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REPUBLIC OF LITHUANIA

September 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF LITHUANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Republic of Lithuania, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 8, 2025 consideration of the staff report that concluded the Article IV consultation with the Republic of Lithuania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 8, 2025, following discussions that ended on June 6, 2025, with the officials of the Republic of Lithuania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 29, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Lithuania.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/299

IMF Executive Board Concludes 2025 Article IV Consultation with Republic of Lithuania

FOR IMMEDIATE RELEASE

- The Lithuanian economy has proven resilient to multiple shocks in recent years, but new challenges are emerging and longstanding issues still require attention. Defense spending is set to rise further, adding to other existing long-term spending needs. Income convergence with other euro area countries is incomplete while productivity growth remains weak.

- Given the near- and medium-term spending pressures, further fiscal adjustments are needed to stabilize the debt ratio at a lower level and preserve fiscal space against future shocks. Additionally, ensuring the sustainability of the pension system is essential.

- Financial sector policies should continue to safeguard financial stability and integrity. Structural reforms should focus on improving firms' access to finance to facilitate investments and accelerating the adoption of new technologies, complemented by labor market policies, including reducing skills mismatches.

Washington, DC – September 17, 2025: On September 8, 2025, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Republic of Lithuania.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

Growth accelerated to 2.7 percent in 2024, largely driven by private consumption supported by real income gains, offsetting the impact of weak investment and net exports. Inflation was low in 2024, averaging 0.9 percent, partly driven by negative base effects from declining energy prices. Inflation increased to 3.1 percent in June 2025, partly reflecting increased excise duties. Core inflation remained high in 2024 and the first half of 2025, reflecting persistently high services inflation. The labor market tightened as migration flows eased to normalize in 2024. Wage growth remained above 10 percent in 2024, boosted by increased public wages, but markedly eased in the first quarter of 2025.

The budget deficit increased to 1.3 percent of GDP in 2024 but was lower than originally planned, largely due to the higher surplus of social security funds and stronger than expected

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/lithuania page.

tax revenues, as well as lower expenditure on goods and services. Public debt rose to 38.2 percent of GDP in 2024. Defense expenditure reached 2.8 percent of GDP in 2024 and is expected to rise to 5 percent of GDP for 2026-30 in line with new NATO commitments. Parliament recently approved the tax policy package and proposed changes in the Pillar II pension including removing automatic enrollment and introducing options to withdraw funds before retirement age.

Growth is expected to reach 2.9 percent in 2025, supported by private consumption and investment, against lower yet continued real wage growth, easing financial conditions, and support from EU funds. Growth is projected to accelerate further to 3.4 percent in 2026, largely reflecting increased private consumption driven by anticipated withdrawals from the Pillar II pension, before converging to 2.5 percent in the medium-term. Inflation is expected to temporarily rise to 3.2 percent in 2025, before gradually moderating.

Executive Board Assessment[3]

Executive Directors commended the Lithuanian economy's resilience in navigating a challenging external environment supported by strong fundamentals and policy frameworks. Directors noted, however, that risks are tilted to the downside—including from a potential economic slowdown in trade partners, heightened geopolitical tensions, and demographic pressures—and that long standing structural issues remain. They emphasized the importance of safeguarding macroeconomic stability while advancing reforms to boost sustainable, inclusive growth.

Directors underscored the need for a comprehensive fiscal strategy to address pressures stemming from the expected increase in defense spending as well as long term expenditure needs related to aging and the green transition. While welcoming the authorities' recent tax measures, Directors broadly agreed that additional revenue mobilization measures and spending efficiency gains are needed to stabilize debt and preserve fiscal space, coupled with measures to address Lithuania's high inequality. Directors emphasized the importance of ensuring the long term sustainability of the pension system and cautioned that the recent Pillar II reform could lower replacement rates and raise future public liabilities. They encouraged the authorities to design reforms that ensure both financial and social sustainability of the pension system.

Directors welcomed the banking system's solid capitalization, ample liquidity, and low NPL ratios, and called for continued close oversight. While considering the macroprudential stance to be appropriate, they emphasized the importance of continued vigilance over credit growth, house price dynamics, and commercial real estate risks, and encouraged readiness to adjust capital based measures as needed. Directors welcomed the strengthening of the AML/CFT framework and encouraged its sustained implementation, including supervision of fintech and virtual asset service providers. They also encouraged the development of domestic capital

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

markets to facilitate investment growth, which would also help reduce Lithuania's external imbalances.

Directors stressed the need for continued structural reforms to raise productivity and alleviate skills mismatches. They supported measures to deepen SME financing, accelerate technological diffusion and AI adoption, and improve vocational training and migrant labor integration. Directors welcomed progress in strengthening energy security through renewables and encouraged continued decarbonization and climate adaptation efforts to meet EU climate goals.

