Economic Development Scenario 2024–2027

December 2024

The Economic Development Scenario (hereinafter – the scenario) has been developed [1] after assessment of the data of National Accounts for the first nine months of 2024 and other statistical data published by 2 December 2024, taking into account the changes in the monetary policy and in the external environment that occurred after the scenario was published by the Ministry of Finance in September 2024, and other information. The scenario assumptions on external environment and energy (oil and natural gas) prices are in line with the European Commission's[2] (EC) Economic Forecast published in November 2024.

The EC Economic Forecast published in November 2024 projects the European Union's (EU) gross domestic product (GDP) to grow 0.9 % in 2024, before accelerating to 1.5% and 1.8% in 2025 and 2026, respectively. Euro area GDP is expected to grow 0.8% this year and 1.3% in 2025, and 1.6% in 2027. The EC states that after a period of prolonged stagnation, the EU economy is slowly returning to growth, with the disinflation process continuing. The EU labour market situation remained good in the first half of 2024 and the labour market is expected to remain strong. The EC expects economic growth to accelerate as consumption grows and investment recovers. However, uncertainty and downside risks have recently increased. Russia's protracted war of aggression against Ukraine and the escalation of the conflict in the Middle East are exacerbating geopolitical and energy security risks. The increasing number of protectionist measures taken by trading partners could jeopardise global trade, which would have a negative impact on the very open European economy. At the domestic level, political uncertainty and structural challenges in the manufacturing sector could reduce competitiveness and undermine growth and the labour market. More frequent and widespread natural hazards can have consequences not only for the environment and the people affected, but also for the economy.

Lithuania's economic activity increased in the first nine months of 2024, and GDP in January-September was 2.3% higher than in the same period last year. The main drivers of economic development were the further strengthening of household consumption (leading to a 1.6 percentage point change in GDP) and net exports (1.3 percentage point contribution). Following an assessment of economic trends, Lithuania's GDP is projected to grow by 2.4% in 2024, while the expected strengthening of domestic and external demand will accelerate the GDP growth rate to 2.8% in 2025, and 2.9% per year in 2026-2027.

The labour market remained resilient in January – September this year. Due to the demand for labour and increased supply, the number of employed persons in the country increased by 1.7% (0.7 percentage points more than in the same period in 2023), while the labour force increased by 2.5% (0.9 percentage points more than in the same period in 2023). Labour supply was boosted by

[1] The date of inclusion of statistical data and other information to the scenario – 2 December 2024, inclusive.
[2] EC Forecast of November 2024 [Autumn 2024 Economic Forecast: A gradual rebound in an adverse environment - European Commission].

favourable migration trends. According to the State Data Agency, net migration was positive in January – October this year, amounting to 25,500 persons. Positive net migration was mainly (around 69%) due to the rapid immigration of foreign nationals from third countries, which was determined by the ongoing war in Ukraine and the situation in the Lithuanian labour market, while the labour demand remained high in certain economic activities. According to the data of the Employment Service, in January-October this year, about 15 thousand new vacancies were registered in the country per month (last year, during the same period, about 16 thousand), while the total number of vacancies (new and unfilled) in the country was more than 28 thousand in January-September on a quarterly average basis (over the same period last year, it was over 27,000.) The number of job vacancies in the country increased by 4.1% in January – September this year, compared to the same period in 2023. Higher participation of the population in the labour market has also contributed to an increase in labour supply. The activity rate for the 15-64 age group stood at 79.6% in January – September this year, and it was by 1 percentage point higher than in the same period in 2023. There has been an increase in activity among the population aged over 65, which stood at 13.3% in January – September this year, by 1.1 percentage points higher than in the same period last year. The growth of employment in the country this year was driven by the private sector, especially information and communication, administration and service, accommodation and catering, manufacturing activities. The historically high job vacancy rate in the country, which stood at around 2% in January – September this year, shows that while the number of employed persons has been growing, not all participants who have joined the labour market have matched their skills needs, leading to an increase in unemployment this year. According to the State Data Agency, the unemployment rate averaged 7.3% in January – September this year, by 1.3 percentage points higher than in the same period in 2023. With the economy and labour force growing, the unemployment rate in the country stabilised in the third quarter of this year at 6.8% and remained almost unchanged over the quarter (decreasing by 0.1 percentage point). With economic activity recovering, the number of employed persons is expected to increase by 1.4% in 2024 due to the continuing labour demand and an increase in labour supply. The unemployment rate, calculated according to the methodology of the Labour Force Survey, will increase to 7.4% this year due to rapidly growing labour supply. The economic development scenario is based on Eurostat's latest[3] demographic projections (baseline scenario). They foresee that as of 2026, as a result of negative natural population change, which is not compensated by less favourable net migration, the number of the population (15-74) participating in the labour market in Lithuania will start to decrease, thus leaving little room for labour force and employed population growth. The number of employed population is expected to increase by 0.3% in 2025, by 0.1% in 2026 and to remain stable in 2027. Over the medium term, the unemployment rate is projected to gradually decline: it will be 7.1% in 2025, 6.8% in 2026 and 6.5% in 2027.

