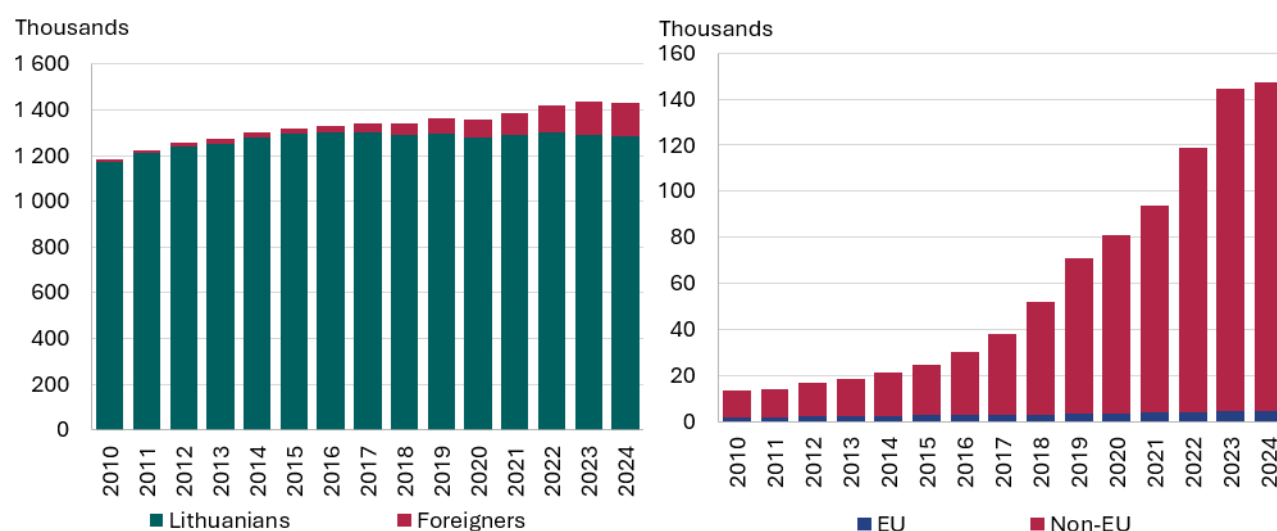
Prepared by Linas Tarasonis and Dominykas Vaičiūnas

Over 2010–2024 the composition of Lithuania's workforce shifted markedly, with third-country migration becoming the primary margin of employment growth. Building on the box, ‘Lithuanian labour market development: Growing role of migration’⁴⁶ in the previous edition of the Lithuanian Economic Review, we continue to examine the role of migrant workers in Lithuania. Understanding how a growing and increasingly foreign labour force is absorbed into the domestic economy is a first-order question for labour market and migration policy. Using matched employer-employee administrative data from the State Social Insurance Fund (Sodra), covering the universe of registered employment between January 2010 and December 2024 for workers aged 20 to 70 employed under an employment contract (self-employment is excluded), this box documents how the level and composition of employment, worker characteristics, sectoral allocation, and relative wages have evolved across three mutually exclusive nationality groups. Lithuanians refer to workers who are Lithuanian nationals, including those who also hold another nationality; EU refers to workers who are nationals of an EU/EEA country, Switzerland or the United Kingdom, but not Lithuania (hereafter ‘EU’); and non-EU refers to all remaining workers, i.e. nationals of the rest of the world.

Employment growth over the sample period has been driven overwhelmingly by non-EU workers, against an essentially flat Lithuanian workforce. Throughout, employment is measured as the number of filled positions (job spells) rather than individuals; since some people hold more than one job, the number of employed individuals is somewhat lower. The left panel of Chart A contrasts Lithuanian nationals with all foreign workers. Employment among Lithuanian nationals remained broadly stable at around 1.3 million throughout the period, edging down slightly after 2016, so that essentially all of the net change in employment came from foreign workers. The right panel splits the foreign workforce into its EU and non-EU components, on a scale that makes their very different trajectories visible. Non-EU employment expanded roughly twelve-fold, from about 11,500 workers in 2010 to some 143,100 by 2024, with the increase gaining pace from 2019 onwards, while EU employment grew far more modestly, from about 1,900 to 4,500 workers. As a result, the non-EU share of total employment rose from about 1% in 2010 to roughly 10% by 2024, whereas the EU share remained well under 1% throughout – leaving the non-EU group around thirty times larger than the EU group by 2024. The growth was thus far from homogeneous across the two foreign groups: EU employment a little more than doubled over the period, whereas non-EU employment multiplied roughly twelve-fold, making non-EU nationals the dominant margin of foreign labour growth.

⁴⁶ Available [here](#).

Chart A. Employment by nationality over time (Lithuanians vs foreigners, left-hand panel) and a more detailed breakdown of non-Lithuanian employment into EU vs non-EU foreigners (right-hand panel)

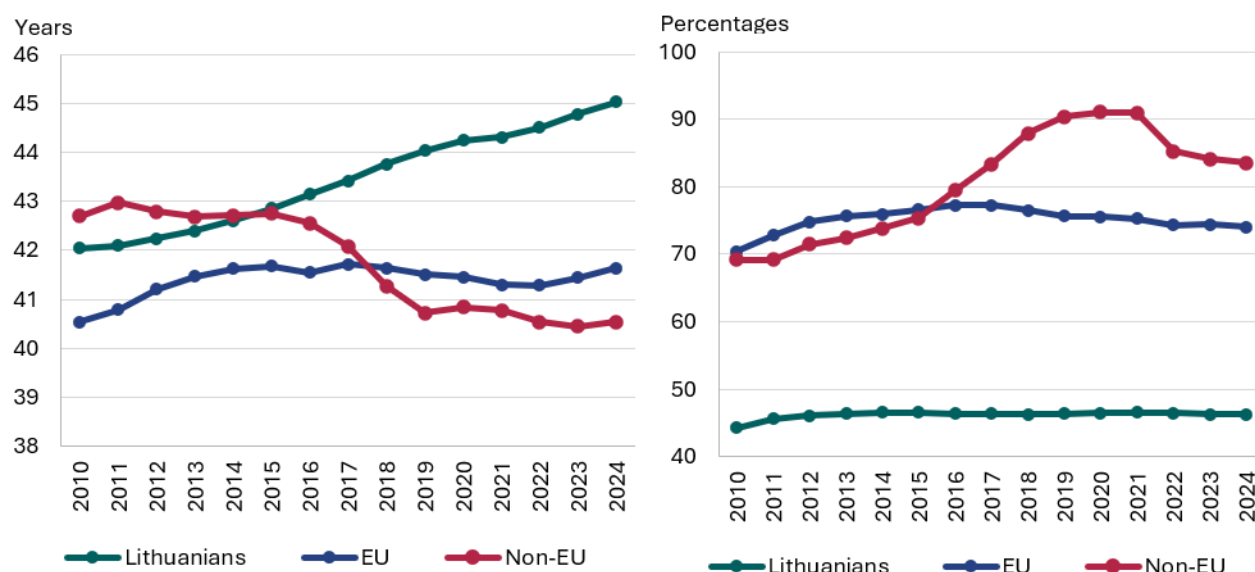


Sources: Sodra and Bank of Lithuania calculations.

The three groups differ systematically in age and, especially, gender composition, and these differences have widened over time. The Lithuanian workforce is ageing steadily and most rapidly of the three groups: its mean age rose from about 42 years in 2010 to around 45 by 2024 (Chart B, left-hand panel), consistent with broader demographic pressures, making it the oldest group throughout. The two foreign groups are younger and moved in opposite directions. EU workers grew modestly older, from about 40.5 to 41.6 years, staying notably younger than Lithuanian employees despite the general ageing of the EU population. Non-EU workers began as the second-oldest group, at around 42.7 years, but their mean age dropped sharply from around 2016 – falling roughly two years to about 40.5 by 2024 as the group expanded. As a result, non-EU workers are now the youngest group, with both groups of foreign workers well below the average age of Lithuanian nationals.

Gender differences are more pronounced (Chart B, right-hand panel). Employment among Lithuanian nationals is predominantly female, with the male share remaining stable at around 46%. EU employment is roughly three-quarters male throughout. The non-EU group is the most male-dominated and increasingly so: its male share climbed from about 69% in 2010 to a peak near 92% in 2019–2021, easing back to about 84% by 2024. As the two foreign groups grow in size, they pull up the male share of total employment in Lithuania.

Chart B. Mean age (left-hand panel) and male share (right-hand panel) of employment by nationality

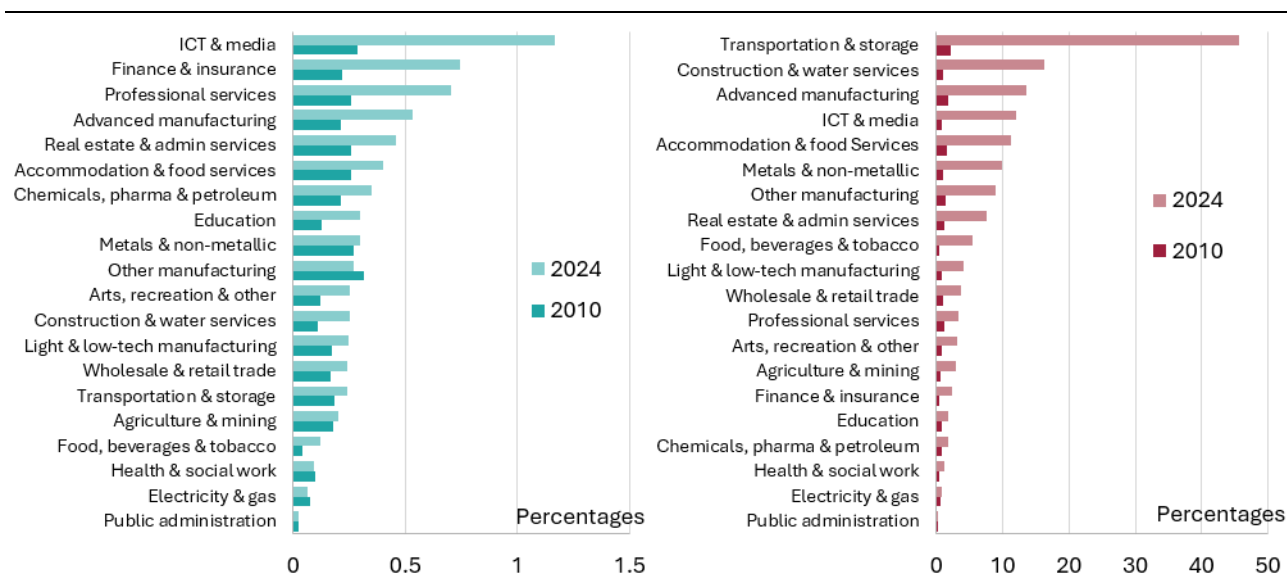


Sources: Sodra and Bank of Lithuania calculations.

