2.11. LITHUANIA

Following a mild contraction in 2020, Lithuania's GDP rebounded by 4.8% in 2021, almost returning to the pre-pandemic growth path. This was primarily led by the tradable sector, as manufacturing companies benefitted from stronger foreign demand and newly developed high-value added products in the area of pharmaceutics. Accumulated savings and continued growth of households' disposable income fuelled a pickup of domestic demand. The recovery of economic activity and high capacity utilisation contributed to the intensification of investment in machinery and other equipment, transport equipment, and information and communication technology. Heightened activity in the real estate market was accompanied by growth of investment in dwellings.

Economic activity is forecast to decelerate this year, growing by 3.4%. GDP growth is also forecast at 3.4% in 2023. Although household disposable income will continue increasing at an elevated pace, in part owing to heightened growth of wages as labour shortages persist, private consumption is forecast to be adversely affected by higher inflation. Investment is forecast to be negatively affected by slower growth of domestic and foreign demand, as well as by persistent uncertainty amid the ongoing pandemic, while investment will be supported by the expected increase in the inflows of the EU funds. In addition to a projected weakening of economic momentum in the main trading partners, exports are likely to be negatively impacted by geopolitical tensions.

Consumer price inflation surged in Lithuania towards the end of 2021, mostly driven by a spike in energy prices. HICP inflation is expected to further pick up to 6.7% in 2022 due to carry-over effects and continued strong growth in energy prices, despite the measures taken by the Lithuanian government to distribute the growth in administered energy prices over the next few years. At the same time, services prices are expected to increase at the fastest pace in more than a decade because of their close link to rising wages and rebounding domestic demand. Other consumer prices are forecast to increase mainly buoyed by global factors such as shortages of intermediate and final consumption goods. In 2023, as energy prices normalise and goods' shortages ease, inflation is projected to moderate to 2.2%.

Graph 2.11: **Lithuania - Real GDP growth and contributions**