Wage growth in the country slowed down in January – September compared to the same period in 2023, but remained double-digit, with average gross monthly wages (excluding individual enterprises) growing by 10.3% (there was an increase of 12.6% in the same period last year). Over this period, wage growth in the public sector was higher (12.8%) than in the private sector (9.2%).

[3] Statistics | Eurostat. Short term population projections (2023-2050). Date of publication – September 2024.

Average gross monthly wages increased in all enterprises, institutions and organisations of economic activities. Wage increases in the country have been driven by a high demand for suitably qualified workers and public sector wage policies. This year, the increase in the minimum monthly wages (hereinafter referred to as the "MMW"), which has increased by 10 % to EUR 924 since 1 January this year, also had an encouraging effect. Although wage growth in the private sector this year was dampened by the limited financial possibilities of companies and the disappearance of price pressures on wages, it remained relatively rapid in the context of a large supply of job vacancies, reaching 9.4% in the third quarter of this year. Taking into account the actual wage development in the country in January-September 2024 and the public sector wage policy implemented this year, the average gross monthly wages in the country are expected to grow by 10.1% in 2024. With the increase in the MMW by 12.3% to EUR 1,038 from next year, the growth rate of the average gross monthly wages in the country is projected at 7.9%, after taking into account the decisions taken to increase the salaries of education, health and other public sector employees and taking into account the persisting tensions in the labour market due to the lack of suitably qualified employees. In the following medium-term years, in the absence of new decisions by economic policymakers affecting wage developments in the country, the average gross monthly wages in the country are expected to grow by 6.8% in 2026 and 5.7% in 2027.

Inflation was low in Lithuania in the first ten months of this year. Calculated on the basis of the Harmonised Index of Consumer Prices, annual inflation averaged 0.7%[4] in the period January-October. The low inflation rate in the country was supported by favourable developments in energy, food and non-energy industrial goods prices, while services inflation remained broadly stable. Core inflation[5] has recently declined. Annual core inflation stood at an average of 3% in the first half of the year, falling to an average of 2.3% in July-November. Since the beginning of the year, annual inflation rates have been significantly dampened by a high comparable base, particularly in the event of a prolonged fall in energy prices. Energy commodity inflation remained double-digit negative (on average -10.5%) in the first ten months and contributed most to the decline in headline inflation. The deflation of energy commodities was driven by favourable energy commodity prices in the markets, a high comparable base, and a reduction in administered prices (gas and electricity) for household consumers. Food price developments have also had a dampening impact on headline inflation. During the first ten months, food prices (including non-alcoholic beverages) decreased by 0.8% on average. Food commodity deflation, although less pronounced than for energy goods, was common in half of the food categories and reflected lower prices for both processed and unprocessed food. Inflation in non-energy industrial goods, which make up the largest share of the consumer goods and services basket[6], decelerated in the first half of the year, but remained positive. It turned negative since September and also contributed to lower headline inflation. Average annual inflation is expected to fall from 8.7% in 2023 down to 0.9% in 2024. Lower inflation will be driven by more consumer-friendly food price developments, strong deflation of energy commodities, subdued price pressures