Foreign labour is highly concentrated by sector, and the two foreign groups occupy very different parts of the economy. Chart C shows the share of each industry's workforce made up of EU and non-EU nationals in 2010 and 2024. For the EU group these shares remain small everywhere – below 1.5% in every industry even in 2024 – but despite this low base, EU employment grew strongly over the period, roughly doubling as a share of sectoral employment and rising most in higher-wage, knowledge-intensive sectors such as information and communication technology and media, finance and insurance, and professional services.

The non-EU group accounts for a far larger and more uneven share of sectoral employment. Its presence is overwhelmingly concentrated in transportation and storage, where non-EU workers rose from a negligible share in 2010 to about 46% of the sector's employment by 2024. The next two largest sectors for non-EU workers in 2024 were construction and water services, at around 16%, and advanced manufacturing, at around 14%. Two of these top three sectors – transportation and storage and construction and water services – are activities that pay below-average wages. This concentration means the Lithuanian economy has become materially more dependent on foreign labour in a small number of specific activities – most strikingly transportation, which by 2024 could not be staffed at anything like its current scale without non-EU workers. It also raises the question of whether the cost competitiveness of these sectors now rests on foreign labour.

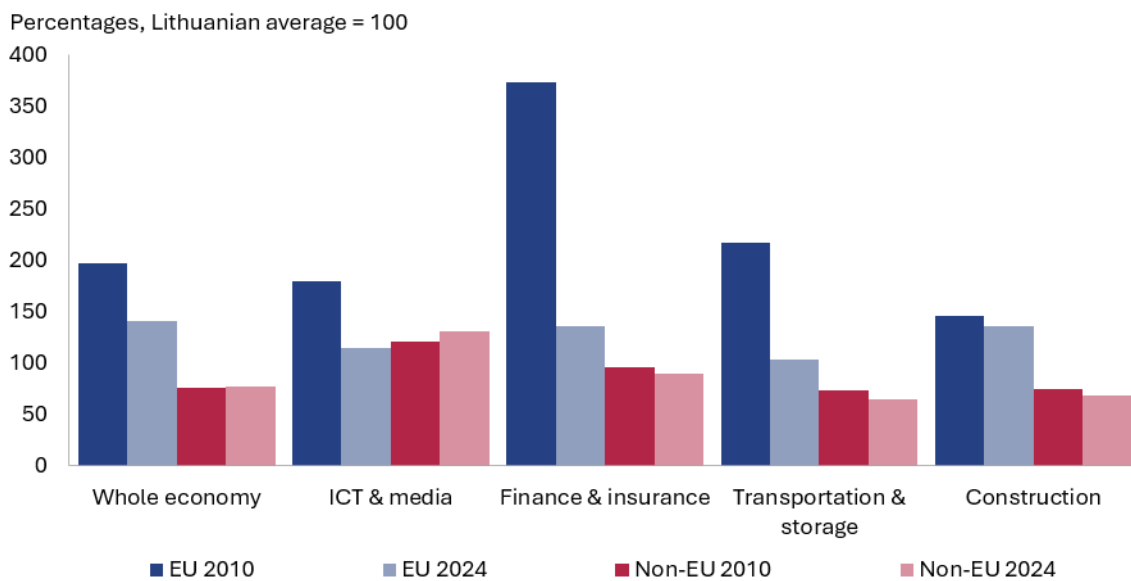
Chart C. EU (left-hand panel) and non-EU (right-hand panel) share of employment by industry



Sources: Sodra and Bank of Lithuania calculations.

Wage gaps by nationality are large, but they are largely explained by the sectors migrants work in. Chart D expresses each foreign group's mean wage as a percentage of the Lithuanian mean within the same sector (Lithuanian = 100 in each sector), for the whole economy and four key sectors, in 2010 and 2024. The four sectors are the two most important for each foreign group – ICT and media and finance and insurance, where EU workers are most concentrated, and transportation and storage and construction, where non-EU workers are most concentrated. Wages here are daily wages – monthly income divided by the number of days employed – and, importantly, do not account for the number of hours worked. Pooling all sectors, the whole-economy figures show EU workers earning well above Lithuanians (about 41% more in 2024, down from roughly double in 2010), while non-EU workers earn only about 77% of the Lithuanian wage. But this economy-wide non-EU penalty conceals enormous variation across sectors. In ICT and media, non-EU workers actually out-earn Lithuanians – by about 20% in 2010, rising to roughly 30% by 2024 – and in finance they sit close to parity. By contrast, in transportation and storage, where most non-EU workers are employed, they earn only about 65% of the Lithuanian wage, and about 69% in construction. The aggregate gap is thus driven largely by the sectors non-EU workers are concentrated in, not by a uniform pay penalty: in the high-wage sector, where they are relatively scarce, they do very well, while in the low-wage sectors where they cluster the within-sector gap is widest. The EU premium, meanwhile, narrowed sharply within every sector – most dramatically in finance, where it fell from an exceptional level in 2010 toward more moderate figures by 2024.

Chart D. Wage gaps within sectors: EU and non-EU mean wage as a percentage of the same-sector Lithuanian wage (Lithuanian = 100), 2010 and 2024



Sources: Sodra and Bank of Lithuania calculations.

Beyond confirming the rapid rise of non-EU labour documented previously, the patterns above point to a more nuanced picture with distinct policy implications. The two foreign groups occupy very different positions in the labour market: EU workers are few but command a wage premium and cluster in high-wage, knowledge-intensive sectors, whereas non-EU workers are numerous, younger, overwhelmingly male, and concentrated in a handful of below-average-wage activities – most strikingly transportation, which could no longer operate at its current scale without them.

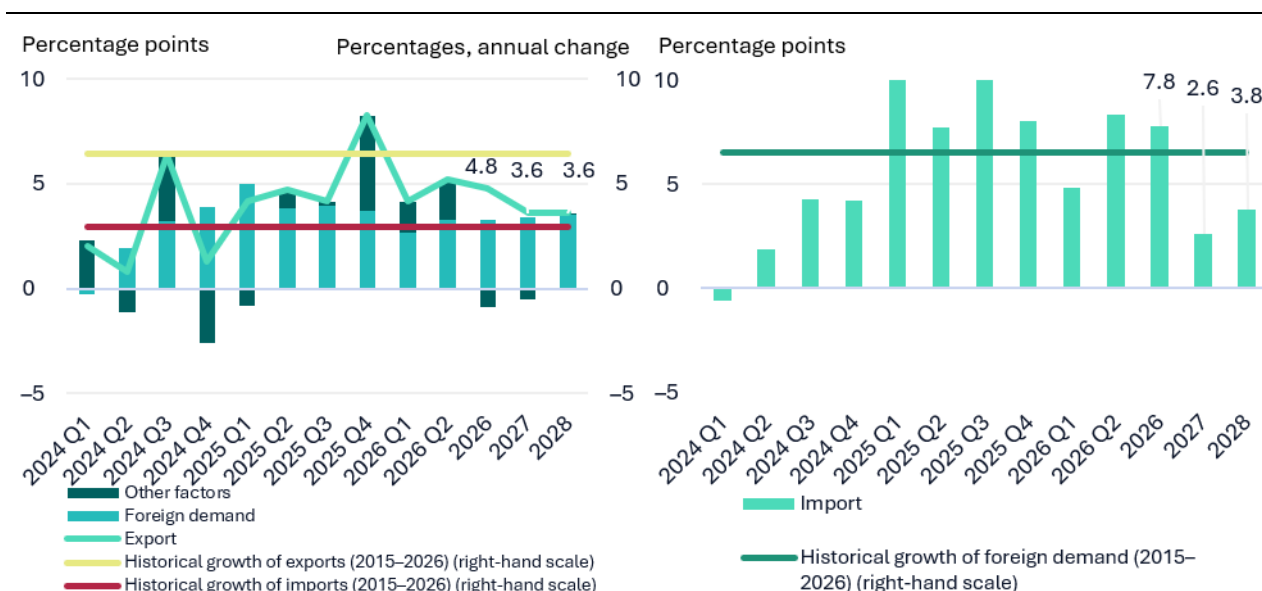
Crucially, the sector breakdown shows that the economy-wide non-EU wage penalty is largely compositional rather than a uniform disadvantage: where non-EU workers are scarce and highly skilled, as in ICT and Media, they out-earn Lithuanians, whereas in the low-wage sectors where they cluster they earn substantially less. This suggests the aggregate gap reflects mainly where non-EU workers are employed rather than systematically unequal pay for the same work – though a fuller answer would require decomposing the gap into a between-sector component (sorting into low-wage industries) and a within-sector component (pay differences within the same industry), and examining whether non-EU workers have comparable access to high-paying firms. The distinction matters for policy: a gap driven by sectoral sorting points toward measures easing mobility into better-paying sectors and firms, whereas a residual within-sector gap points toward equal-pay and anti-discrimination concerns.

A second implication is more structural: because non-EU workers are now so concentrated in a few activities – accounting for close to half of employment in transportation and a sixth in construction – the continued functioning and cost competitiveness of these sectors has come to depend materially on foreign labour. Any tightening of migration or work-permit policy would therefore fall unevenly across the economy, with an outsized effect on the specific sectors that have come to rely on non-EU workers – a dependence worth weighing explicitly when calibrating migration policy.

4. External sector

In the first quarter of 2026, the annual growth rate of real exports and imports slowed slightly, but recovered in the second quarter, although exports remained below their historical average growth rate. The outlook remains favourable and positive. Annual export growth was positive at 4.2% in the first quarter of 2026 and accelerated to 5.2% in the second quarter, although this represented a slight decline from the 8.2% annual growth recorded in the fourth quarter of 2025. This reflects the base effect that persisted since the start of 2025, i.e. a decline in exports due to expectations of high tariffs and trade uncertainty. Furthermore, although foreign demand had a favourable impact on export performance, it was lower than in 2025 due to the geopolitical situation; consequently, export growth was below the historical average for 2015–2026. The rate of import growth, partly driven by the same base effect, after three consecutive quarters rose to 8.4% in the second quarter of 2026. Faster import growth is narrowing Lithuania's trade balance, but the trade balance remained in surplus in the first quarter of 2026. Annual export growth is projected to remain positive at 4.8% in 2026. However, due to weakening foreign demand, growth is set to slow to 3.6% in 2027 and 2028. Meanwhile, imports are expected to grow robustly, particularly in 2026, at a rate of 7.8%.

