



**LIETUVOS BANKAS**  
EUROSISTEMA

# Macroeconomic projections

March 2023

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# Lithuania's economic development and outlook

27 March 2023

**Recently, developments in the world economy have been better than expected.** In late 2022 and early 2023, gas prices in Europe fell back to the levels seen before the launch of Russia's military aggression against Ukraine. It was underpinned both by the decline in gas consumption and the diversification of the suppliers of this primary product. EU restrictions on oil imports from Russia and the price cap on oil coming from Russia set by the EU and other countries did not cause greater tensions in the oil market. Over the past few months, the oil price has even been falling. Lower energy commodity prices contributed to a faster-than-expected decline in headline inflation in some countries, such as the Euro area countries. The good labour market situation, sizeable fiscal aid measures and the expectations of businesses and consumers that were no longer deteriorating made it possible to avoid the previously forecast contraction of the Euro area economy at the end of the year. This improves the short-term economic outlook for the countries in this group. Economic trends in some other countries are also more favourable than previously projected. Supported by private consumption, the US economy is expanding at a more rapid rate than previously expected, and the easing of COVID-19 containment policies suggest that China's economy will recover faster.

**Lithuania's economic activity has so far been distinguished by faster deceleration.** In 2022, the average quarterly change in real GDP in Lithuania was negative (-0.1%), compared with an average increase of this indicator by 0.5% in the Euro area over the same period.<sup>1</sup> This economic development in Lithuania was strongly influenced by a significant surge in inflation that reduced real income of households and curbed private consumption. Partly as a result of the sanctions imposed on the movement of goods, the contraction of the transportation sector also reduced economic activity. Manufacturing also contracted last year due to higher energy and other commodity prices as well as weakening demand in foreign markets. These unfavourable trends were only partly offset by improved performance in agricultural activity as a result of more abundant harvest and by an increase in the construction of residential buildings and engineering structures.

**The labour market has been only marginally affected by the sluggish economic development.** Last year, the number of employed people went up by 5.1%,<sup>2</sup> and the unemployment rate declined to 5.9%, i.e. to its lowest level since 2009. This is likely to reflect the prevailing sentiment of companies not to hurry to shed additional hiring as the slower economic development seems to be short-lived, and the shortage of staff will continue to be an issue once economic growth picks up again. However, at the end of 2022 and early this year, there were signs of easing in labour market tensions. The job vacancy rate has been declining recently, and the share of companies, the activity of which are constrained by staff shortages, has fallen as well. The share of such companies in construction, industry and trade is already close to the long-term average. The slight slowdown in wage growth for staff earning more than the minimum monthly wage may also reflect the easing of labour market tensions.

**Further economic development will be driven by growing purchasing power of households, rising investment and an improving situation of external trade partners.** The negative average quarterly change in real GDP which was recorded in 2022 in Lithuania is expected to turn positive this year. Economic activity should be enhanced by a recovery in private consumption, as nominal income of households is projected to rise more than prices this year, contrary to last year. In other words, real income of households is expected to pick up again in 2023. This year, general government investment is also expected to contribute to economic growth more than last year. In 2023, the flow of EU support funds for investment is projected to increase markedly. The economic situation of external trade partners

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<sup>1</sup> Based on seasonally and calendar adjusted data.

<sup>2</sup> Based on national accounts data.

should also gradually improve. The average quarterly change in real imports of trade partners, which was negative in 2022, is expected to be positive in 2023. This should have a positive effect on the exporting sector of Lithuania's economy. All of these factors will contribute to a consistent strengthening of economic growth. Lithuania's real GDP is projected to increase by 1.3% in 2023 and by 3.2% in 2024.

**Price pressures are easing slowly.** As a result of greater diversification of supply and reduced use of energy commodities in different countries, international prices for these commodities have fallen sharply. For this reason and because of the base effect, the impact of energy prices on annual headline inflation in Lithuania has recently been more than twice as low as in September 2022, when it peaked. Energy prices that rise at a slower pace are the main contributor to the fall in headline inflation in Lithuania. The price pressures are slowly easing in global agricultural markets as well. The increase in supply and the fall in demand for these products lead to a drop in their prices in the mentioned markets. Partly for this reason and due to the base effect, food price growth is already slowing down in Lithuania, too. Other price increases, namely for services and industrial goods, are much less pronounced. These prices are more closely linked to Lithuania's domestic economic development and are therefore strongly affected by unit labour costs which have been rising at a very fast and steady pace so far. However, unit labour costs are expected to increase less in the coming years, which will have a dampening effect on price increases that are more closely linked to domestic economic development. These factors are expected to lead to a rather marked fall in headline inflation over the projection horizon. Inflation, which stood at 18.9% in 2022, is projected to reach 9.0% in 2023 and 2.7% in 2024.

**Table 1. Outlook for Lithuania's economy**

	March 2023 projection <sup>a</sup>			December 2022 projection		
	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>	2024 <sup>b</sup>
<b>Price and cost developments (annual percentage change)</b>						
Average annual HICP inflation	18.9	9.0	2.7	18.9	9.5	-
Gross domestic product deflator <sup>c</sup>	17.2	9.3	3.0	16.2	8.5	-
Wages	13.0	10.0	8.4	12.8	9.1	-
Import deflator <sup>c</sup>	25.1	1.3	1.5	25.7	6.2	-
Export deflator <sup>c</sup>	16.1	4.4	2.2	15.1	4.6	-
<b>Economic activity (constant prices; annual percentage change)</b>						
GDP <sup>c</sup>	1.9	1.3	3.2	2.5	1.3	-
Private consumption expenditure <sup>c</sup>	0.5	0.0	3.1	0.8	0.5	-
General government consumption expenditure <sup>c</sup>	0.3	0.0	0.0	0.2	0.0	-
Gross fixed capital formation <sup>c</sup>	2.6	4.5	4.5	2.3	5.1	-
Exports of goods and services <sup>c</sup>	11.7	1.7	4.7	11.5	3.8	-
Imports of goods and services <sup>c</sup>	11.1	2.3	4.7	11.3	4.3	-
<b>Labour market</b>						
Unemployment rate (annual average as a percentage of labour force)	5.9	6.6	6.4	6.1	6.7	-
Employment (%; annual percentage change) <sup>d</sup>	5.1	-0.5	-0.4	4.8	-0.5	-
<b>External sector (percentage of GDP)</b>						
Balance of goods and services	-1.0	1.1	1.6	-2.4	-4.0	-
Current account balance	-5.5	-2.5	-2.2	-6.0	-7.1	-
Current and capital account balance	-4.0	0.2	-0.1	-4.4	-4.5	-

<sup>a</sup> The macroeconomic projections are based on external assumptions, constructed using information made available by 15 February 2023, and other data and information made available by 1 March 2023.

<sup>b</sup> Projection.

<sup>c</sup> Adjusted for seasonal and workday effects.

<sup>d</sup> National accounts data; employment in domestic concept.

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ISSN 2783-557X (online)