[4] According to preliminary data, annual inflation accelerated to 1.1% in November.
[5] Core inflation is measured by removing the impact of changes in the prices of unprocessed food and energy products from headline inflation.
[6] The weight of non-energy industrial goods in the HICP is 32.5% in 2024.

for non-energy industrial goods and moderate service inflation. In the following years of the medium-term, the inflation rate is expected to be close to or slightly above 2.5%, reaching 2.5% in 2025, 2.7% in 2026 and 2.6% in 2027. The expected increase in excise duty rates on tobacco and its alternatives and on ethyl alcohol and alcoholic beverages in 2025 – 2027 will slightly increase the pace of inflation. Excise duty rates on energy products, including transport fuels for 2025-2026, as well as the expected increase in administered gas and electricity prices for household consumers at the beginning of 2025 will also have an upward impact on the pace of inflation. On the other hand, part of this upward impact on headline inflation should be offset by favourable global energy price developments, with an expected decline in oil (2025-2026) and natural gas (2026) prices.

Developments in domestic demand components were uneven in the first three quarters of 2024. Expenditure on gross fixed capital formation (GFCF) decreased by 2.2%, while final consumption expenditure grew by 2.4%. The acceleration in real wage growth contributed to a stronger consumption of goods and services in the country. Real wages grew by 8.9% on average in January – September 2024, after falling by 0.2% in the same period in 2023 – declined in the first two quarters and started growing from the third quarter of 2023 (5%). Household consumption expenditure in January – September 2024 was 2.9% higher compared to the corresponding period in 2023. Food consumption (the turnover of retail sales of food products grew by 4% on average in January – September 2024), as well as non-food goods purchases increased in the country (turnover was 4.2% higher). The turnover of some non-essential goods grew rapidly. The retail sales of cultural and recreational goods, information and communication technology equipment, watches and jewellery grew by 15.7%, driven by the improved financial situation, positive expectations of the population and low comparative base. Data for October shows that spending on consumer goods increased more rapidly. Retail sales turnover grew 7.3% over a year in October. As the purchasing power of the population grew, households were able not only to increase spending on consumption, but also to set aside some funds for saving. Since the beginning of 2024, the deposit balance of households with agreed maturity has been growing at a gradually decelerating but still double-digit pace, with funds accumulated in October 23.4% higher than a year ago. Fixed-term deposits accounted for 31.6% of total household deposits, therefore the majority are overnight deposits, which could be used for consumption purposes. Deposit statistics show that the financial reserve (all deposits) accumulated by residents amounted to EUR 24 billion in October 2024 and was the highest during the observation period of this indicator. Bigger savings and consumption are allowed by increasing income. The disposable income of the population is growing this year due to higher employment income and social benefits and stimulates the growth of household consumption expenditure. Household consumption expenditure is projected to be 3.3% higher in 2024 compared to the previous year. In the following medium-term years (2025-2027), as the financial situation continues to improve and the sentiment of the population remains favourable, the growth rate is projected to average 3.5% per year.

Investment development in Lithuania was negatively affected by high economic uncertainty, subdued foreign demand growth, as well as high financing costs in the first nine months of this year. Spending on GFCF in January – September 2024 was 2.2% lower compared to the corresponding period in 2023. The GFCF components developed differently. The largest decline was recorded in the category of investment in transport equipment (-30 %), which mainly led to negative GFCF results (affecting the GFCF change by -3.5 percentage points) and reflected sluggish developments in the external environment. However, investment has not declined in all areas. Even from a high statistical base (16.1% growth rate in 2023), investment in other buildings and structures grew by 5% in January – September this year and contributed most positively to the development of investment in the country, contributing 1.9 percentage points to the change in GFCF in January – September. Public investment contributed to the good performance of this component. At the same time, data on tangible fixed assets investment (at current prices) show that total public investment in January-September 2024 was slightly lower (-1.3%) than in the corresponding period in 2023, while the private sector reduced investment significantly more (-14.5%). Due to persisting high uncertainty and slow growth of external demand, investment development in the country is expected to be negative in 2024 and expenditure on GFCF is expected to fall by 1.9%. However, loan statistics show that enterprises are borrowing more, and the growth of the loan balance has significantly accelerated since the middle of the year, with a double-digit growth rate every month since July (10.9% growth in October), which may indicate the readiness of enterprises to start implementing investment projects in the near future. More active borrowing and investment should be supported by easing monetary policy. The annual survey of industrial enterprises shows that companies intend to invest more in 2025 than in 2024. In addition, increased investment in national defence will contribute to the investment process in the country throughout the projection period. With stronger growth in external and domestic demand, increased investment in domestic security and the need to invest in green technologies and measures to increase labour productivity, the growth rate of GFCF expenditure is expected to be faster in 2025 – 2027 (5.5% per year on average).

