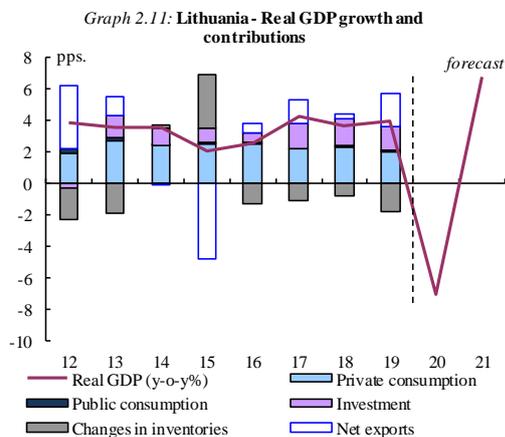


2.11. LITHUANIA

In the first quarter of 2020, real GDP in Lithuania held up relatively well, shrinking by a mere 0.3% (q-o-q), comparing favourably with the euro area as a whole. A strong economic performance in January and February offset much of the negative economic effects of the COVID-19 pandemic and its containment measures, which kicked in at the end of March. In relative terms, investment and exports contracted the most, while private consumption remained relatively resilient.

The second quarter of 2020 is set to be shaped by a more pronounced economic contraction, as confinement measures in Lithuania and abroad disrupted usual consumption patterns and negatively affected investment and the international flow of goods and services. In April, goods exports dropped by nearly one quarter, while industrial production contracted by 8% compared to March.

Even as the lockdown eases, businesses and households are expected to face a high degree of uncertainty for some time. For some companies this means getting shorter-duration contracts compared to the situation before the pandemic and a lower propensity to invest. At the same time, an increase in unemployment and savings and lower labour incomes are expected to have a negative impact on private consumption. Overall, real GDP in Lithuania is forecast to decrease by about 7% in 2020 and then bounce back partially by around 6 ¾% in 2021.



In 2020, annual HICP inflation is forecast to stand at 0.8%. From February to May, the annual inflation rate was on a downward path as increases in service prices and prices of some food products were partially offset by a considerable drop in energy prices. In 2021, due to the slight increase in oil prices projected and recovering aggregate demand, HICP inflation is forecast to reach 1.5%.