Chart 8. Historical development of the real exports of goods and services (left-hand scale) and imports (right-hand scale) (2-quarter moving averages) and their annual growth projections

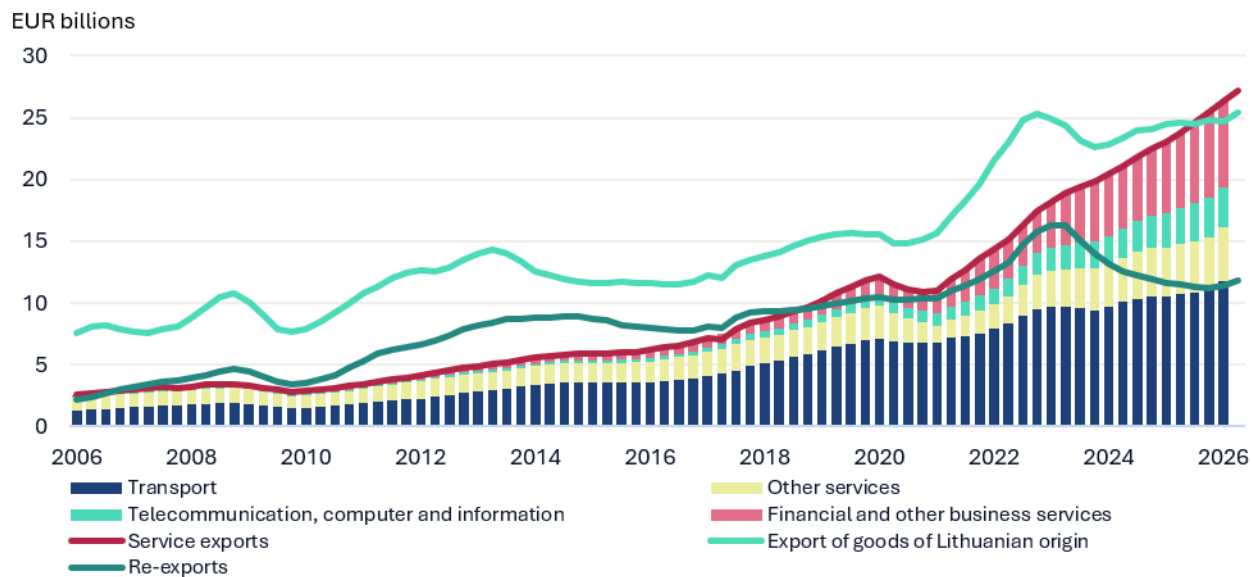


Sources: State Data Agency, ECB, Lietuvos bankas and Lietuvos bankas calculations.

Having overtaken exports of goods of Lithuanian origin as early as the end of last year, exports of services continued to grow rapidly in the spring of 2026, with higher value-added services contributing significantly to this growth. In recent years, the development of individual export components has diverged significantly. The value of exports of goods of Lithuanian origin, despite short-term volatility, has remained broadly unchanged since 2022, though growth has been significantly dampened by a decline in exports to Western Europe. Despite this negative impact, export growth in other markets more than offset the decline in exports to Western Europe, with the annual growth rate of exports of goods of Lithuanian origin accelerating to around 7.4% in May 2026. The volume of re-exports has fallen significantly since peaking in 2022, and this development was driven by tighter international sanctions, redirection of trade flows and changes in statistical accounting. Given these structural factors, a more rapid recovery of re-exports is not expected in the near future. The development of exports of services is viewed more favourably: exports are growing steadily, are resilient to external shocks and there are no signs of a significant slowdown in growth as yet. A steady increase in the share of higher value-added exports such as financial, business and telecommunications services, is also encouraging.

Since overtaking exports of goods of Lithuanian origin for the first time at the end of 2025, exports of services have continued to grow.

Chart 9. Export components (at current prices; 4-quarter moving sums)

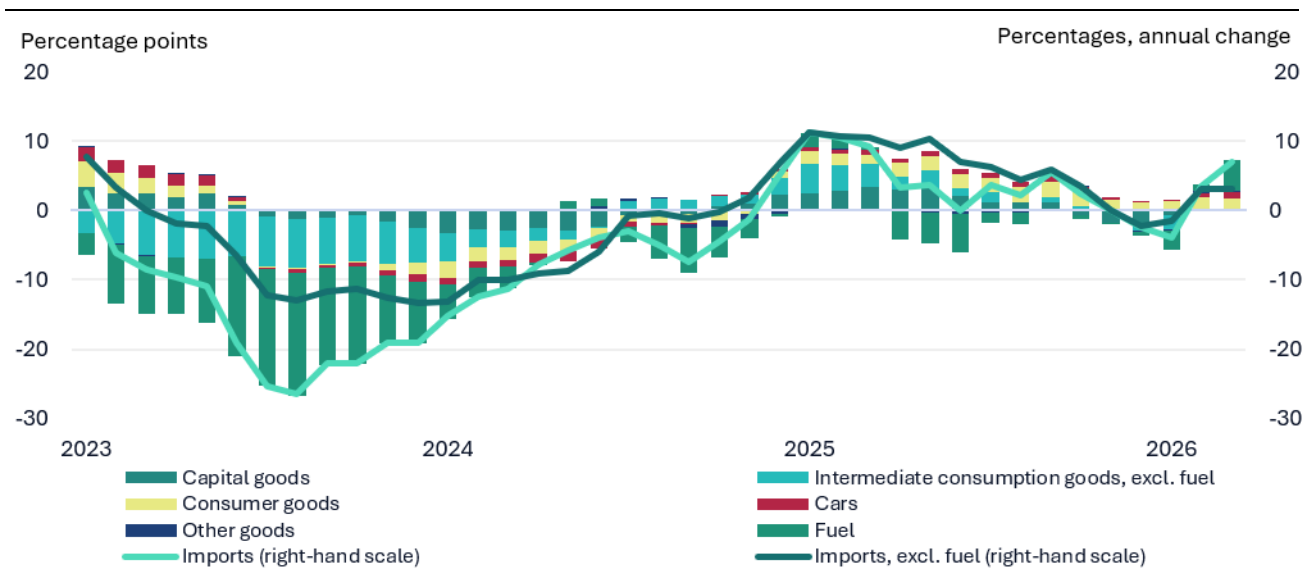


Sources: State Data Agency, Lietuvos bankas and Lietuvos bankas calculations

Nominal imports of goods began to rise again in the spring of 2026, with this recovery largely driven by increased fuel imports. The overall annual growth rate of imports, measured by a 3-month moving average, accelerated to around 7%. Fuel made the largest positive contribution to import growth, accounting for 4% of total import growth. Annual growth of imports excluding fuel stood at around 3.1%; consequently, more than half of the overall growth of imports can be attributed to the development of fuel imports, which was driven by soaring fuel prices in the spring of 2026 amid the geopolitical conflict in the Middle East. The growth of imports of capital goods suggests that corporate investment demand remained fairly resilient. However, the fact that imports excluding fuel grew at a significantly slower rate than total imports indicates that import growth driven by domestic demand remained moderate.

The recovery of imports in the spring of 2026 was driven mainly by fuel, while imports excluding fuel grew at a considerably slower pace.

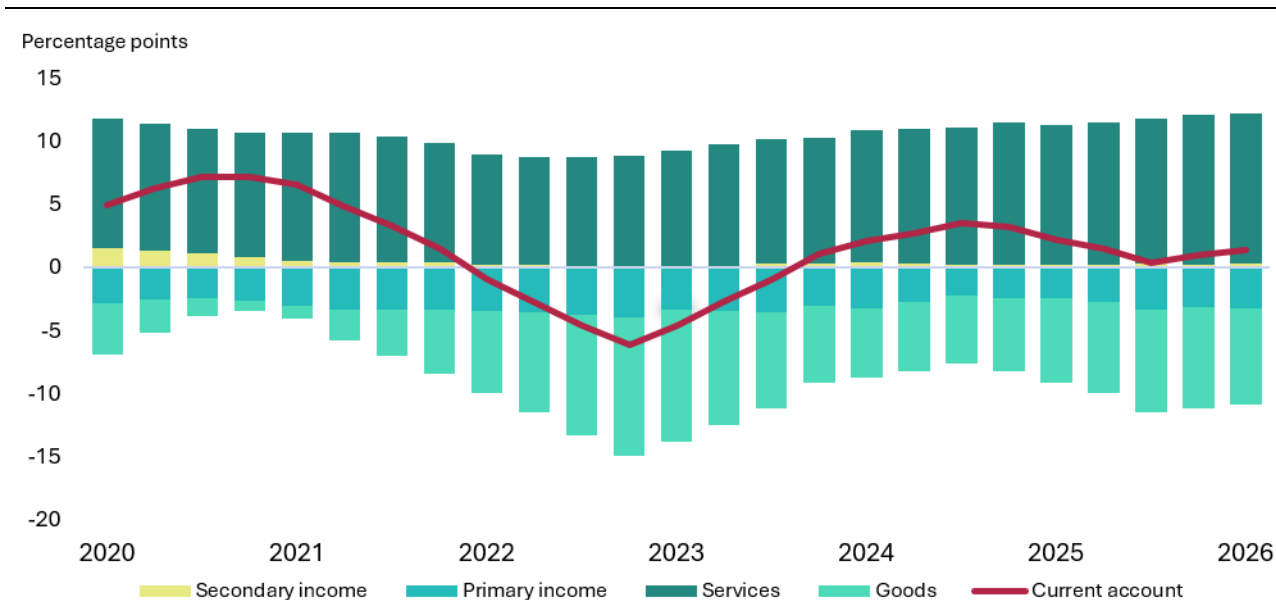
Chart 10. Annual import growth (3-month moving average)



Sources: State Data Agency and Lietuvos bankas calculations.

The current account balance remained positive at the start of 2026, while a substantial surplus on services continued to offset deficits on goods trade and primary income. The current account surplus, measured as a 4-quarter moving average, increased slightly in the first quarter of 2026 to 1.33% of GDP. The increase in the surplus largely reflected a slight improvement on the goods trade balance and a further increase in surplus on the balance of services. The services surplus stood at 11.9% of GDP at the start of 2026 and was the main factor underpinning the positive current account balance. The goods trade deficit narrowed slightly compared to the middle of 2025 and stood at around 7.6% of GDP. The balance of primary and secondary income remained largely unchanged.

Chart 11. Components of the current account and net borrowing (4-quarter moving averages, relative to GDP)



Sources: State Data Agency, Lietuvos bankas and Lietuvos bankas calculations

5. Prices

In the near term, the main pressure on inflation will come from rising fossil fuel prices due to the blockade of the Strait of Hormuz. Between January 2025 and the outbreak of the conflict in the Persian Gulf, annual energy inflation in Lithuania averaged 0.6%, while the annual rise in energy prices went up to 19.7% since the start of the war (between March and July of this year). This mainly reflects a reduction in global oil supply by more than 13.6 million barrels per day⁴⁷, which caused fuel and lubricant prices to surge by 17.2% between February and July (see Chart 12, left-hand panel). The price level of other energy components (electricity, gas, solid fuels, heat) rose by around 3.7% from February.