According to the data of National Accounts, exports of goods and services (at constant prices) increased by 1% in January – September 2024 compared to the same period last year. This year, the development of the main export components was uneven. In the first half of the year, weak export growth was supported by favourable development of services exports, which increased by 14.9% and 10.6% respectively in the first and second quarters. The growth of exports of services was mainly driven by the rapid growth of exports of transport services and the growth of exports of financial services and telecommunications, computer and information technology services. Developments in goods exports were subdued in the first half of the year, with a contraction in both quarters. In the third quarter, exports of services decreased by 1.5%, but this deterioration was compensated by recovering exports of goods, the volumes of which increased by 3.1% over the year and led to an acceleration of the growth of total export volumes to 1.6%. The improvement in the development of goods exports was driven by a gradual recovery in external demand and strong manufacturing output. During the ten months of this year, industrial production grew by 4.1% (at constant prices) and contributed to the increase in the value of exports of goods of Lithuanian origin. In January–September 2024, this indicator increased by 0.7% (at current prices).The growth of exports of goods of Lithuanian origin was mainly driven by the growth of exports of chemical products, machinery and mechanical appliance, metals and optical goods, while exports of textiles, miscellaneous manufactured articles (furniture), vehicles and mineral products were sluggish. In the nine months of this year, the value of re-exports of goods fell by 16.5% compared to the corresponding period of the previous year (at current prices) and dampened overall developments in goods exports. Re-exports are affected by the geopolitical situation and the tightening of the Lithuanian customs inspection of dual-use goods, which has limited the quantities of re-exports of these goods to the countries of the Commonwealth of Independent States. In 2024, the annual change in exports of goods and services (at constant prices) is expected to amount to 1.2 %. The moderate growth of this indicator will be driven by favourable industrial results and a gradual recovery of exports of Lithuanian origin in the second half of the year which will offset the more moderate development of services exports and better agricultural production results. On the other hand, the growth rate will be dampened by rather slow growth in export markets and external demand, as well as an unfavourable geopolitical situation. The downward trend in the re-export of goods will be observed for the remaining months of this year. In the medium term, changes in the volume of exports of goods and services will be influenced by faster growth of export markets, the evolution of the geopolitical situation and the risks of international trade arising from it, the flexibility of exporting companies to adapt to the changed market conditions, their decisions to invest in technological progress and productivity-enhancing measures. Exports of goods and services are expected to increase by 3.6% in 2025 and to accelerate to 4.2% in 2026-2027.

The scenario is set against the background of still exceptionally high external instability and economic uncertainty, continued active military action in Ukraine, and other geopolitical tensions. New variants of viruses, epidemics are also among the negative risk factors.

Uncertainty about the development of energy commodity prices remains particularly high due to Russia's ongoing war against Ukraine and the geopolitical turmoil in the Middle East at the beginning of October 2023. In the scenario, the technical assumptions for energy commodity prices for the period 2024-2026 were based on the assumptions published in the European Commission Autumn Forecast[7] of 15 November 2024. Brent oil prices are assumed to be 80.7 USD/bar in 2024, 73.1 USD/bar in 2025 and 71.5 USD/bar in 2026-2027. The natural gas price assumption is 33.9 EUR/MWh in 2024, 39.8 EUR/MWh in 2025 and 34.8 EUR/MWh in 2026-2027. Changes in these technical assumptions would change the outlook for inflation. Other factors, including possible decisions on administered prices and changes in monetary, fiscal and labour market policies, could also contribute to changes in short- and medium-term inflation estimates.