Lithuania: Selected Economic Indicators, 2022–30
(Year-on-year percentage change, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
Output									
Real GDP	2.5	0.4	2.7	2.9	3.4	2.2	2.5	2.5	2.5
Domestic demand	2.3	-1.3	3.1	3.3	3.7	2.1	2.5	2.6	2.6
Private consumption	2.0	-0.3	3.6	2.9	3.7	1.4	2.0	2.2	2.2
Domestic fixed investment	5.2	9.3	-1.1	5.0	5.3	5.0	4.7	4.6	4.5
Inventories (contribution to growth)	-0.3	-3.1	1.0	0.1	-0.1	-0.1	0.0	0.0	0.0
Net external demand (contribution to growth)	0.3	1.4	-0.1	-0.2	-0.1	0.2	0.2	0.0	0.0
Nominal GDP (in billions of euros)	67.4	73.8	78.4	83.9	88.9	92.8	97.4	102.4	107.5
Output gap (percent of potential GDP)	1.4	-0.7	-0.5	0.0	0.8	0.4	0.1	0.0	0.0
Employment									
Unemployment rate (year average, in percent of labor force)	6.0	6.9	7.1	6.6	6.1	6.0	5.9	5.9	5.9
Average monthly gross earnings	13.3	12.2	10.4	8.1	5.8	5.2	5.4	5.2	5.2
Average monthly gross earnings, real (CPI-deflated)	-4.6	3.5	9.6	4.9	3.1	2.7	2.8	2.7	2.8
Labor productivity	-1.3	-1.0	1.1	2.4	3.6	2.4	2.8	2.7	2.7
Prices									
HICP, period average	18.9	8.7	0.9	3.2	2.7	2.5	2.5	2.5	2.5
HICP core, period average	13.6	10.7	2.6	3.6	3.0	2.7	2.4	2.4	2.4
HICP, end of period	20.0	1.6	1.9	3.0	2.8	2.8	2.5	2.5	2.5
GDP deflator	16.1	9.0	3.4	3.9	2.5	2.2	2.4	2.6	2.5
General government finances (percent of GDP)									
Fiscal balance	-0.7	-0.7	-1.3	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Fiscal balance excl. one-offs	-0.7	-0.7	-1.3	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Structural fiscal balance (percent of potential GDP) 1/	-1.5	-0.3	-1.1	-2.7	-4.4	-4.0	-4.0	-4.0	-4.0
Revenue	35.5	36.7	38.2	38.3	38.1	38.3	38.4	38.3	38.3
Of which EU grants	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure	36.3	37.4	39.5	41.1	42.2	42.1	42.4	42.3	42.3
Of which: Non-interest	35.9	36.8	38.7	40.1	41.1	40.8	41.0	40.9	40.7
Interest	0.3	0.6	0.8	1.0	1.1	1.3	1.4	1.4	1.5
General government gross debt	38.1	37.3	38.2	42.1	46.5	50.2	52.3	54.2	55.9
Of which: Foreign currency-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance of payments									
Current account balance (percent of GDP)	-6.1	1.1	2.5	2.0	1.9	1.8	1.8	1.9	1.8
Current account balance (billions of euros)	-4.1	0.8	1.9	1.7	1.7	1.7	1.8	1.9	1.9
Saving-investment balance (percent of GDP)									
Gross national saving	22.0	23.1	22.8	23.0	23.3	23.8	24.4	25.0	25.4
Gross national investment	28.1	22.0	20.4	21.0	21.3	22.0	22.5	23.1	23.6
Foreign net savings	6.1	-1.1	-2.5	-2.0	-1.9	-1.8	-1.8	-1.9	-1.8

Sources: Lithuanian authorities; World Bank; Eurostat; and IMF staff estimates and projections.
Note: Data is presented on ESA2010, and BPM6 manuals basis.
1/ Calculation takes into account standard cyclical adjustments as well as absorption gap.

INTERNATIONAL MONETARY FUND

REPUBLIC OF LITHUANIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 29, 2025

KEY ISSUES

Context. Lithuania's economy has proven resilient to multiple shocks in recent years and grew strongly in 2024. However, new challenges are emerging and long-standing issues still require attention. Defense spending is high and set to rise further, adding to other existing long-term spending pressures including from pensions. Income convergence with other euro area countries has been stalling lately while productivity growth remains weak. The global economic environment remains highly uncertain.

Outlook and risks. The economy is projected to grow steadily at 2.9 percent in 2025, supported by private consumption and investment, and further accelerate in 2026, largely due to the anticipated stimulus from the Pillar II pension withdrawals. Inflation is expected to temporarily rise to 3.2 percent, reflecting increased excise duties. Risks are tilted to the downside, mainly related to spillovers from high trade policy uncertainty, geopolitical tensions, and weaker growth in trading partners. Delays in structural reforms would limit productivity growth and undermine potential growth in the medium term.

Key Policy Recommendations

- **Fiscal policy.** The strategy should focus on preserving fiscal space through revenue mobilization and improving spending efficiency while ensuring debt sustainability in the long run. Enhancing the financial and social sustainability of the multi-pillar pension system is crucial in the face of adverse demographic trends.
- **Financial sector.** Macroprudential policies should continue to be calibrated to address financial stability risks. Effective oversight and implementation of AML/CFT measures are essential to safeguard against financial integrity risks.
- **Structural policies.** Reforms should focus on deepening capital markets and improving financial access to facilitate investments, and accelerating the adaptation of new technologies, complemented by labor market polices including reducing skills mismatches.

Approved By
Helge Berger (EUR) and Bergljot Barkbu (SPR)

Discussions were held in Vilnius during May 26–June 6, 2025. The team comprised Kazuko Shirono (head), Saioa Armendariz, Tara Iyer (all EUR), and Alberto Musso (RES). Vitas Vasiliauskas (OED) participated in most of the meetings. Samuel H. Wilson, Gefei Kofi Zhou (all EUR), Richard Berkhout and Maksym Markevych (LEG) supported the mission from headquarters. Lukas Boer (EUR) contributed to the preparation of the mission.