This year, the main drivers of energy inflation have been rising prices for fuel, lubricants and heat. Heating costs began to surge during the last cold season and were the most significant component until the start of the war with Iran (see Chart 12, right-hand panel). The current shortage of natural gas on the global market is making it difficult to fill the EU's underground storage facilities ahead of the cold season.⁴⁸ By 30 August, 65.1% of capacity had been filled.⁴⁹ So far this year, the filling of underground gas storage facilities has been proceeding in a similar manner to 2021, when Russia restricted gas supplies.⁵⁰ If the situation remains unchanged, heating and electricity generation will be even more expensive this coming winter due to rising gas prices. On the other hand, the continuing growth of the supply of renewable energy is easing the pressure on electricity prices. During the first half of this year, electricity generation from solar panels rose by 48.6%, from wind farms by 21.0%, while generation from gas-fired thermal power plants contracted by 25.5%.⁵¹ The ratio of renewable electricity generation to the national electricity demand rose from 52.7 to 61.5%.⁵² This helped to cushion the impact of the fossil fuel price shock.

Average annual inflation in 2026 will rise significantly to 5.1% due to elevated energy costs.

⁴⁷ Macroeconomic projections of the IMF, July 2026.

⁴⁸ Regulation (EU) 2025/1733 requires underground gas storage facilities to be filled to at least 90% between 1 October and 1 December.

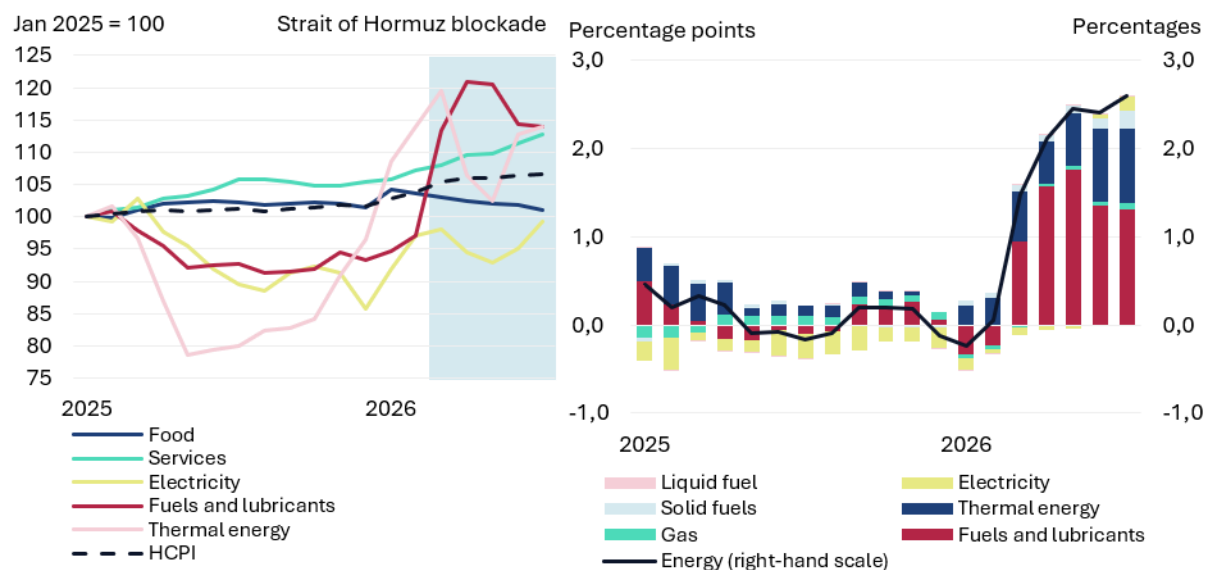
⁴⁹ Data from KYOS Energy Consulting.

⁵⁰ Reuters 'Europe's renewables boom is becoming a gas demand bust'.

⁵¹ Data from LITGRID AB.

⁵² Comparison of the first halves of 2025 and 2026.

Chart 12. Key price indices (left-hand panel), energy inflation and contributions (right-hand panel)



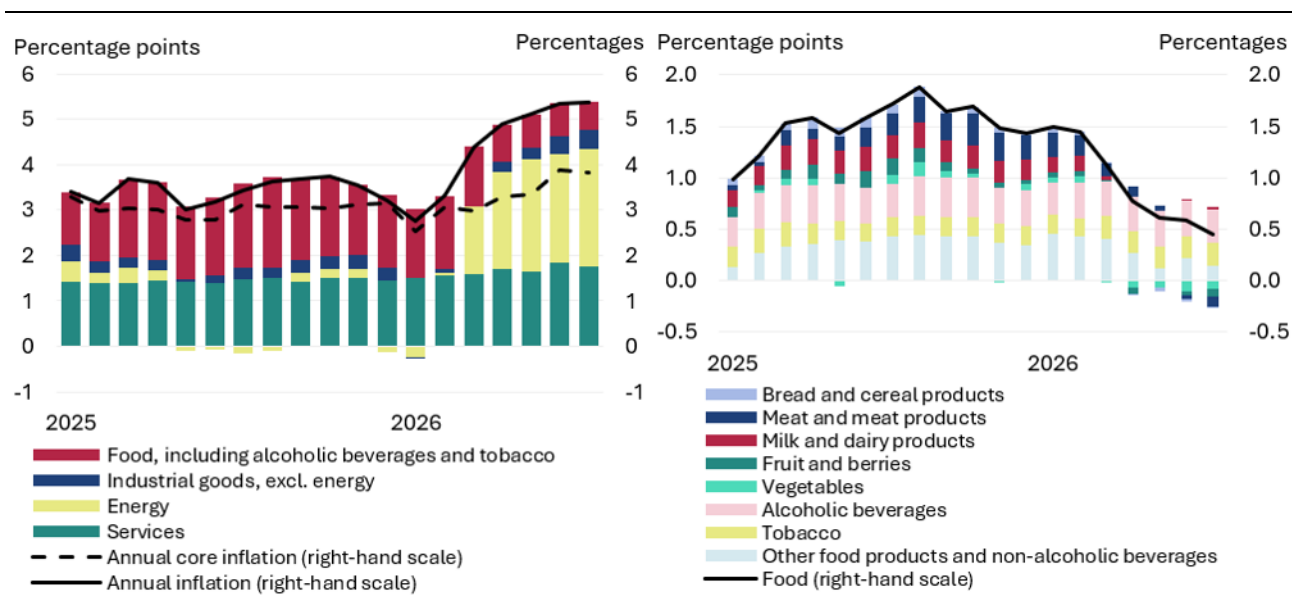
Sources: Eurostat, State Data Agency and Lietuvos bankas calculations.

Headline food inflation is lower than a year ago due to lower agricultural production prices. Falling non-processed food prices, combined with a slower rise in processed food prices, has contributed to the decline in annual headline food inflation. The overall growth of food prices stood at 3.3%, down by 1.8 percentage points from a year earlier. Owing to weather conditions favourable for agriculture and conditions on global food markets, the prices of non-processed foods rose by a mere 2.3%⁵³ (rising 1.3 percentage points slower than last year), this trend also fed through to the growth of processed food prices, which stood at 3.6% (rising 1.9 percentage points slower). In 2026, price developments of essential food groups became more favourable for consumers, with prices for bread and cereal products, vegetables and fruit beginning to fall, while changes to the prices of dairy and meat products were relatively modest. The main contributors to food inflation were higher prices of other products, alcoholic beverages and tobacco (see Chart 13, left-hand panel).

In 2026, prices of key food categories began to fall.

⁵³ In the first seven months.

Chart 13. Headline food inflation and contributions (left-hand panel) and HICP inflation and contributions (right-hand panel)



Sources: Eurostat, State Data Agency and Lietuvos bankas calculations.

Services continue to be a key component driving HICP growth. This year, service prices are rising at an accelerated pace and have accounted for a stable share of headline inflation for several years now (see Chart 13, right-hand panel). Over the first seven months, the annual growth of service prices stood at 6.4%, up by 0.6 percentage points from 2025. This year has seen changes in the price dynamics of industrial products. Rising raw material and energy prices have led to higher production costs and a faster rise in annual inflation for these goods from 0.3% (February) to 1.1% (July).

Inflation is expected to continue to rise at a slower pace in 2027–2028: 3.1% and 2.6% respectively.

However, there is considerable uncertainty surrounding price developments, largely owing to military action in the Persian Gulf. The pace at which the price growth in Lithuania subsides will depend on the duration of the conflict and normalisation of the global energy market. Despite the slowing growth of energy prices, domestic price pressures will continue to be driven by rigid pricing in the services sector and rising unit labour costs.

6. Monetary policy of the Eurosystem

Higher energy prices have accelerated inflation not only in Lithuania but across the euro area as a whole.

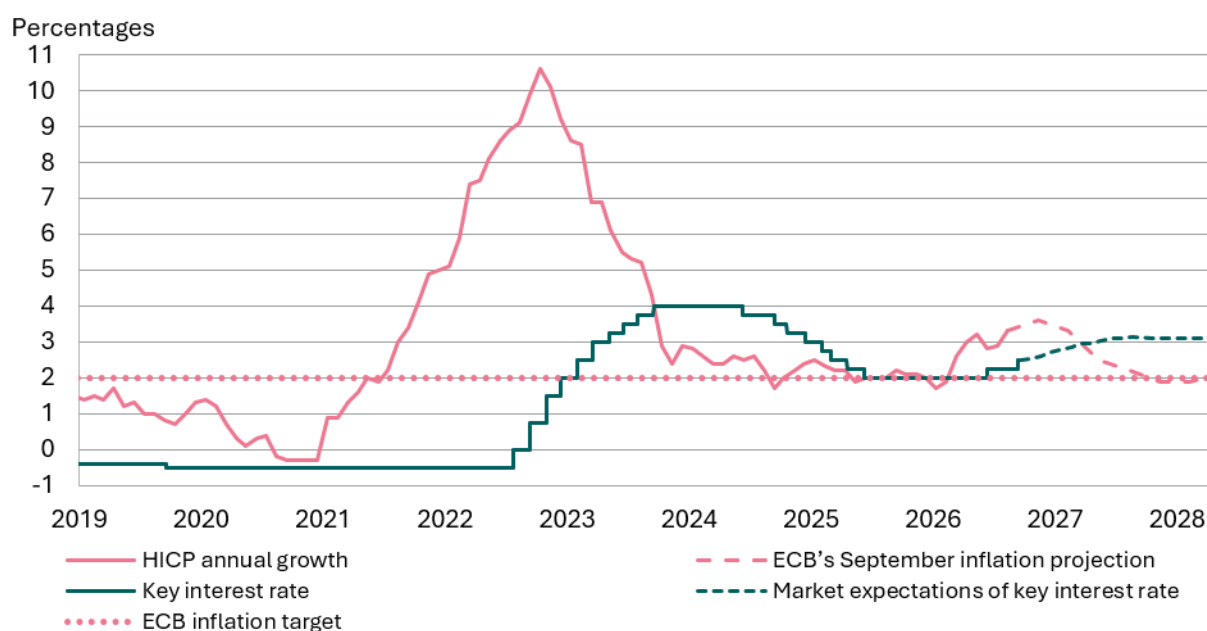
Following the outbreak of the war in the Middle East, energy prices soared, which in turn drove up the prices of other consumer goods and services. The risk of inflation remaining above the 2% target for a prolonged period has also increased.

