2.15. LITHUANIA: CHANGING GROWTH DRIVERS IN 2018

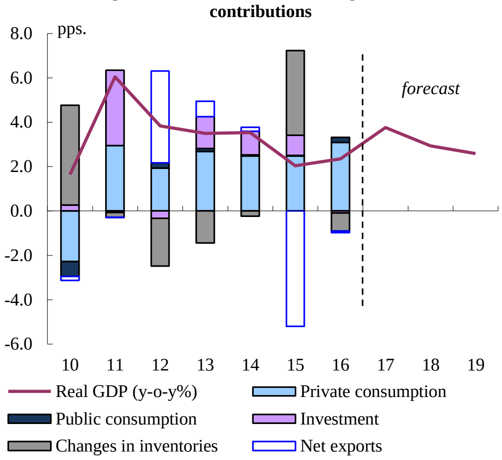
Real GDP is expected to have grown by 3.8% in 2017, compared to 2.3% in 2016. Favourable international trade conditions helped Lithuania's exports to reach double-digit growth in 2017, especially in the service sector. The contribution of net exports to real GDP growth is expected to have been close to neutral as imports, especially of capital goods and crude oil, also picked up.

Growth was also strongly supported by private investment as companies started expanding their capacities to meet increased demand and adjusting to the shortage of labour via automation. Public investment remained muted, as usage of EU funds failed to gather pace.

Private consumption also proved to be an important growth factor, primarily due to an overall high wage increase, although this was partly offset by the elevated inflation rate.

In 2018 and 2019, GDP growth is forecast to moderate to 2.9% and 2.6% respectively, as exports and consumption are set to slow down. However, in 2018, investment is expected to push the economy up slightly more than in 2017, as more EU investment funding gets used and companies step up their investment in advanced technologies to offset the effects the shrinking labour force. Imports are set to remain in step with exports as the latter are highly import-dependent.

Graph 2.15: **Lithuania - Real GDP growth and contributions**



HICP inflation reached 3.7% in 2017, fuelled by the rise in global energy prices and excise duties, as well as a notable rise in service prices linked to significant wage increases. Inflation is set to moderately fall to 2.9% in 2018 and decrease further to 2.5% in 2019. Energy prices and wage growth are expected to be the main drivers of price increases over the forecast horizon.