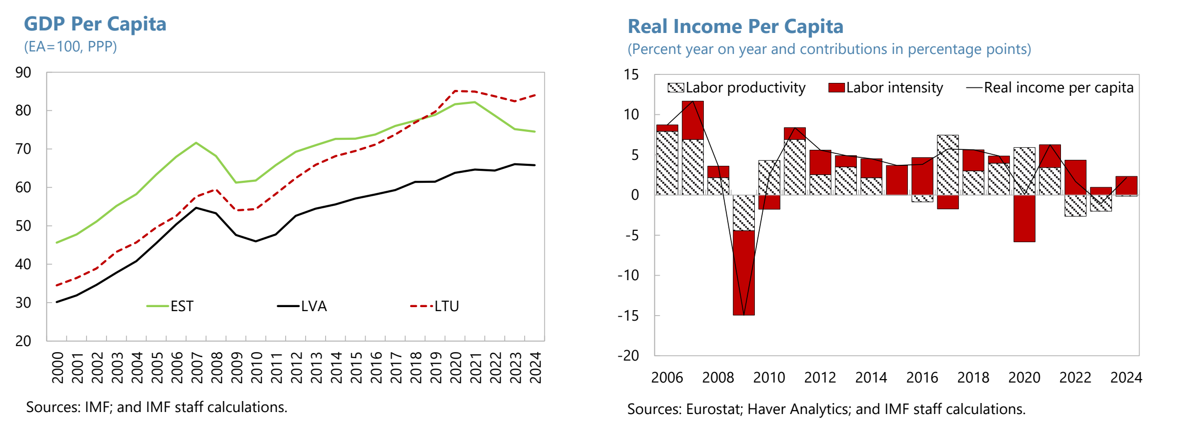
CONTENTS

ANNEXES

CONTEXT AND RECENT DEVELOPMENTS

1. **Lithuania has proven resilient to various shocks in recent years.** Russia's war in Ukraine led to supply-side disruptions and a sharp inflation hike. Activity slowed, but momentum quickly returned in 2024, with the economy growing above the euro area (EA) average and Baltic peers. High inflation was rapidly reversed. Lithuania has also preserved external competitiveness despite the sizable negative terms-of-trade shocks. Factors accounting for this resilience include Lithuania's more diversified trade structure and growing higher-value-added activities such as information, communication, and technologies (ICT) services sector (Annex VI).

Text Figure 1. GDP Per Capita



2. **However, new challenges are emerging while long-standing issues still require attention.** Lithuania has achieved rapid income convergence towards high-income EU members for the past decades, but the transition is incomplete. Per capita income remains 15 percent below the EA average, productivity growth remains weak, and income inequality is high with persistent old age poverty (Figure 8). Defense spending is expected to further rise to around 5 percent of GDP for 2026-2030—as proposed by the National Defense Council in January and confirmed at the NATO Summit in June—adding to the existing long-term spending pressures from aging and the green transition. The global economic landscape is in flux, with shifting policy priorities and unprecedented levels of uncertainty.

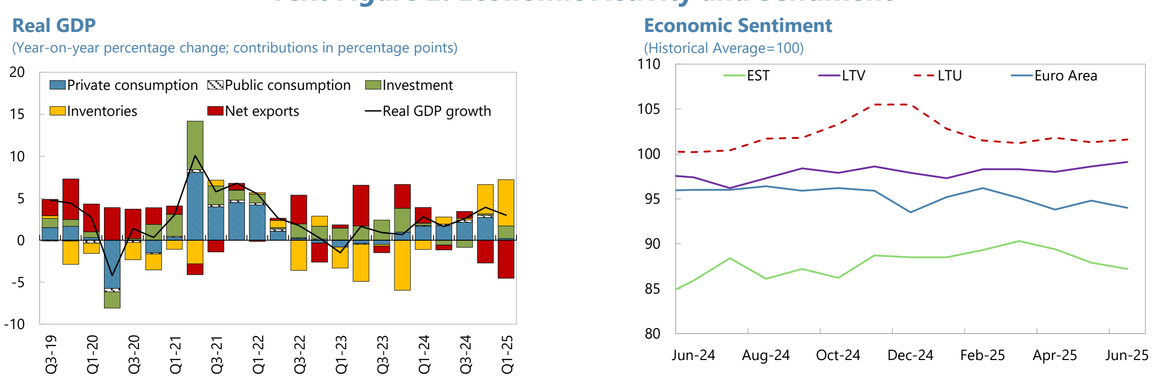
3. **The new government is implementing its economic policy agenda.** The action plan of the center-left coalition government, formed after the October 2024 elections, focuses on socially fair tax system and long-term fiscal sustainability, supporting economic growth, and strengthening security, among other things. Parliament recently approved the tax policy package and the proposed changes in the Pillar II pension including removing automatic enrollment and introducing options to withdraw funds before retirement age[1].

[1] The baseline scenario in this staff report reflects these policy changes.

4. The economy grew strongly in 2024 (Text Figure 2). Following subdued activity in 2023, growth accelerated to 2.7 percent in 2024, largely driven by private consumption supported by real income gains, offsetting the impact of weak investment and net exports. The recovery was broad-based across sectors, including growing manufacturing in contrast to other European peers. The information, communication, and technologies (ICT) services sector, well diversified and export oriented, continued to expand, with its share reaching 5.3 percent of GDP in 2024.

5. The economic momentum eased in the first quarter of 2025. Private consumption slowed, recording the lowest growth rate since 2023, reflecting slower wage growth (¶6) and, in part, the increase in excise duties on fuels, alcohol and tobacco in January 2025. This was partially offset by the recovery of public and private investment, supported by EU funds and easing financial conditions. High frequency indicators suggest that economic sentiment eased somewhat amidst external uncertainty and higher inflation in early 2025 but remains stable since then.