In view of this, the Governing Council of the ECB began raising interest rates in the middle of the year; these rates had remained unchanged since June 2025. Exactly one year later – at its meeting in June 2026 – the Governing Council decided to raise key interest rates by 0.25 percentage points, and in September the rates were raised by the same margin once again. These decisions help to reduce the risk of de-anchoring of inflation expectations from the 2% target in the euro area. Inflation becomes most dangerous not when energy prices rise in a single month, but when consumers and businesses lose confidence that price growth of the basket of goods and services will return to normal levels. The Governing Council has repeatedly pointed out that future monetary policy decisions will depend on the inflation outlook, the dynamics of underlying inflation and the strength of the monetary policy transmission.

Projections suggest that tighter monetary policy will continue to weigh on inflation, and with energy prices no longer rising, inflation is expected to gradually return to the 2% target (see Chart 14). Although inflation in the euro area rose to 3.3% in August, the September macroeconomic projections state that, owing to the easing of the energy price shock and higher interest rates, inflation is expected to decline steadily every year, averaging 2.1% in 2028. Financial markets expect interest rates to rise slightly further over the course of the year. However, the Governing Council will continue to follow a data-dependent and meeting-by-meeting approach and its decisions will therefore not necessarily align with market participants' expectations.

The key ECB interest rates were raised to prevent inflation from deviating too far from the 2% target for too long.

Chart 14. Actual data on interest rates and inflation in the euro area and market expectations



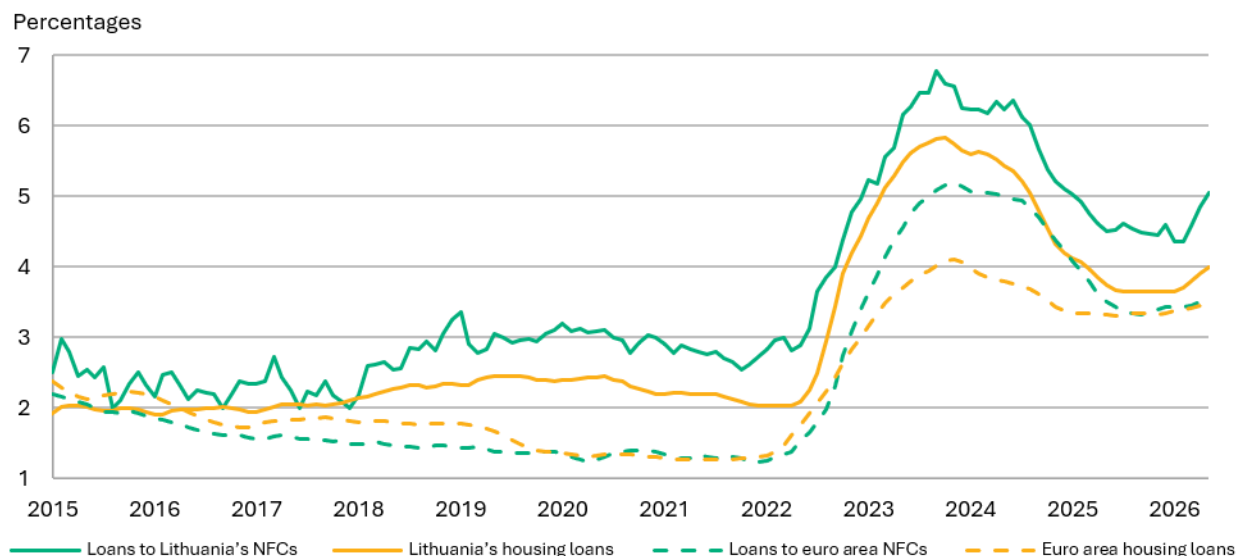
Sources: ECB and LSEG Datastream.

Note: The Chart reflects the data as of 10 September.

Lending rates rose as expectations of an ECB rate hike grew and remained higher in Lithuania than the euro area average (see Chart 15). Lending rates in Lithuania were higher than in the euro area even before the war in the Middle East, possibly reflecting greater concentration of the Lithuanian banking sector. Compared to February 2026, i.e. the level prior to the war in the Middle East, lending rates rose further and in Lithuania they grew faster than across the euro area. By June, interest rates on loans to non-financial corporations in Lithuania had risen by 0.7 percentage points, while those on housing loans by 0.3 percentage points. In the euro area, these changes amounted to 0.2 and 0.1 percentage points respectively. This difference may reflect the fact that the majority of loans in Lithuania are granted at variable interest rates, meaning that changes in ECB interest rates and related expectations have an immediate impact on lending rates in Lithuania, whereas the impact on fixed-rate loans in the euro area is felt only when the level of long-term interest rates changes.

Lending rates have begun to rise both in the euro area and Lithuania.

Chart 15. Average interest rates on new MFI housing loans and loans to NFCs



Sources: ECB and Lietuvos bankas calculations.

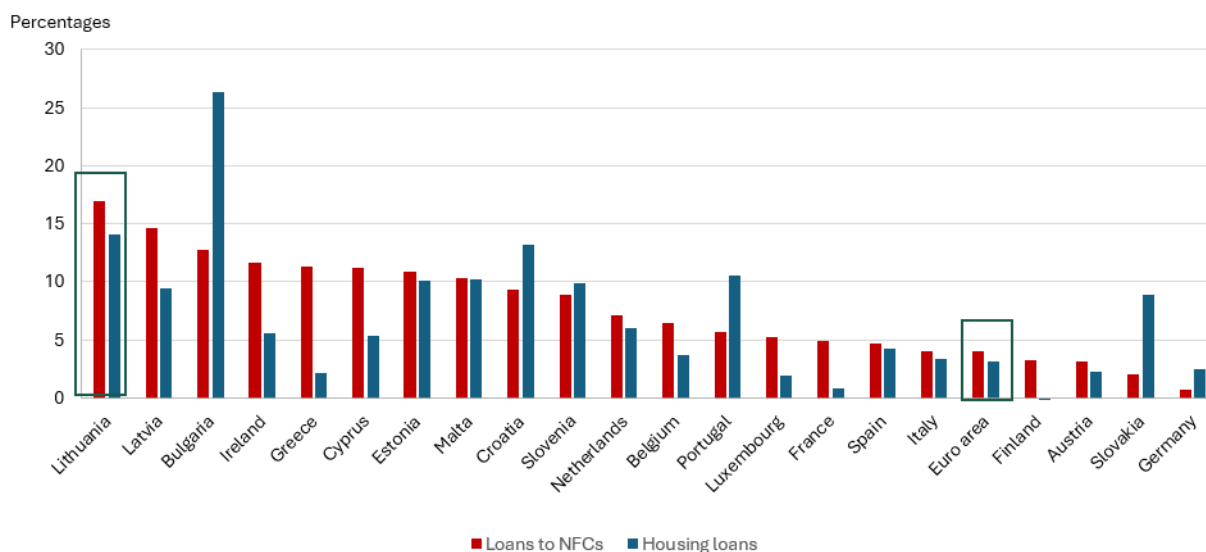
Notes: 3-month moving average. Excluding revolving loans and overdrafts.

Although lending rates remained among the highest, lending in Lithuania continues to be among the fastest-growing in the euro area. In June 2026, the annual growth rate of the portfolio of MFI loans to NFCs (16.7%) was the highest, while that of housing loans (14.1%) was the second highest in the euro area (see Chart 16). However, in terms of the total credit extended to businesses by the financial sector (not just MFIs), the annual growth rate was slightly lower: according to data for the first quarter of 2026, it stood at 12.8% and was the second highest in the euro area. Borrowing for consumption is also active, with the portfolio of loans for consumption and other purposes growing by 19.2% year on year in June. The faster growth of lending in Lithuania compared to the euro area as a whole is partly explained by one of the lowest overall debt levels in the euro area; a similar trend can also be seen in other euro area countries: the loan portfolio is growing faster where the ratio of the loan portfolio to GDP is lower (e.g. in Bulgaria and Latvia).⁵⁴ The rapid growth of nominal lending volumes is also partly driven by rising consumer and housing prices.

Lending in Lithuania was among the fastest-growing in the euro area.

⁵⁴ Based on the 2026 Financial Stability Review.

Chart 16. Annual change in MFI loans to NFCs and housing loan portfolio in the euro area countries, June 2026



Source: ECB.

