



**LIETUVOS BANKAS**  
EUROSISTEMA

# Macroeconomic projections

December 2024

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# Lithuania's economic development and outlook

19 December 2024

**The global economy is gradually strengthening, but with uneven development trends.** The services sector is growing markedly against the background of lower price increases, recovery in personal income and improving financial situation of households. It is the services sector that is the driving force behind global economic growth this year. The manufacturing sector is doing less well. After a brief pick-up in the first half of the year, as enterprises sought to replenish stocks of products that had fallen significantly in the previous year, the manufacturing sector has recently been declining again. It is largely flat in China and falling in the US and the euro area. Continued geopolitical tensions, the impact of previously tightened monetary policy and a more non-durable goods and services oriented demand are contributing factors. This affects global trade and economies that are more oriented towards foreign demand, including the Lithuanian economy. The import outlook for Lithuania's trading partners has been downgraded in recent quarters, although it is still expected that after stagnating this year imports of euro area countries will start rising next year, while imports of other countries will continue growing steadily.

**Economic activity has also picked up in Lithuania.** Recently, growth has been observed in a number of economic activities. Just as in previous years, there has been a marked increase in the added value generated by business-oriented services. Information and communication, professional, scientific, administrative, support and other related services are growing more than the economy as a whole. In the first three quarters of this year, these services accounted for around 40% of total economic growth.<sup>1</sup> Household-oriented services, such as trade, arts, entertainment, recreation and other activities, are also gaining ground as domestic demand gradually recovers. However, private consumption is rising at a rather limited pace, significantly slower than household income. This is likely due to continued geopolitical uncertainty, previously tightened monetary policy and other factors that further constrain the acquisition of consumer durables. This year's increase in private consumption is mainly driven by stronger demand for non-durable goods and services. Not only services-related activities, but also the manufacturing sector has picked up over the year. As stocks of manufactured products were low, manufacturing benefited from a slight improvement in the economic situation abroad and a higher number of orders. Industrial production has grown in most of the main manufacturing branches compared to its level a year ago. However, enterprises do not exploit their production potential, with production capacity utilisation levels still below those before the shocks of the last few years and below the long-term average.<sup>2</sup>

**The labour market situation is fairly stable.** The total number of persons employed is decreasing moderately,<sup>3</sup> but this decline in the number of employees is not widespread. The main driver of the decrease is the transport activity. Excluding the latter, the total number of the employed remains stable. The unemployment rate has not changed much either. It is currently higher than it was before the period of sluggish economic development which started in 2022, but it is stabilising in most social groups, except for the youngest population. Youth unemployment continues to rise markedly. With the unemployment rate higher than two years ago, the duration of unemployment is increasing. The number of long-term unemployed has also risen recently. Higher unemployment, still positive net international migration and continued uncertainty about the outlook for international economic developments exert less pressure on wages. This is particularly noticeable in the private sector, where the pace of wage growth has been declining for several years. Nevertheless, wages are rising significantly. Labour costs are growing more than total nominal value added, which means that persons employed receive an increasing share of value added. This puts upward pressure on prices and undermines the competitiveness of less innovative enterprises.

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<sup>1</sup> By comparison, these services-related activities account for around one sixth of the added value generated in the economy as a whole.

<sup>2</sup> The long-term average is calculated using data from 2011.

<sup>3</sup> Based on data of the State Social Insurance Fund Board under the Ministry of Social Security and Labour.

**Economic activity is projected to strengthen gradually.** The international economic environment is expected to have a more favourable impact on economic development than this year. Imports of trading partners are expected to increase more than recently, which will boost demand for goods and services exported by Lithuania. Domestic demand is also projected to further boost growth. With income rising above consumption expenditure for quite some time now, there is considerable scope for households to accelerate consumption, even in the presence of somewhat slower projected income growth. The recovery of investment should also contribute to a more significant increase in economic activity. Increasing flows from the European Union support funds, the waning effect of previously tightened monetary policy and growing domestic and foreign demand are projected to have an upward impact on investment. Corporate profits, which have been rising over the last few years, are also likely to have a favourable impact.<sup>4,5</sup> Real gross domestic product (GDP) is projected to grow by 3.1% next year, following an increase of 2.4% this year. In the following years, the pace of economic development will remain similar, though it will still be lower than the growth rates prevailing in the previous decade, i.e. before the shocks of the last few years. Growth will be constrained by limited scope for more efficient use of labour resources, poor demographics and less buoyant trading partner markets than in the previous decade.