Text Figure 2. Economic Activity and Sentiment

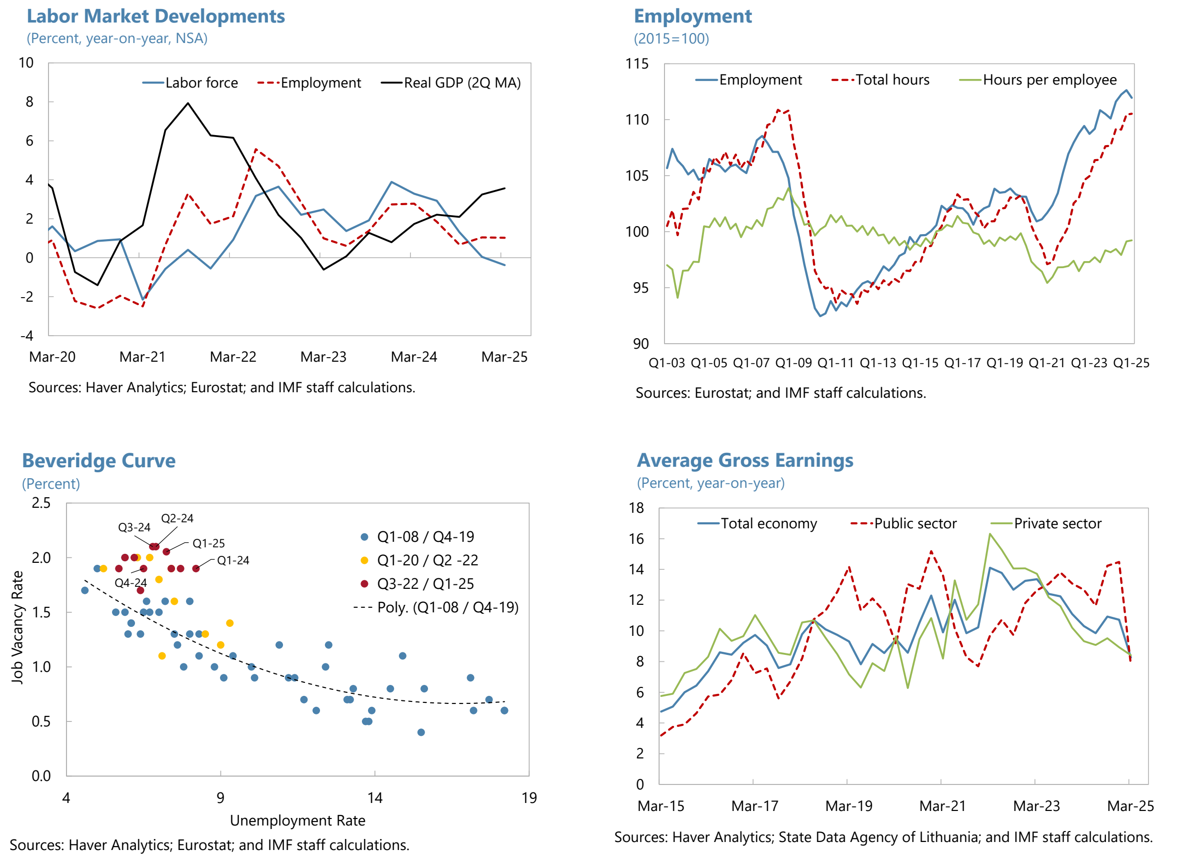


Sources: Haver Analytics; Eurostat; and IMF staff calculations.

Sources: European Commission; and Haver Analytics.

6. The labor market tightened as migration flows eased (Text Figure 3). Net migration particularly from Ukraine and Belarus supported strong employment growth in 2022-23. As migration normalized in 2024, labor supply eased while economic activity accelerated, narrowing the output gap and driving the unemployment rate below 7 percent at the end of the year, leading to labor shortages in some sectors. Wage growth remained above 10 percent in 2024, boosted by increased public wages, but markedly eased in the first quarter of 2025.

Text Figure 3. Labor Markets



7. Inflation remained below the EA average in 2024 but accelerated at the end of the year. Headline inflation was historically low in 2024, averaging 0.9 percent, in part due to negative base effects from declining energy prices. However, after bottoming out in October, it started to pick up, reaching 3.7 percent in March 2025, reflecting increased excise duties and the fading of base effects. Core inflation remained high in 2024, with strong domestic demand keeping services inflation stable at around 6 percent. From January 2025 onwards, the impact of higher excise duties and pass-through from higher energy prices drove core inflation to above 3.5 percent in the first half of 2025, despite the gradual slowdown of wage growth (Figure 3).

8. The fiscal outturn was stronger than budgeted in 2024. The deficit rose to 1.3 percent of GDP but was significantly lower than the originally planned 3 percent of GDP. The overperformance was largely due to the higher surplus of social security funds and stronger than expected tax revenues given high wage growth, as well as lower expenditure on goods and services, offsetting greater expenditure on public sector wages (Text Table 1). Public debt rose to 38.2 percent of GDP in 2024.

Text Table 1. Lithuania: Difference: Budgeted versus Outturn

	in % of GDP	2024
Revenues	Direct Taxes	0.4
	Indirect Taxes	0.3
	Social security	0.7
	Other	-0.2
	Total	**1.2**
Expenditure	Compensation of employees	1.0
	Goods and services	-0.9
	Interest	0.2
	Subsidies	0.0
	Social benefits	0.1
	Capital transfers	-0.4
	Other	-0.1
	Capital expenditure	0.0
	Total	**-0.2**
Total improvement in 2024 GG balance		**1.5**

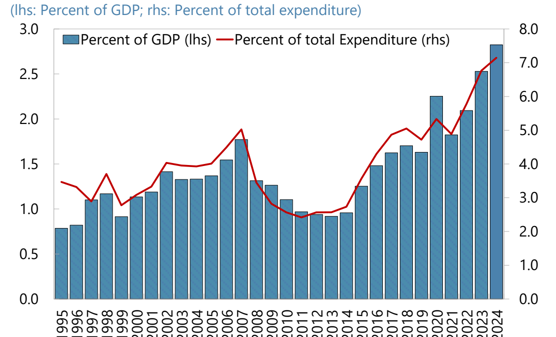
Source: Ministry of Finance.

Note: Due to rounding, line sums may not match the detailed data.

9. Defense spending is rising. Defense expenditure reached 2.8 percent of GDP in 2024 (Text Figure 4). The Defense Fund package was approved in 2024 to increase defense spending to 3-3.5 percent of GDP for 2025-30, financed by a mix of increased borrowing through defense bond issuance and higher revenue, including a rise in CIT rates and excise duties, as well as an extension of the bank levy by one more year. Defense spending will further rise to 5 percent of GDP for 2026-30 in line with the new NATO commitment (¶16). Lithuania's national fiscal rule—stricter than the EU rule—has been suspended and is currently under review.