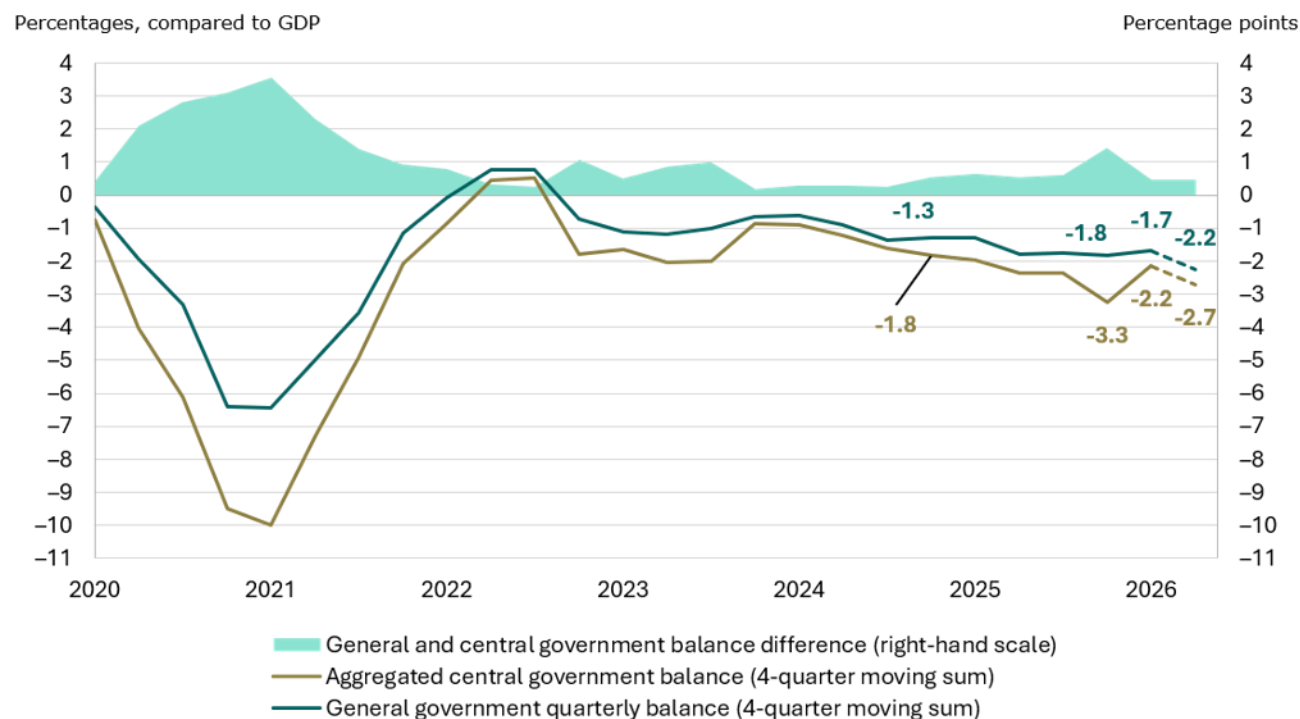
7. General government finance

Government spending, which in the first half of 2026 outpaced revenue, and debt indicate that the general government's financial condition is deteriorating. Compared to 2025, the general government balance-to-GDP ratio improved slightly in the first quarter of 2026 and stood at 1.7% of GDP (measured as a 4-quarter moving sum) (see Chart 17). Preliminary estimates of Lietuvos bankas, which are based on central government data, indicate that the general government deficit could have increased by a 0.5 percentage points in the second quarter and stood at 2.2% of GDP. According to monthly data, general government revenue continued to grow strongly in the second quarter (at around 10%), but general government expenditure, which rose faster than revenue, led to a wider general government balance deficit. This trend should come as no surprise as a larger general government budget deficit – one that is edging ever closer to the Maastricht threshold – has been officially planned by the relevant authorities for the coming years.⁵⁵

In the second half of 2026, the general government deficit widened and reached its highest level since the third quarter of 2021.

⁵⁵ 'Valdžios sektoriaus finansų projekcijos 2026–2029 metams', Ministry of Finance, May 2026.

Chart 17. General government and central government balance development (4-quarter moving sums)



Sources: State Data Agency and Lietuvos bankas calculations.

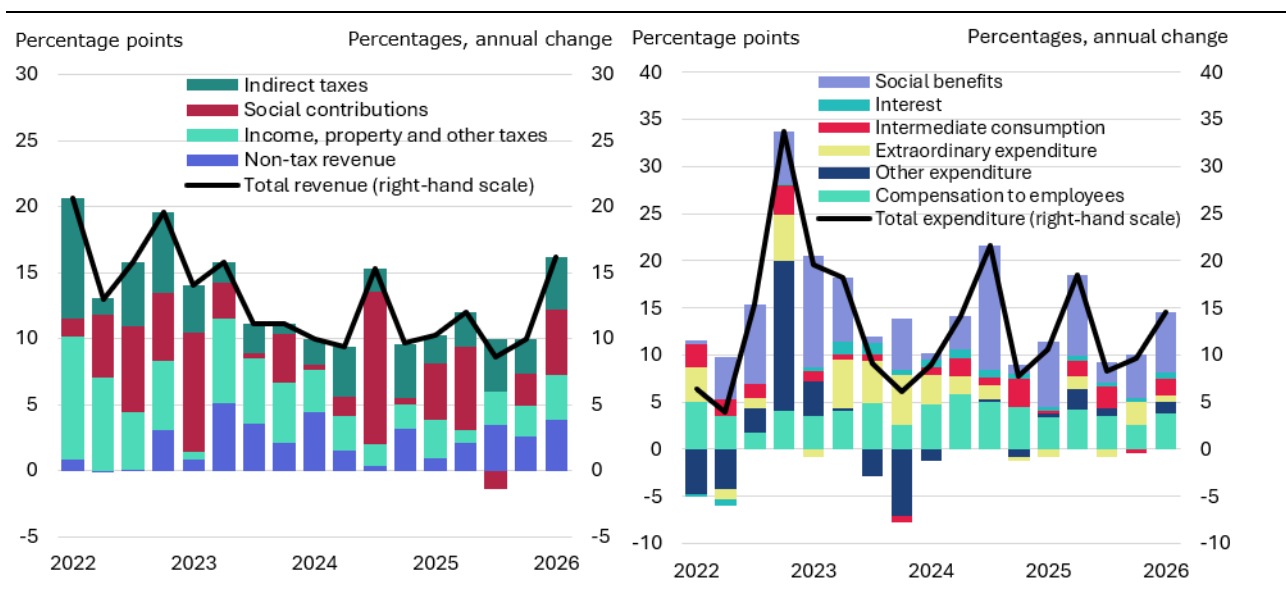
Note: Dashed lines indicate the estimates of corresponding indicators calculated by Lietuvos bankas.

General government revenue continued to grow in the first and second quarters of 2026 (by 16.2% and, likely, around 10% respectively) (see Chart 18, left-hand panel). In the second half of 2026, tax revenue was the main driver of growth of general government revenue. Tax revenue grew mainly on account of increases in the macroeconomic aggregates underlying the respective tax bases: a higher wage bill boosted personal income tax revenue, while rising consumption increased VAT and excise duty revenue. It should be noted that, despite higher fuel prices triggered by the war in Iran and much elevated oil prices, the sales dynamics for individual fuel types on the domestic market differed considerably: the volume of petrol sold in the first and second quarters was higher than a year ago, but the volume of diesel increased only in the first quarter. In the second quarter, sales of diesel subject to the standard excise duty were almost a tenth lower than a year ago. Despite these differences, revenue from excise duties on fuel in the first half of the year was approximately 6% higher than a year ago, as higher excise duty rates offset the negative impact of lower volumes on revenue. The strong positive impact of social contributions on the general government revenue can be attributed to a low base effect, with the social contribution receipts being relatively low in the first quarter of 2025 owing to the statistical treatment of persons insured by the state, whereas the quarterly flows of these contributions were considerably more even in 2026.

The annual growth of general government spending was also rapid in the first quarter of 2026 (14.5%) and likely to have slowed slightly in the second quarter (see Chart 18, right-hand panel). In the first quarter, the growth of general government expenditure was mainly driven by higher social benefits, while rising wage costs also made a significant contribution. The growth of social benefits largely reflected the increase in the base pension and value of individual pension accounting points at the beginning of the year as well as higher values of the MMW and other indicators (minimum consumption needs, basic social benefits, etc.) used to calculate various social benefits. As in previous quarters, expenditure on wages and salaries continued to be driven mostly by wage costs for employees in the education and health sectors.

In the first half of 2026, the general government revenue and expenditure rose rapidly: revenue was driven mainly by social contributions and tax revenue, while expenditure was driven by social benefits and staff salaries.

Chart 18. Annual developments in general government revenue (left-hand panel) and expenditure (right-hand panel) and contributions to these changes



Sources: State Data Agency and Lietuvos bankas calculations.

The increase in defence funding has not yet led to a significant rise in general government expenditure in the first quarter of 2026. According to the European System of Accounts 2010 (ESA 2010) methodology,⁵⁶ military equipment systems used to provide defence services for more than one year (e.g. warships, aircraft, tanks, etc.) are classified as non-current assets, therefore their acquisition costs are included in gross fixed capital formation (or investment). The acquisition of fixed assets is recognised at the time of transfer of ownership, usually upon actual delivery, regardless of when payments are made. It should be noted that gross fixed capital formation expenditure of the general government was roughly a tenth lower in the first quarter of 2026 than a year earlier. All this means that the acquisition of arms and equipment by the Lithuanian Armed Forces in 2026⁵⁷ will affect the general government balance indicators with a significant time lag. This can also be seen by comparing actual and planned defence spending using different methodologies (see Chart 19, left-hand panel). Chart 19 shows that defence spending in 2026 calculated according to the NATO methodology will be significantly higher than 5% of GDP; however, according to the Classification of the Functions of Government (COFOG), which indicates the purpose of expenditure and is based on the ESA 2010 accounting principles, this ratio will be much more moderate. Apart from different treatment of certain expenditure items, these discrepancies are also significantly affected by the differing treatment of certain military expenditure in terms of timing under NATO and COFOG (ESA 2010).

In the first half of 2026, the general government debt-to-GDP ratio rose significantly but is expected to stabilise in the second half of the year at around the current level. In the first and second quarters of 2026, the general government debt-to-GDP ratio rose to 42.5% and 44.3% respectively due to positive net borrowing (see Chart 19, right-hand panel). Soaring debt was mainly driven by significant positive net borrowing: according to the Lithuanian Government's borrowing and debt repayment statistics published by the Ministry of Finance, funds borrowed in the first half of 2026 were roughly €5.6 billion higher than the amounts repaid. In addition to

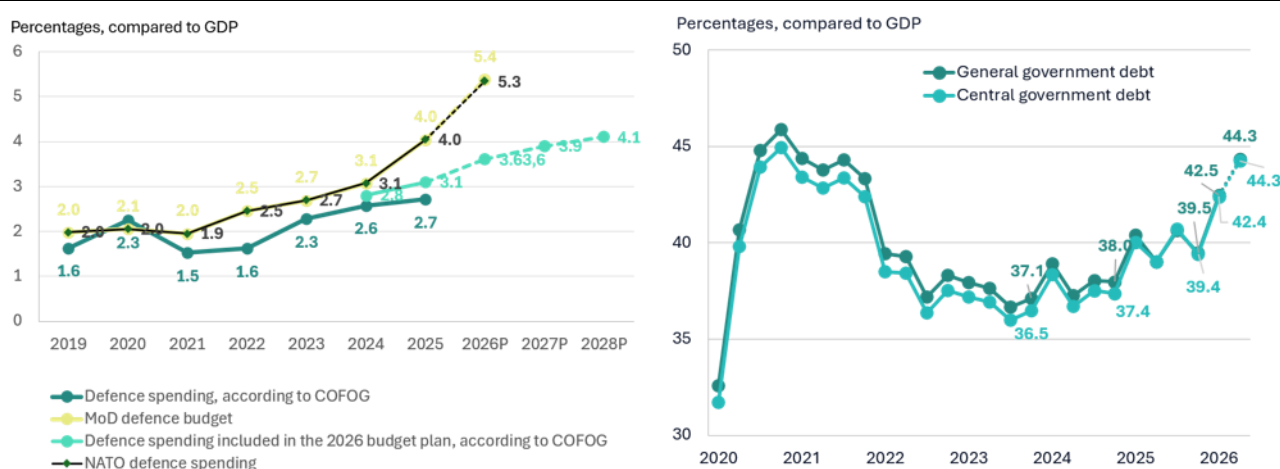
⁵⁶ European System of Accounts, 2010 Manual, p. 443.