At the moment of developing the scenario, the demographic development assumptions were in line with the latest Eurostat population projections (baseline scenario) publicly available at the end of September 2024. They envisage more favourable demographic trends than the Eurostat population projections published in June 2023 (assumption used for the September 2024 scenario). According to Eurostat's latest projections, the decline in the number of population (15-74) in the labour market is expected to be slower and to start later (2026) than in previous projections (2025).

[7] https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en

Changes in population projections, international migration trends or assumptions on labour market participation rates would change the outlook for labour market indicators.

Estimates for exports of goods and services in the scenario may change due to the unfulfilled technical assumptions on external demand that formed the basis for this scenario. Emerging risks from protectionism and rising trade tensions may have a negative impact on the development of exports of goods and services.

Due to the continued unfavourable geopolitical situation, increased needs for strengthening energy independence, faster implementation of the European Green Deal projects could accelerate the investment process in the country faster than envisaged in this scenario. Developments in investment could also be affected by other circumstances, including increased implementation of the Recovery and Resilience Facility, EU-funded projects, labour market developments, increased investment in security, changes in monetary policy and changes in internal and external demand.

A change in the habits and behaviour of the population, the financial situation and purchasing power of households and the demographic situation would lead to a different development of household consumption expenditure than envisaged in this scenario.

In the medium term, new decisions on public sector wages, minimum monthly wages would affect the average monthly gross wage estimates projected in this scenario. Wage developments in the private sector would also be affected by fluctuations in demand, changes in the labour force, prolonged high uncertainty and instability, and changes in the financial situation of firms.

The estimates of the indicators presented in the scenario are to a large extent determined by the relevant actual statistical data available at the time of the development of the scenario, which recently change significantly after reviews and/or revisions[8] carried out by the State Data Agency. Similarly, the estimates foreseen in the scenario could also change after the decisions taken by economic policy makers following the development of this scenario, e.g. monetary policy easing, future decisions on the country's budget policy.

If the underlying assumptions based on which this scenario was drawn up were not met, the estimates for most of the indicators in this scenario would change.

[8] The State Data Agency published the results of the major revision of national accounts indicators for the period 1995-2023 on 1 October 2024.

Key indicators of the Economic Development Scenario

Title of the indicator	2023	2024[P]	2025[P]	2026[P]	2027[P]
GDP (at current prices), MEUR	73, 793	77, 902	82, 109	86, 764	91, 581
GDP (at constant prices), rate of change, %	0.3	2.4 (2.3)	2.8 (2.9)	2.9 (2.9)	2.9 (2.9)
Harmonised Index of Consumer Prices (average annual), rate of change, %	8.7	0.9 (1.0)	2.5 (2.5)	2.7 (2.7)	2.6 (2.6)
Investment (at constant prices), rate of change, %	9.3	–1.9 (1.1)	5.2 (5.6)	5.8 (5.8)	5.4 (5.4)
Exports of goods and services (at constant prices), rate of change, %	–3.4	1.2 (1.2)	3.6 (3.9)	4.2 (4.2)	4.2 (4.2)
Unemployment rate (based on definition of the Labour Force Survey), %	6.8	7.4 (7.3)	7.1 (7.1)	6.8 (6.7)	6.5 (6.4)
Average monthly gross wage, rate of change, %	12.6	10.1 (10.1)	7.9 (7.6)	6.8 (6.5)	5.7 (5.5)
Number of employed population, rate of change, %	1.4	1.4 (1.4)	0.3 (0.2)	0.1 (0.0)	0.0 (–0.3)

Sources: Ministry of Finance, State Data Agency.

[P] – projection. An estimate of a relevant indicator of the Economic Development Scenario published in September 2024 is presented in brackets.