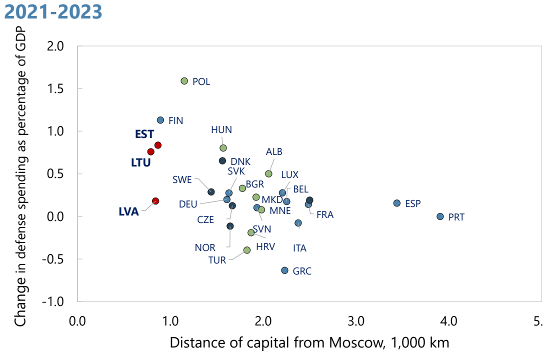
Text Figure 4. Defense Spending

LTU: Public Expenditure In Defense
(lhs: Percent of GDP; rhs: Percent of total expenditure)



Sources: Ministry of Defense; Ministry of Finance; Eurostat; and IMF staff calculations.

European NATO Countries: Change in Defense Spending, 2021-2023

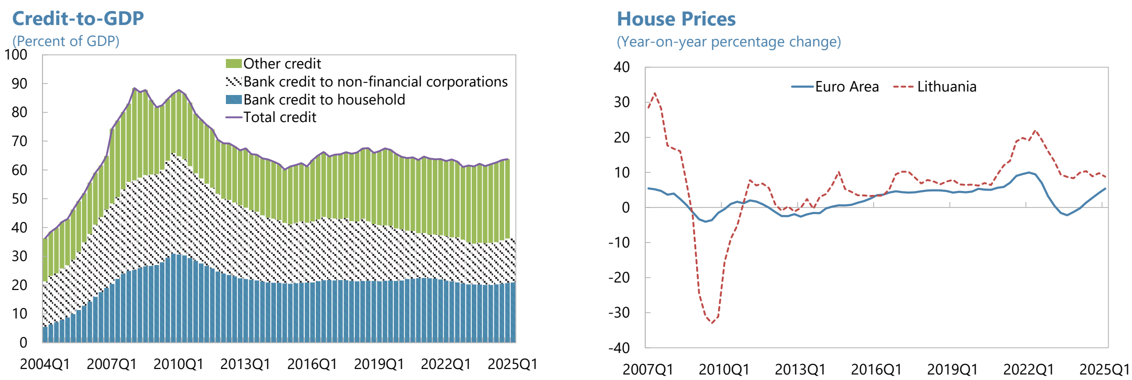


Sources: Stockholm International Peace Research Institute; IMF staff calculations.

10. The banking sector remains highly profitable and well capitalized, with ample liquidity buffers and low NPL ratios (Figure 7). Profitability, while staying high, eased due to lower interest rates following ECB monetary policy easing. Banks remained adequately capitalized (21.4 percent CAR) and retained ample liquidity buffers (347 percent coverage ratio) at end-2024. The NPL ratio remains among the lowest in Europe.

11. There are signs of financial expansion. Supported by decreasing lending rates and recovering credit demand, loan growth to both NFCs and households recovered in 2024 and early 2025, albeit for the former remaining well below the 2022 peak (Figure 7). Nevertheless, credit-to-GDP ratios have increased only moderately over the last year (Text Figure 5). Moderating mortgage rates invigorated real estate markets in 2024 and early 2025, with house prices growing just below 10 percent on average.

Text Figure 5. Credit Market and Housing Market Developments



Source: Bank of Lithuania and IMF staff calculations.

Sources: European Central Bank; Haver Analytics; and IMF staff calculations.

12. The current account surplus increased, reflecting continued strength in the services balance (Figure 5). Lithuania recorded a current account surplus of 2.5 percent of GDP in 2024, mainly driven by the services balance growing to around 11 percent of GDP, supported by strong ICT and financial services exports. The REER depreciated modestly in 2024, slowing the recent real appreciation trend. The ESA indicates that the external position in 2024 was moderately stronger than the level implied by fundamentals and desirable policies with a current account norm of 1.3 percent (Annex III). Lithuania's direct exposure to the US exports is limited (Figure 5), but the economy is vulnerable to trade barriers and supply chain disruptions through indirect exposure vis-à-vis EU trading partners (¶14).

OUTLOOK AND RISKS

13. The economy is expected to grow steadily at 2.9 percent while inflation will accelerate in 2025 (Text Table 2). Growth this year will be supported by private consumption—on the back of lower yet continued real wage growth—and rising investment reflecting easing financial conditions and support from EU funds. External demand is expected to remain subdued reflecting uncertainty on trade policies, despite the positive outlook for ICT and professional activities. Growth is projected to accelerate further to 3.4 percent in 2026, largely reflecting increased private consumption driven by anticipated withdrawals from the Pillar II pension. Stronger private consumption, together with higher taxes and persistently high wage growth will keep headline and core inflation above the pre-pandemic averages in the coming years. The labor market will tighten reflecting negative labor force dynamics affected by the normalization of migration flows. In the medium-term, GDP growth will slow to around 2.5 percent, after the impact of Pillar II pension withdrawals wears off.[2]

Text Table 2. Lithuania: Summary Macroframework

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
Real GDP growth (percent)	2.5	0.4	2.7	2.9	3.4	2.2	2.5	2.5	2.5
Private consumption growth (yoy, in percent)	2.0	-0.3	3.6	2.9	3.7	1.4	2.0	2.2	2.2
Domestic fixed investment growth (yoy, in percent)	5.2	9.3	-1.1	5.0	5.3	5.0	4.7	4.6	4.5
Export growth (yoy, in percent)	12.4	-3.4	2.1	2.0	2.6	2.9	3.2	3.1	3.1
Import growth (yoy, in percent)	12.7	-5.3	2.4	2.5	2.9	2.9	3.3	3.4	3.4
Output gap (percent of GDP)	1.4	-0.7	-0.5	0.0	0.8	0.4	0.1	0.0	0.0
Inflation (percent)	18.9	8.7	0.9	3.2	2.7	2.5	2.5	2.5	2.5
Employment (annual percentage change)	3.8	1.4	1.6	0.5	-0.2	-0.2	-0.2	-0.2	-0.2
Unemployment rate (percent)	6.0	6.9	7.1	6.6	6.1	6.0	5.9	5.9	5.9

Sources: Lithuanian authorities; and IMF staff estimates and projections.

Notes: Projections include the assumption of a 40 percent withdrawal from the Pillar II during 2026-2027.