⁵⁷ Further information on the Ministry of Defence (MoD) key budget priorities for 2026 and ongoing procurement projects can be found [here](#).

the need to finance the accumulating general government balance deficit, the level of debt was also significantly increased by growing defence commitments financed through advance payments, although all defence expenditure will only be included in the general government balance sheet in the future. Borrowing to finance defence needs is likely to continue in the second half of the year, but the planned redemption of a large bond issue for this purpose – most likely using funds already borrowed – should result in a slightly lower debt-to-GDP ratio in the second half of the year.

The increase in defence funding in the first quarter of 2026 has not yet led to a significant rise in general government expenditure (due to a time lag resulting from accounting principles); however, borrowing to cover the accumulating general government balance deficit and advance payments related to defence projects has increased the general government debt-to-GDP ratio, which is unlikely to change significantly in the second half of the year.

Chart 19. Defence expenditure developments (left-hand panel) and general government debt-to-GDP ratio and projection for the coming quarter (right-hand panel)



Sources: State Data Agency, Ministry of Defence and Lietuvos bankas calculations.

Box 6. To what extent do Lithuanians contribute to public finance and how much do they receive in return?

Prepared by Kaspars Vasiliauskas

The public finance system is used to redistribute resources across different stages of a person's life. During childhood and in old age, people generally receive much more public services and benefits than they pay in taxes and contributions at that time, while during their working years the opposite is usually true. Thus, a person's interaction with public finance changes over the course of their life cycle. Once they reach adulthood and enter the labour market, people effectively repay, through taxes and contributions, the public services they received in childhood by financing such services for the younger generation. At the same time, they contribute to the welfare of the elderly, the generation that previously financed the welfare of today's working population during their childhood. By paying taxes and contributions, people of working age also accrue social entitlements from which they will increasingly benefit later in life. This creates a kind of social contract between generations, whereby, over the course of a person's life, they move from being a beneficiary of public finance to a contributor and later become a beneficiary once again.

The redistribution of resources across different stages of a person's life and the social contract between generations operate in practice through redistribution of resources among different age groups at a given point time. During a given period, one age group contributes more to public finance than it receives, while others

receive more than contribute. Therefore, what matters for public finance is not only how much people of different ages pay and receive, but also how many people there are in each age group. In other words, the age structure of the population is important. If the number of people who pay more than they receive decreases, while the number of those who receive more than they pay increases, the state of public finances deteriorates even if the system of taxes, benefits and public service provision remains unchanged. Against this background, the box first calculates how much Lithuanians in different age groups pay in taxes and contributions and how much they receive in public services and benefits. It then assesses how the state of public finance would change by 2050 if the ratio of taxes paid and benefits and public services received for each age group were to remain the same as in 2024, while the age structure of the population were to change in line with official demographic projections.

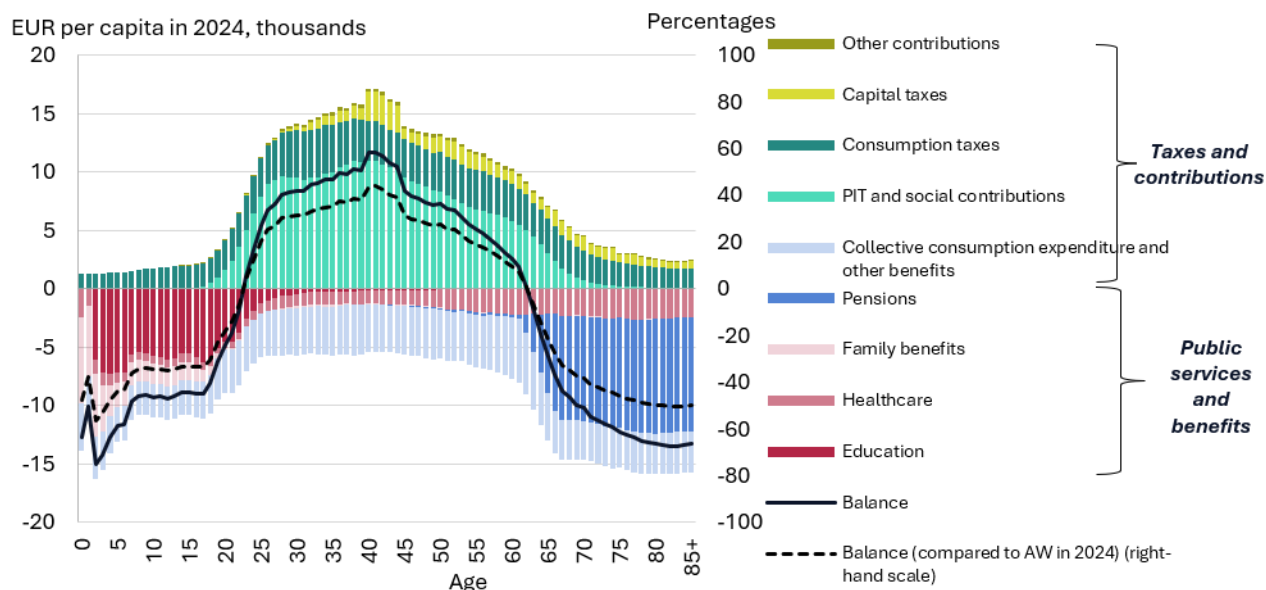
The balance between taxes and contributions paid and public services and benefits received reflects changes in person's economic activity over the course of their life.⁵⁸ During childhood and adolescence (up to the age of 22) and in old age (from the age of 63), people receive, on average, more from the public purse than they pay, whereas during their working life (between ages of 23 and 62), the opposite is true (see Chart A). The largest negative balance occurs in early childhood and late old age. In 2024, it stood at around €13,000 per year, or almost 50% of the annual average wage. In childhood and adolescence, the negative balance is mainly driven by education services (pre-school, pre-primary, general, vocational and higher education services) and family benefits (one-off payments upon the birth of a child, child allowance, etc.). In later life, the negative balance is mainly driven by pensions (old-age, widow's and orphan's, disability, etc.) and health and care services, the need for which increases with age. At both stages of life, people are generally economically inactive and therefore pay relatively few taxes and contributions, while receiving a significant proportion of public services and benefits.

During a person's working life, their contribution to public finance begins to exceed the public services and benefits they receive. The average balance between taxes and contributions paid and public services and benefits received becomes positive from around the age of 23, when the majority of people complete their general and higher education and enter the labour market. As labour income rises, so do the levels of personal income tax and social contributions paid. Some people set up businesses or invest, thereby generating capital income, which in turn leads to an increase in capital taxes paid. Consumption rises in line with income, and with it, consumption taxes (VAT and excise duties). The largest budget surplus is reached at the age of 40–45. In 2024, it stood at approximately €11,000 per capita per year, or slightly more than 40% of the annual average wage. Thereafter, this surplus decreases steadily, and around the age of 63 the balance turns negative again, as an increasing share of the population leaves the labour market.

The greatest benefits of public services and public finance are derived in early childhood and late old age when people are least able to work.

⁵⁸ The fiscal balances for different age groups were calculated using the methodology laid down by Guzman (2026) (available [here](#)). The revenue side of the fiscal balance (taxes and contributions) comprises all taxes and social contributions such as the personal income tax, social security contributions, VAT and excise duties, property taxes and corporation tax. In 2024, these categories accounted for around 85% of general government revenue. The expenditure side comprises all cash benefits, healthcare, education, in-kind services and collective consumption expenditure. The benefits of collective consumption expenditure, i.e. national defence, police, law enforcement, public administration, etc., are enjoyed by the entire population of the country. Accordingly, their fiscal impact is distributed equally across all age groups. In 2024, the expenditure categories included in the analysis accounted for approximately 86% of total general government expenditure. Other general government revenue (e.g. EU transfers, service charges, income from assets, etc.) and expenditure (e.g. general government investment, subsidies, interest) cannot be meaningfully distributed by age and are therefore excluded from the analysis.

Chart A. Fiscal balances per capita for different age groups

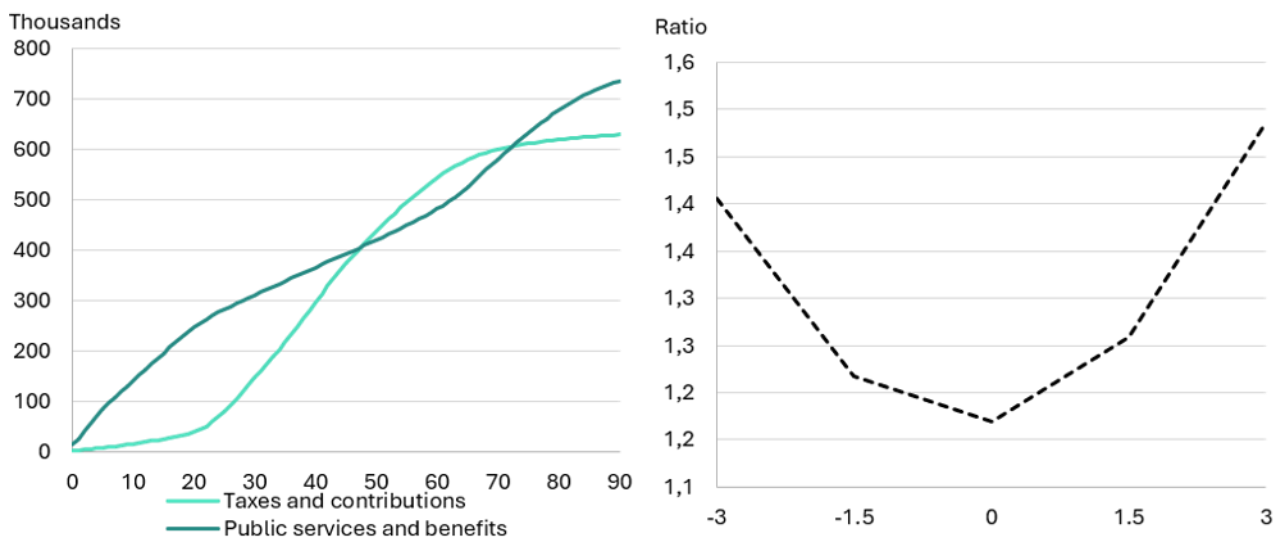


Sources: Eurostat, State Data Agency and Lietuvos bankas calculations.

Over the course of a person's lifetime, they receive, on average, slightly more from public finance than they pay. The difference is particularly large during childhood and youth: the ratio of public services and benefits received to taxes and contributions paid exceeds ten, as children receive education and healthcare services as well as various benefits related to their birth and upbringing (see Chart B). Once a person starts working, this ratio drops sharply and by around the age of 50 the total amount of taxes and contributions paid up to that point for the first time exceeds the value of the benefits and public services received. The gap continues to widen, becoming the widest at around the age of 60, by which time a person has already paid approximately 10% more than they have received. Later, the trend reverses: once a person starts receiving a pension, the value of benefits received from public finance begins to rise steeply and at around the age of 73 their total value once again exceeds the amount of taxes and contributions paid up to that point. Ultimately, the ratio of public services and benefits received over a lifetime to the taxes and contributions paid exceeds 1, which means that, on average, a person receives more than they pay.

