LITHUANIA

GDP growth is projected to ease gradually as external demand momentum weakens and labour supply constraints bite. Investment will remain robust, albeit below current rates, supported by high capacity utilisation and the implementation of EU-funded projects. Strong wage growth, especially in the service sector, will support consumption but also put pressure on inflation. Informality contributes to inequalities.

After being mildly expansionary in 2018 owing to a package of structural reforms, the fiscal stance will become broadly neutral in 2019-20. The use of fiscal space for measures that boost productivity and reduce inequality and poverty is welcome. More simplified insolvency procedures would promote business dynamism. Tailoring skills closer to labour market needs and ensuring more effective activation programmes for job seekers would make the labour market more inclusive, enhancing well-being.

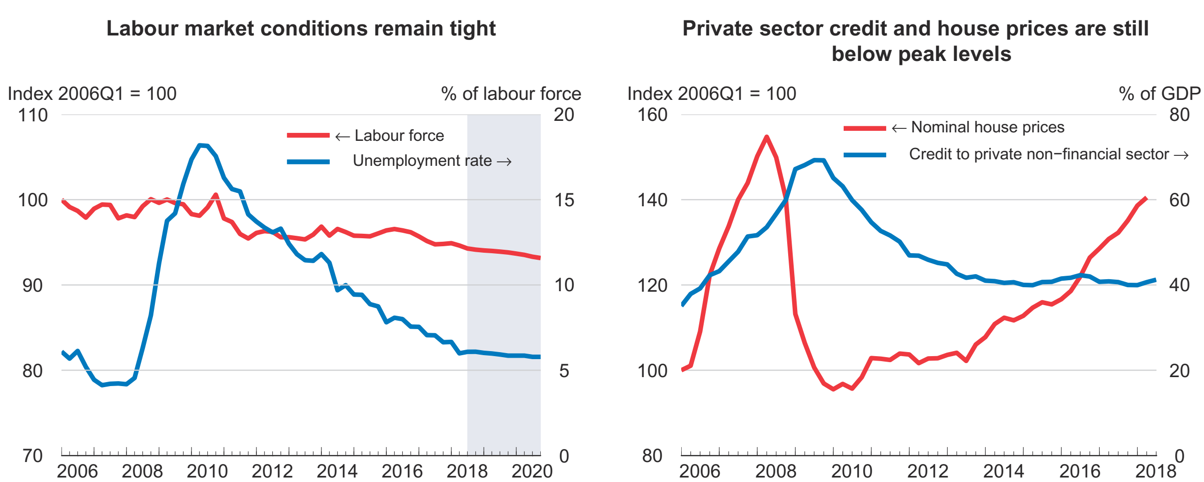
Domestic demand is boosting growth

Economic activity has remained firm. Investment has continued to grow solidly on the back of rising business spending and an acceleration in the implementation of EU-funded projects. Strong wage increases, amid tight labour market conditions, and healthy credit growth are supporting private consumption. Export growth has slowed, however, as external demand has weakened, a poor harvest has affected agricultural exports, and buoyant Russian imports for inventory restocking have come to a halt. Real wage increases in excess of productivity growth, while reducing inequalities, might weaken export performance. Year-on-year inflation has eased as the impact of last year's hike in excise duties has abated, but robust domestic demand and growing wages continue to put pressure on service prices.

Fostering inclusive growth remains a key priority

Euro area monetary policy remains accommodative and credit to the private sector is growing. The relatively low cost of borrowing and increasing incomes fuel housing market

Lithuania



Source: OECD Economic Outlook 104 database; and European Central Bank.

StatLink http://dx.doi.org/10.1787/888933877012

Lithuania: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	37.4	2.4	4.1	3.4	2.9	2.6
Private consumption	23.5	5.0	3.3	4.3	4.1	3.6
Government consumption	6.4	-0.1	-0.4	0.4	0.7	0.6
Gross fixed capital formation	7.3	0.3	6.8	8.3	5.6	4.7
Final domestic demand	37.2	3.2	3.4	4.4	3.8	3.3
Stockbuilding[1]	0.4	-1.0	-0.6	-1.4	-0.4	0.0
Total domestic demand	37.6	2.1	2.9	3.1	3.5	3.3
Exports of goods and services	28.4	4.0	13.6	5.0	4.3	3.2
Imports of goods and services	28.6	3.8	12.0	4.7	4.9	4.1
Net exports[1]	- 0.2	0.1	1.3	0.4	-0.5	-0.7
Memorandum items						
GDP deflator	_	1.4	4.3	2.6	2.5	2.5
Harmonised index of consumer prices	_	0.7	3.7	2.6	2.5	2.5
Harmonised index of core inflation[2]	_	1.7	2.6	2.0	2.3	2.5
Unemployment rate (% of labour force)	_	7.9	7.1	6.2	5.9	5.8
Household saving ratio, net (% of disposable income)	_	-3.6	-5.2	-5.0	-4.8	-4.7
General government financial balance (% of GDP)	_	0.3	0.5	0.5	0.3	0.2
General government gross debt (% of GDP)	_	51.6	47.8	43.1	41.9	40.9
General government debt, Maastricht definition (% of GDP)	_	39.9	39.4	34.6	33.4	32.5
Current account balance (% of GDP)	_	-1.3	1.1	0.6	-0.5	-0.9

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 104 database.

StatLink http://dx.doi.org/10.1787/888933877943

activity and keep the growth of house prices strong, though large regional differences remain. As private sector indebtedness and house prices are still low in a historical perspective, risks to financial stability appear contained. Still, the authorities need to continue using macro-prudential measures pro-actively to prevent imbalances emerging.

The fiscal stance was mildly expansionary in 2018. This was appropriate, despite solid growth, as it financed important structural reforms to reduce inequality and poverty and to boost productivity. Fiscal policy is projected to be broadly neutral in 2019-20. Additional social spending to help the most vulnerable is to be partly offset by a rise in revenues from improved tax administration and increases in some taxes.

Promoting productivity and inclusiveness depends on further improvements in educational outcomes through measures that raise teaching quality and align better vocational and tertiary studies with labour market needs. Employment opportunities can also be enhanced through more effective active labour market programmes and well-designed life-long learning policies, as well as by reducing high labour taxes on less-skilled workers. Helping businesses to become more productive would require more simplified insolvency procedures, wider financing options for smaller firms, and measures that promote business-research collaboration on innovation.

Economic activity will moderate gradually

Output growth is projected to ease to around 2¾ per cent in 2019-20. Weakening external demand growth will continue to be a drag on exports. Domestic demand will also lose momentum as consumption growth will be curbed by a declining labour force, and as investment slows as flows of EU funds return to normal levels. On the other hand, businesses are likely to increase investment in automation in an attempt to mitigate supply-side constraints. The unemployment rate is set to fall to around 6% in 2019-20 and, with wage growth remaining strong, underlying inflation is projected to continue drifting up. Weaker-than-expected euro area growth could damp growth prospects, while Brexit may lower emigrants' remittances. A faster-than-expected rise in unit labour costs could harm competitiveness. On the upside, implementation of productivity-enhancing reforms could boost the outlook.