14. Risks to the outlook are tilted to the downside. As a small open economy, Lithuania is exposed to high uncertainty around trade policies and geopolitical risks. A severe downturn in main trade partners would worsen the external performance and domestic activity. In the medium-term, weaker demographics pose risks to labor supply which could add pressures on wages and competitiveness if productivity growth fails to accelerate. In the absence of additional measures, the fiscal position is subject to considerable medium-term risk with higher defense spending adding to the already high existing long-term expenditure needs. Public spending pressures could be even greater if the Pillar II pension reform further reduces the replacement rate.

Authorities' Views

15. The authorities broadly agreed with staff's assessment of the outlook and key risks but also highlighted some upside risks to growth. They agreed on the projected strength of domestic demand this year, offsetting slower growth in exports of goods and services due to higher uncertainty and its negative impact on foreign demand. They project a more stable growth path in the next three years, led by strong private consumption and investment growth. The authorities noted that the Pillar II reform, once implemented, would temporarily increase growth in the short run, and real GDP will gradually return to the pre-policy trends in the

[2] The medium-term growth was revised up since the 2024 Article IV reflecting structural changes in recent years such as the shift toward higher value-added activities and the increasing number of returning Lithuanians as well as in light of national accounts data revisions which increased historical estimates of real GDP growth including investments.

medium term. Increased defense spending, if directed to R&D, infrastructure, and domestic industries, would boost productivity and growth in the medium term. They agreed that direct impacts of US tariffs on Lithuanian exports would be limited and risks would come more from indirect effects of a potential slowdown in foreign demand. They anticipate that productivity growth will gradually accelerate with the increasing share of high value-added activities in both the manufacturing and service sectors.

POLICY DISCUSSIONS

The near- and long-term fiscal challenges call for a comprehensive strategy to preserve fiscal space through revenue mobilization and enhanced spending efficiency while ensuring sustainability of the pension system. Financial sector policies should continue to safeguard financial stability and integrity. Structural reforms should focus on improving financial access by firms to facilitate investments and accelerating the adoption of new technologies, complemented by labor market policies, including reducing skills mismatches.

A. Fiscal Policy: Preserving Fisal Space for Long-Term Sustainability

16. The budget envisages further significant easing in 2025, but the strategy should shift to preserving fiscal space.

- In 2025, the deficit is expected to rise to 2.8 percent of GDP from 1.3 percent in 2024, driven by increases in pension spending given the pension indexation rule and discretionary expenditure measures including higher public sector wages (Text Table 3 and Text Figure 6). Defense spending in 2025 is estimated to raise to 3.3 percent of GDP from 2.8 percent in 2024 on an accrual basis.

Text Table 3. Lithuania: Impact of Discretionary Measures on the Deficit

	in % of GDP	2024	2025
Revenue	Direct Taxes	-0.3	-0.3
	o/w Corporate Income Tax	0.0	0.0
	o/w Solidarity Contribution	0.0	-0.2
	o/w Other	-0.3	-0.1
	Indirect Taxes	0.4	0.4
	o/w Excise Taxes	0.2	0.3
	o/w 2023 VAT Changes	0.2	0.0
	Other	0.0	0.0
	Total	**0.2**	**0.1**
Expenditure (-)	Compensation of Employees	-0.8	-0.9
	Subsidies	0.4	0.0
	Social Benefits	-0.1	0.1
	Other	-0.2	0.0
	Capital Expenditure	-0.4	0.1
	Total	**-1.1**	**-0.7**
	Net Additional Impact	**-0.9**	**-0.6**

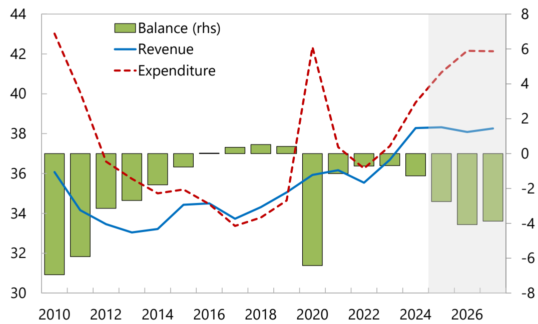
Source: Ministry of Finance.
Note: The numbers show the additional impact of the discretionary measures announced in the Oct 2024 budget, which would be implemented in 2024-25, on previously projected revenues and expenditures.
Note: Solidarity contribution shows expected 2025 revenue (EUR 90 million) minus 2024 estimate (EUR 247.3 million).

- From 2026 onward, the activation of the National Escape Clause enables Lithuania to accommodate the additional defense spending within the

EU fiscal framework, but it will adversely impact medium-term debt dynamics.[3] According to staff's baseline estimates, higher defense spending at around 5 percent of GDP, despite additional tax revenues from the new tax measures (¶17), would further increase the deficit to 4.1 percent of GDP in 2026, with deficits remaining elevated at around 4 percent in the medium-term (Text Figure 7, Text Table 5).[4] Public debt would rise to 55 percent of GDP by 2030, reaching 60 percent of GDP by 2033 (see Annex VII DSA).

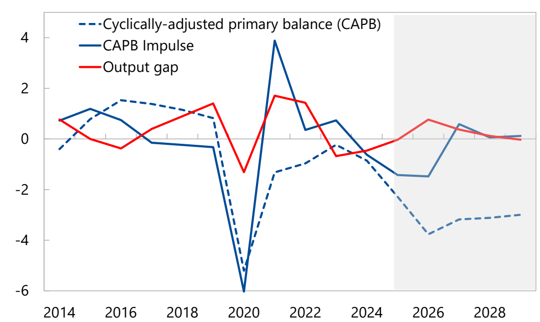
Text Figure 6. Fiscal Stance

General Government Revenue and Expenditure
(Percent of GDP)



Sources: Ministry of Finance; and Haver Analytics.