Over the course of a person's lifetime, they receive slightly more from public finance than they contribute.

Chart B. Aggregate level of taxes and contributions paid and public services and benefits received by age (left-hand panel) and ratio by different discount rates⁵⁹



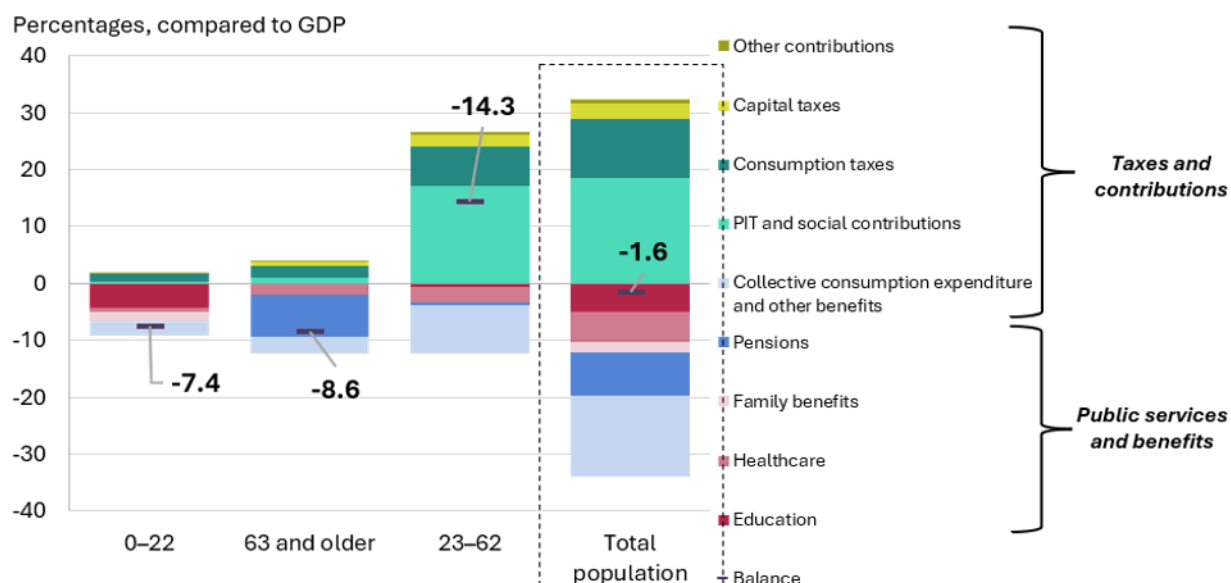
Sources: Eurostat, State Data Agency and Lietuvos bankas calculations.

Moving from the individual level to the overall level of public finance, it is clear that the taxes and contributions paid by people of working age in 2024 are insufficient to cover the liabilities towards younger and older age groups. By linking the balances of taxes and contributions paid and public services and benefits received by each age group with the number of people of the relevant age group, it is possible to assess each group's overall contribution to public finance (see Chart C). In 2024, the population aged 23–62 constituted the largest segment of society: approximately 1.57 million, or 55% of the total population. The taxes and contributions they paid amounted to more than 26% of GDP, while the benefits and public services they received amounted to slightly more than 12% of GDP. Thus, the surplus generated by this group amounted to around 14% of GDP. However, the combined negative balance for children and adolescents (aged 0–22) and the older population (aged 63 and over) stood at around 16% of GDP, which is 2 percentage points higher than the surplus generated by the working-age population.

The fiscal contribution of the working-age population is insufficient to cover the liabilities to younger and older age groups.

⁵⁹ The calculations in left-hand panel of Chart B were derived by applying the balances of taxes and contributions paid and public services and benefits received by different age groups (see Chart A) to a hypothetical individual over the course of their lifetime. This creates a synthetic cohort as the current profile of the population at different ages is projected 90 years into the future. The amounts of taxes and contributions as well as public services and benefits for one person in each age group are multiplied by the probability of reaching the relevant age. The right-hand panel illustrates the varying ratio of taxes and contributions paid to public services and benefits received over a 90-year lifespan, with the flows of contributions and benefits discounted back to the moment of birth using different discount rates.

Chart C. Impact of fiscal balances of different age groups on public finances in 2024



Sources: Eurostat and Lietuvos bankas calculations.

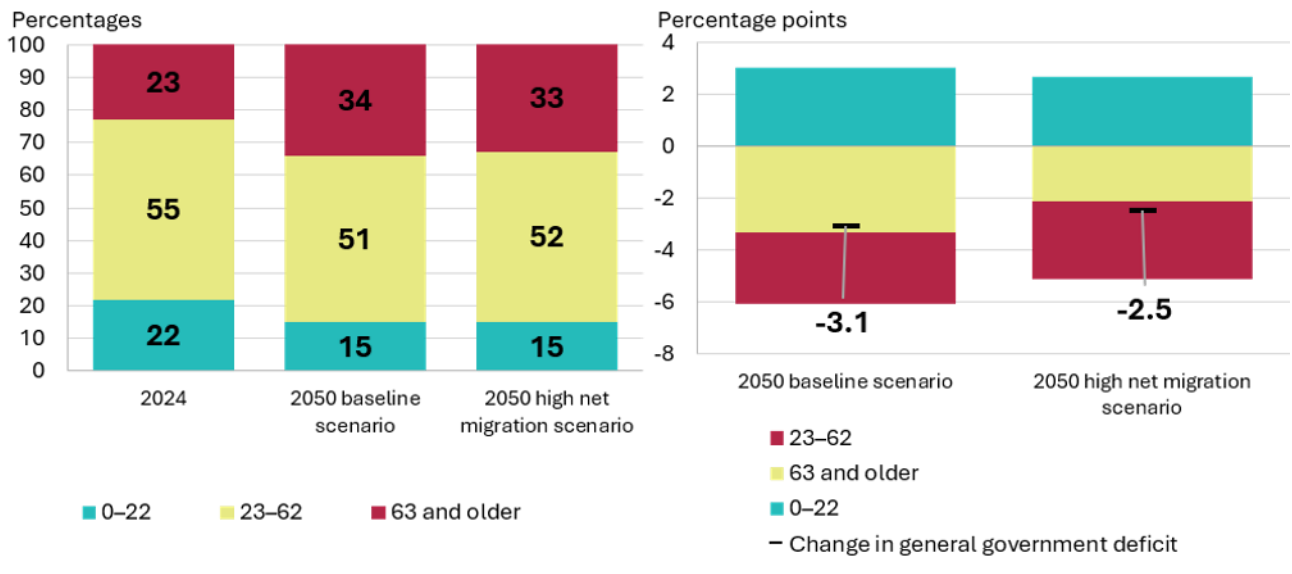
As demographic trends worsen and the population ages, the gap between taxes and contributions paid and the public services provided and benefits paid is likely to widen. According to Eurostat's basic projection,⁶⁰ Lithuania's population will contract from 2.89 million in 2024 to 2.49 million in 2050. Higher net migration would mitigate this decline, in which case around 2.67 million people would be living in Lithuania in 2050. However, what matters for public finances is not only the size of the population but also its age structure. It is projected that the share of children and adolescents will fall from 22 to 15%, the working-age population from 55 to 51%, while the proportion of people aged 63 and over will rise from 23 to 34% (see Chart D, left-hand panel).

The declining number of younger and working-age people, coupled with a growing older generation, will have contrasting effects on public finances. Fewer children and teenagers will reduce expenditure on education and family benefits, thereby improving the balance of public finance. However, this effect will be more than offset by the declining number of working-age people paying taxes and contributions and by rising expenditure for the elderly. If the age-specific balances of taxes and contributions as well as public services and benefits remained unchanged at the level of 2024 and tax and social policies in Lithuania also remained unchanged, demographic changes alone would worsen the public finance balance by around 3.1 percentage points of GDP by 2050 (see Chart D, right-hand panel). Higher net migration would reduce this deterioration by approximately 0.6 percentage points, mainly due to a larger working-age population.

As a result of the population ageing, the general government deficit would more than double.

⁶⁰ Eurostat's basic population projection is available [here](#). Based on Eurostat's basic population projection, net migration will average 7,400 people per year between 2025 and 2050, while under the high migration scenario it will be 14,400 people per year. Under the baseline scenario, it is estimated that between 2024 and 2050, 193,000 more people will arrive in Lithuania than will leave, while under the high net migration scenario, arrivals will outnumber departures by slightly more than 373,000.

Chart D. Age structure of the population in 2050 (left-hand panel) and increase in the general government deficit in 2050 compared to 2024 (right-hand panel)



Sources: Eurostat and Lietuvos bankas calculations.

Population ageing will undoubtedly worsen the financial condition of Lithuania’s public sector and, in the longer term, increase the risks to the sustainability of public finance. Already, the taxes and contributions paid by the working-age population are insufficient to cover existing liabilities to younger and older age groups, and this gap will widen as the population ages. This box assesses specifically the impact of the population age structure, excluding the effect of other factors such as fertility rates, labour productivity, economic growth or fiscal policy developments. Therefore, the actual development of public finance may differ, but the direction of population ageing and its negative impact on public finance remain clear. There are various possible solutions to mitigate the impact of population ageing on public finance. Some would reduce or defer the required expenditure associated with demographic changes, for instance, longer labour market participation and later retirement or an education network adapted to a declining number of children. Others would strengthen the revenue base of public finance by increasing the contribution of the working-age population, broadening the tax base to include income from different sources or accelerating growth of labour productivity and, consequently, income. As these measures would affect different age groups to varying degrees, combining them would allow the burden of adjustment to be distributed more evenly and help to strengthen the sustainability of public finance.

Abbreviations

GDP	gross domestic product
CG	central government
AI	artificial intelligence
OECD	Organisation for Economic Cooperation and Development
ECB	European Central Bank
EC	European Commission
EU	European Union
Eurosystem	European Central Bank and euro area central banks
IT	information technology
USA/US	United States of America
MoD	Ministry of Defence
MMW	minimum monthly wage
R&D	research and development
NEER	nominal effective exchange rate
RE	real estate
CIS	Commonwealth of Independent States
MFI	monetary financial institution
PPP	purchasing power parity
PPS	purchasing power standard
VAT	value added tax
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
SDA	State Data Agency
AW	average wage
GG	general government
Sodra	State Social Insurance Fund

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The Lithuanian Economic Review analyses the developments of the real sector, prices, public finance and credit in Lithuania, as well as the projected development of the domestic economy. The material presented in this review is the result of statistical data analysis, modelling and expert assessment. The review is prepared by Lietuvos bankas.

The cut-off date for the data used in the publication is 1 September 2026, except for information on monetary policy decisions.

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ISSN 2029-8471 (online)