

## 2.11. LITHUANIA

After a relatively mild contraction of 0.9% in 2020, Lithuania's economy performed strongly in the first quarter of 2021. Real GDP grew by 2.0% quarter-on-quarter, driven by private consumption and goods exports. At the same time, the seasonally adjusted unemployment rate dropped by 2.2 pps. between December 2020 and April 2021, after increasing during the previous year. The most recent economic sentiment indicators point to further expansion in the second quarter, particularly concerning demand expectations in the service sector. This is linked to a notable relaxation of measures to contain the pandemic and the increase in the vaccination rate.

Accumulated savings by households, continued wage growth and falling unemployment are set to support a rebound in private consumption. At the same time, the path of public investment, which to a great extent is driven by EU funds, is forecast to reach its peak in 2021. The Recovery and Resilience Facility is planned to fund additional public investment starting this year as well. Goods exports are expected to remain high thanks to strong external demand. However, imports are forecast to rise as well, reducing the contribution of net exports to growth. Overall, a strong recovery in domestic demand should be the main driver of economic expansion over the forecast horizon and real GDP in Lithuania is forecast to grow by 3.8% in 2021 and 3.9% in 2022.

After two months of subdued developments at the beginning of 2021, HICP inflation picked up considerably in the period from March to May. This was attributable to a low base effect for prices of liquid fuels, more expensive industrial goods, and continued increases in service prices. These factors will remain important drivers over the forecast horizon. Therefore, the inflation rate is expected to increase from 1.1% in 2020 to 2.3% in 2021, and then moderate to 2% in 2022.