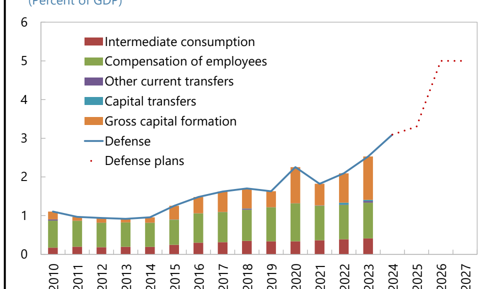
Fiscal Policy Stance
(Percent of potential GDP)



Sources: Ministry of Finance; and IMF staff calculations.

17. The authorities have identified several financing options for increased defense expenditure for 2026-30. A large part of the additional defense spending is expected to be on the purchase of equipment, even though some infrastructure investment projects are also planned, including the construction of a military base to house a German brigade, financed by a long-term European Investment Bank (EIB) loan of EUR 540 million. Another long-term loan of EUR 400 million from the Nordic Investment Bank (NIB) is expected to support various other defense related investments.[5] Some of the additional defense needs will be financed by the recently approved tax measures (¶18).

General Government Defense Expenditure
(Percent of GDP)



Sources: Statistical Office of the European Communities; Haver Analytics.

[3] In June 2025, the European Council approved the activation of the national escape clause for 15 EU member states, including Lithuania, allowing for a deviation of 1.5% from the net expenditure path set in the new EU fiscal framework for a period of 2025-2028, provided that this excess is due to increased defense spending.

[4] The staff's baseline fiscal projections incorporate only confirmed policy changes such as defense spending of 5 percent of GDP for 2026-30 and new tax measures to be implemented from January 2026.

[5] Other financing options include the new EU Security Action for Europe facility (SAFE). Through SAFE, the EU would provide up to EUR 150 billion that will be disbursed to interested member states upon demand, and on the basis of national plans. Lithuania is planning to apply for a SAFE loan and is currently evaluating the proposal.

18. The revenue yield of the planned tax policy changes is expected to be modest relative to what could be potentially achieved (Box 1 and SIP on Tax Policy Options). The approved tax measures target a variety of taxes, including introducing a new intermediate tax rate for personal income tax (PIT), raising the standard and reduced rates for corporate income tax (CIP), and removing exemptions in the VAT rate (Text Table 4). These changes are estimated to increase revenues by 0.6 percent of GDP in 2026-7. With a still relatively low tax revenue ratio to GDP compared with EU peers, there is scope for greater revenue mobilization. The mounting medium- and long-term spending pressures from adverse demographic trends also underscore the need for further tax reforms (¶20).

Text Table 4. Lithuania: Tax Policy Changes in 2026 and Estimated Revenue Yield

Tax	Main changes	Revenue impact
PIT	Introduce a new intermediary rate of 25 % for a threshold of 36-60 average wages. Maintain tax credit for low-income earners.	0.23% of GDP
CIT	Increase the standard rate to 17 % (also on dividend income) and reduce rate to 7 %; introduction of instant depreciation of certain fixed assets, limitations on the deductions of tax losses	0.05% of GDP
Real estate	Broadening the tax base for secondary residential real estate with EUR 50,000 non-taxable threshold and progressive tax rates ranging from 0.2% to1%. For primary residential real estate, non-taxable threshold and the rates from 0.1 to 1% will be determined by municipalities.	0.08% of GDP
VAT	Increase reduced rates of 9 % to 12%, lower rate for books to 5 %; remove VAT relief for heating, hot water and firewood.	0.09% of GDP
Sugar tax	Excise duty in EUR/hl differentiating by sugar content per 100 ml.	0.03% of GDP
Insurance tax	10 % tax for non-life insurance premia with some exceptions	0.12% of GDP
Total Revenue Impact for 2026-27		**0.6% of GDP**

Source: Ministry of Finance estimates.

Notes: In percent of projected 2026 GDP. Estimated revenue impact is around 0.3 percent and 0.6 percent in 2026 and 2027, respectively.

19. The fiscal strategy to ensure sustainability should aim to stabilize debt at a still-low level over the medium term. Specifically:

- For 2025, given the closing output gap under staff projections and mounting long-term spending needs, a tighter fiscal stance than currently expected would be desirable. While the budget has been mostly implemented, any unused spending or revenue overperformance should be saved to safeguard fiscal buffers and reduce the need for larger adjustments in later years.

- Going forward, fiscal adjustments totaling about 2 percent of GDP of fiscal measures during 2026-30 would bring the deficit closer to 2 percent in 2030 (Figure 1, Text Table 5, and Text Table 6), anchoring debt closer to 50 percent to preserve fiscal space to absorb possible future shocks. Arguably, temporary measures and productivity-enhancing capital expenditure could be deficit-financed, but a sizable part of the additional defense spending is likely to be permanent and will not directly lift productivity, warranting higher revenue or lower spending in other areas. The moderately contractionary fiscal stance implied would also mitigate the risks of overheating and additional inflationary pressures, as the output gap turns positive.

20. Adjustments should predominantly come from additional tax measures which could yield further revenues of around 3 percent of GDP (Box 1). Revenues should come mainly from making the personal income tax (PIT) system more progressive by removing high marginal tax rates for low-income earners, limiting exemption in corporate income taxes (CIT), further broadening the property tax base including for primary residential properties, and further reducing the value added tax (VAT) compliance gap. Efficiency of tax administration should be targeted to raise additional revenues. The upcoming IMF's technical assistance on VAT compliance gap would support the effort in this regard.

Box 1. Tax Policy Options for Lithuania

Compared to other EU countries, Lithuania collects a lower share of tax revenue relative to GDP. Lithuania has increased its tax-to-GDP ratio, reaching 22.3 percent in 2023, aided by improved compliance measures, but still remains below the EU average of 26.1 percent. Property taxes contribute a smaller share compared to other EU nations. The Personal Income Tax (PIT) system is less progressive than in the other Baltic countries, with relatively few employees facing the top PIT rate. The Value-Added Tax (VAT) system, with a notable efficiency gap compared to Estonia, also offers a potential for reform to enhance revenue.