**Price dynamics remain sluggish.** The overall level of consumer prices has remained fairly stable for almost two years. In the first eleven months of this year, it was only 0.8% higher than a year ago. The uneven recovery of various economies, only temporary improvement in the global manufacturing sector as well as the fall in energy and food commodity prices on international markets have a dampening effect on energy, processed and unprocessed food and other consumer prices. Domestic demand does not appear to be exerting any significant pressure on prices either. Overall price increases are mainly stimulated by rising labour costs. Their impact is particularly pronounced in the development of the most labour cost-sensitive prices, i.e. prices for services. The latter continue to increase quite substantially. Prices for services are rising faster than before the shocks of the last few years (i.e. faster than until 2019), partly because labour costs are now also on the rise to a greater extent. It is unlikely that the rise in prices for services is at least somewhat more significantly driven by the marked increase in gross costs which took place in the past (several years ago).<sup>6</sup> In other words, there is no evidence of lagged transmission of previous surge in gross costs. Over the projected period, labour costs will continue to be among the main drivers of headline inflation, as wages are expected to continue to rise significantly. The gradually improving international economic environment, growing prices of some energy commodities (e.g. gas), and increases in indirect taxes will also push up headline inflation.<sup>7</sup> After staying at 0.8% this year, average annual headline inflation is projected to increase to 2.3% next year and 2.6% in 2026-2027.

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<sup>4</sup> Based on data on operating surplus and mixed income.

<sup>5</sup> This indicator has increased more in Lithuania over the last few years than in some neighbouring countries such as Latvia.

<sup>6</sup> This refers not only to labour costs.

<sup>7</sup> Excise duty increase is projected to boost average annual headline inflation by 0.7, 0.7 and 0.6 percentage points respectively in 2025-2027.

## Table 1. Outlook for Lithuania's economy

	December 2024 projection <sup>a</sup>				September 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>
<b>Price and cost developments (annual percentage change)</b>								
Average annual HICP inflation	0.8	2.3	2.6	2.6	1.0	2.5	2.6	–
GDP deflator <sup>c</sup>	3.8	3.3	3.1	3.1	3.4	3.1	3.1	–
Wages	10.3	8.7	8.1	7.5	9.8	8.5	8.1	–
Import deflator <sup>c</sup>	-0.9	2.0	2.3	2.1	-0.8	1.8	2.3	–
Export deflator <sup>c</sup>	1.2	2.2	2.4	2.2	1.4	1.7	2.4	–
<b>Economic activity (constant prices; annual percentage change)</b>								
GDP <sup>c</sup>	2.4	3.1	3.1	3.0	2.2	3.1	3.3	–
Private consumption expenditure <sup>c</sup>	3.0	3.7	3.7	3.7	3.6	3.7	3.7	–
General government consumption expenditure <sup>c</sup>	0.4	0.0	0.0	0.0	0.2	0.0	0.0	–
Gross fixed capital formation <sup>c</sup>	-2.3	6.1	4.8	4.4	-3.6	6.6	5.1	–
Exports of goods and services <sup>c</sup>	2.2	2.5	3.6	3.7	1.2	3.1	3.8	–
Imports of goods and services <sup>c</sup>	0.5	3.5	4.4	4.4	0.0	4.5	4.5	–
<b>Labour market</b>								
Unemployment rate (annual average as a percentage of labour force)	7.4	7.1	6.9	6.7	7.4	7.1	6.9	–
Employment (annual percentage change) <sup>d</sup>	1.8	-0.1	-0.3	-0.3	1.6	-0.4	-0.3	–
<b>External sector (percentage of GDP)</b>								
Balance of goods and services	6.4	5.8	5.4	4.9	6.1	5.0	4.6	–
Current account balance	3.2	3.0	2.4	1.9	3.2	1.6	1.1	–
Current and capital account balance	4.3	5.2	4.2	2.6	5.1	3.7	2.7	–

<sup>a</sup> The macroeconomic projections are based on assumptions about the international environment, constructed using information made available by 20 November 2024, and other data and information made available by 27 November 2024.

<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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