



**LIETUVOS BANKAS**  
EUROSISTEMA

# Macroeconomic projections

March 2025

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# Lithuania's economic development and outlook

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**Uncertainty, which is at its peak in recent decades, weighs on global economic growth.** The global economy entered 2025 with a high degree of uncertainty about the future. Hard-to-predict decisions on trade policy, government finances and geopolitical conflicts have raised various uncertainty indicators to record highs. Such uncertainty about the future of economic development affects the decisions of both businesses and households. A particularly high reversal of expectations is observed in the US. While at the end of last year businesses were still very optimistic about the US economy, the latest Purchasing Managers' Index data recorded in February show considerably more pessimistic sentiment toward further economic development. The euro area also shows little optimism. Economic growth in the euro area, although slowly recovering, will be noticeably below its long-term rate this year. These trends in the euro area's economic development are strongly influenced by difficulties faced by Germany, the euro area's largest economy. Recent estimations suggest that a more significant recovery of this economy could not be expected until next year. This is mainly due to the structural challenges currently faced by Germany's industry and diminished competitiveness in global markets. Concerns over the economic development of the US and the difficulties of the euro area economy will put constraints on the growth of external demand for goods and services exported by Lithuania. It will remain at a lower level throughout the projection horizon compared to the decade before the COVID-19 pandemic.

**Lithuania's economy remains resilient.** In the second half of last year, the quarterly growth of Lithuania's economy approached its long-term growth rate, mainly owing to the increasing recovery of household consumption. It was 4.9% higher in the last quarter of 2024 than a year ago and significantly above the average for the last decade. Key contributors to this trend in household consumption are the recovery in consumption of non-durable goods and the continued growth in consumption of services. The development of investment, which is another factor of domestic demand, was less favourable. After demonstrating rapid growth between 2021 and 2023, investment declined last year. However, its volume, as compared to Lithuania's gross domestic product (GDP), remains at historically high levels. The main constraint on investment development in recent quarters has been the decline in investment in capital goods. Subdued investment did not hamper the development of exports. Although the drop in re-exports and exports of mineral products has led to a decline in total exports, exports of non-mineral products of Lithuanian origin, which generate higher added value, have been increasing significantly for half-year. This is particularly the case for exports of chemical products and plastics, however exports of engineering, wood and furniture products also showed an upward trend.

**Economic growth increases employment and reduces unemployment.** As Lithuania's population grew for three consecutive years, more and more workers are entering the labour market. At the end of last year, the number of persons employed was practically the highest since the start of data publication in 1995. The main contributors to the increase in the number of persons employed were government sector,<sup>1</sup> information and communications, as well as industry. With the labour force broadly unchanged, the rise in the number of persons employed is reducing unemployment. After a one-year pause, the unemployment rate returned to below 7.0% in the last quarter of last year. Following a substantial drop in the unemployment rate, the chances of supplementing the ranks of the employed are diminishing, with a growing share of the long-term unemployed, who find it more difficult to re-enter the labour market. At the end of 2024, the share of the long-term unemployed, compared to the total unemployed, was almost the highest since 2015. The renewed decline in the unemployment rate is increasing the pressure on wages. After slowing down for almost two years, wage growth stabilised in the second half of last year at an annual rate of around 9.0% in the private sector and 14% in the government sector. Developments in the latter sector were caused by the rapid increase in wages for education and health sector workers. Recovering labour productivity growth may provide some support for the sustainability of wage growth. In the last quarter of 2024, it was above the average of the last decade. However,

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<sup>1</sup> Public administration and defence; education; human health and social work activities (activities O, P, Q of NACE).

labour costs are currently rising more than total nominal value added, which means that an increasing share of value added is being allocated to the persons employed. This puts upward pressure on prices and continues to undermine the competitiveness of less innovative enterprises.

**Lithuania's economic growth is projected to further strengthen this year, but there are significant risks that could lead to a markedly different economic development.** The economy grew by 2.7% last year and is expected to grow by 2.9% this year and at a similar pace in the coming years. Both domestic demand and exports of goods and services will contribute to such economic development. The development of exports will be largely influenced by a gradual increase in foreign demand for Lithuanian goods and services. Growing export volumes and the increasing utilisation of production capacity should stimulate a recovery in private sector investment. The development of investment will also benefit from the waning effect of previously tightened monetary policy and flows of European Union (EU) support funds. Against the backdrop of growing domestic economy, the demand for labour will continue to be robust, and wage growth will remain buoyant. With incomes rising more than consumption expenditure for quite some time now, there is considerable scope for households to increase consumption. However, the current global geopolitical situation is highly volatile and trade restrictions in the US and the EU could have an adverse effect on the Lithuanian economy, the extent of which will depend on trade policy decisions. Decisions of Lithuania's Government may also have a profound impact on the country's economic development. The choice of measures, for example, designed to ensure adequate funding of Lithuania's defence needs or implementation of the reform of 2<sup>nd</sup> pillar pension funds, can have both positive and negative effects on the country's economic development in the short and medium term.

**The overall price level, which has not changed significantly for almost two years, is rising at a faster pace this year.** Inflationary pressures are building up as the prices of many energy sources and other commodities recover and wages continue to grow rapidly. This, together with recovering consumption and tax increases in place since January, has led to a more profound rise in the overall price level since the beginning of this year, and a corresponding surge in annual inflation, which stood at 3.4% in January. Just as in the past, changes in annual inflation rates are mainly influenced by the development of energy prices. Energy prices, which have had a downward effect on annual inflation for a long time, were already higher in January than a year ago, owing to the rise in prices for energy sources and tax increases. Food prices, including prices for alcoholic beverages and tobacco, are also going up, driven both by the rise in the prices of food commodities and imported foodstuffs, and by higher excise duties on alcoholic beverages and tobacco. In contrast, the growth of prices for services, supported by rapidly rising wages, has remained broadly unchanged at nearly 6%. The rise in prices for services, which has outpaced the long-term average, remains the main driver of inflation. As wage growth shows no signs of a significant slowdown, services are projected to remain the main driver of inflation, even in the face of price hikes in other groups. Market prices for most energy sources and food commodities are projected to be on average higher this year than last year,<sup>2</sup> the euro exchange rate to be lower, and wages are expected to rise, albeit at a slightly slower but still rapid pace. The recovery of private consumption and tax increases above last year's level will also affect inflation trends. Against this background, average annual inflation is projected to reach 3.3% this year before declining next year, and to stand at 2.6% in both 2026 and 2027.

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<sup>2</sup> The growth in electricity and gas prices will be the one to stand out: they are projected to be higher by one third and almost twice the last year's level respectively (ECB assumptions, 6 February information).

## Outlook for Lithuania's economy

	March 2025 projection <sup>a</sup>				December 2024 projection			
	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>	2024 <sup>b</sup>	2025 <sup>b</sup>	2026 <sup>b</sup>	2027 <sup>b</sup>
Price and cost developments (annual percentage change)								
Average annual HICP inflation <sup>e</sup>	0.9	3.3	2.6	2.6	0.8	2.3	2.6	2.6
GDP deflator <sup>c</sup>	2.9	3.7	3.0	3.0	3.8	3.3	3.1	3.1
Wages	10.2	9.2	8.3	7.7	10.3	8.7	8.1	7.5
Import deflator <sup>c</sup>	-1.3	2.3	2.3	2.1	-0.9	2.0	2.3	2.1
Export deflator <sup>c</sup>	1.0	2.9	2.3	2.1	1.2	2.2	2.4	2.2
Economic activity (constant prices; annual percentage change)								
GDP <sup>c</sup>	2.7	2.9	3.0	3.0	2.4	3.1	3.1	3.0
Private consumption expenditure <sup>c</sup>	3.7	4.1	3.7	3.7	3.0	3.7	3.7	3.7
General government consumption expenditure <sup>c</sup>	1.1	0.4	0.1	0.1	0.4	0.0	0.0	0.0
Gross fixed capital formation <sup>c</sup>	-1.1	6.6	5.5	3.1	-2.3	6.1	4.8	4.4
Exports of goods and services <sup>c</sup>	0.3	1.6	3.6	3.6	2.2	2.5	3.6	3.7
Imports of goods and services <sup>c</sup>	0.5	3.0	4.5	4.1	0.5	3.5	4.4	4.4
Labour market								
Unemployment rate (annual average as a percentage of labour force)	7.2	6.8	6.7	6.6	7.4	7.1	6.9	6.7
Employment (annual percentage change) <sup>d</sup>	1.7	0.3	-0.3	-0.2	1.8	-0.1	-0.3	-0.3
External sector (percentage of GDP)								
Balance of goods and services	5.2	4.5	3.9	3.6	6.4	5.8	5.4	4.9
Current account balance	2.1	1.3	1.1	0.5	3.2	3.0	2.4	1.9
Current and capital account balance	3.7	3.6	2.8	1.3	4.3	5.2	4.2	2.6

<sup>a</sup> The macroeconomic projections are based on external assumptions, constructed using information made available by 6 February 2025, and other data and information made available by 28 February 2025.

<sup>b</sup> Projection.

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

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

<sup>e</sup> Harmonised Index of Consumer Prices.

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