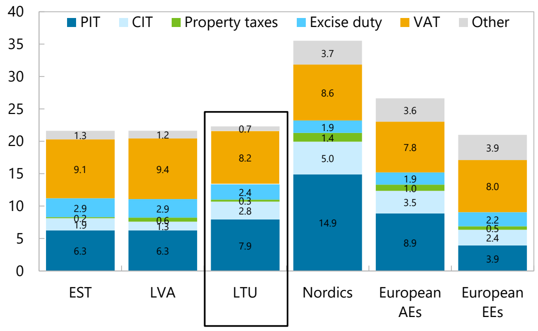
Tax measures are essential to secure increased permanent revenue sources in light of rising spending pressures. Mobilizing tax revenues would be an essential part of a more comprehensive fiscal package ensuring fiscal sustainability, especially given the multi-year scope and permanent component of defense and aging-related spending pressures. Lithuania's additional tax revenue potential is estimated at around 9 percent of GDP. The tax policy change proposal to be implemented in January 2026 appropriately targets a mix of taxes, but the revenue yield is estimated to be modest at 0.6 percent of GDP.

There is further scope to raise additional revenues while improving the tax system, including increasing progressivity and efficiency. This could include raising revenues through making the personal income tax (PIT) system more progressive by removing high-marginal tax rates for low-income earners; limiting exemptions in corporate income taxes (CIT); further broadening the tax base for the residential real estate tax, particularly for primary residential properties, and thereby granting more fiscal autonomy to municipalities; and reducing the value added tax (VAT) compliance gap while improving VAT efficiency including through strengthening digitalization, reducing carousel fraud, and simplifying compliance. Based on staff estimates, these could yield tax revenues in the range of 1.2 percent to 3.9 percent (see SIP on Tax Policy Options).

Box 1. Tax Policy Options for Lithuania (concluded)

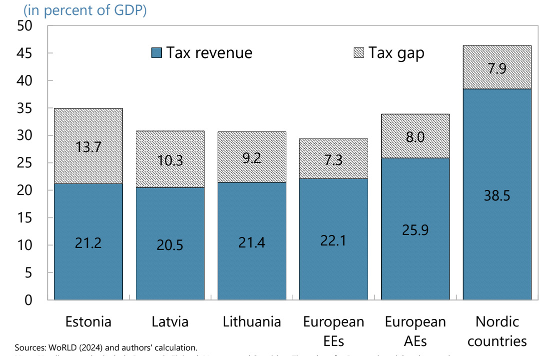
Box 1. Figure 1. Benchmarking Taxes and Tax Potential in Lithuania

Tax Revenue Level, 2023
(Percent of GDP)



Sources: Government Finance Statistics, IMF; and Eurostat.

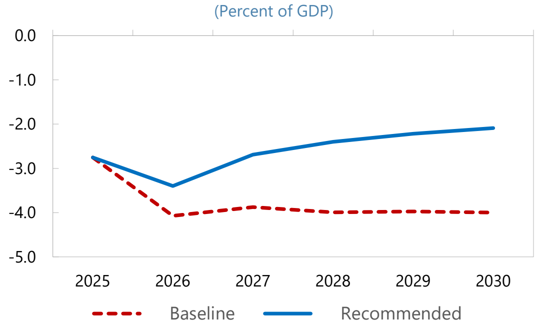
Tax potential estimates
(in percent of GDP)



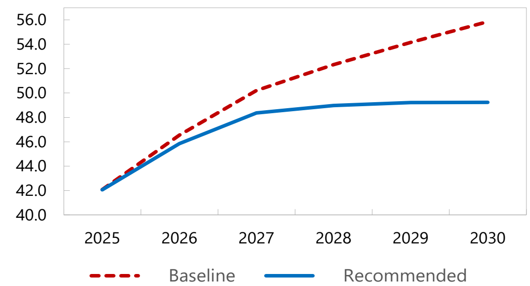
Sources: WoRLD (2024) and authors' calculation.
Note: Nordic countries include Denmark, Finland, Norway, and Swedden. The values for Denmark and Sweden used for computing the average values for Nordic countries refer to 2021. The latest year for the other countries refers to 2022.

Figure 1. Baseline and Recommended Fiscal Paths

Deficit - Baseline and Defense Spending
(Percent of GDP)



Debt - Baseline and Defense Spending
(Percent of GDP)



Source: IMF staff calculations.
Notes: The baseline deficit and debt projections assume that defense spending is around 3 percent in 2025, and 5 percent from 2026-30. The baseline deficit also incorporates tax changes of 0.3 percent and 0.6 percent of GDP in 2026 and 27, respectively. The EUR 800 million that was paid in cash for defense equipment in 2025 directly affects the stock flow adjustment and debt in 2025. The deficit projections are on an accrual basis and do not make assumptions on the cash paid versus timing of delivery of defense equipment from 2026-30. Recommended deficit and debt paths are based on additional measures recommended by the staff as discussed in ¶20 and ¶21 of the main text.

Text Table 5. Lithuania: Baseline and Recommended Fiscal Paths

In percent of GDP	2025	2026	2027	2028	2029	2030
Fiscal balance						
Baseline	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Recommended	-2.8	-3.4	-2.7	-2.4	-2.2	-2.1
Public debt						
Baseline	42.1	46.5	50.2	52.3	54.2	55.9
Recommended	42.1	45.9	48.4	49.0	49.2	49.2

Source: IMF staff calculations.
Notes: The baseline deficit and debt projections assume that defense spending is around 3 percent in 2025, and 5 percent from 2026-30. The baseline deficit also incorporates 0.6 percent of GDP of tax changes in 2026-27. The EUR 800 million that was paid in cash for defense equipment in 2025 directly affects the stock flow adjustment and debt in 2025. The deficit projections are on an accrual basis and do not make assumptions on the cash paid versus timing of delivery of defense equipment from 2026-30. Recommended deficit and debt paths are based on additional measures recommended by the staff as discussed in ¶20 and ¶21 of the main text.

Text Table 6. Lithuania: Recommended Fiscal Adjustment from 2026-2030

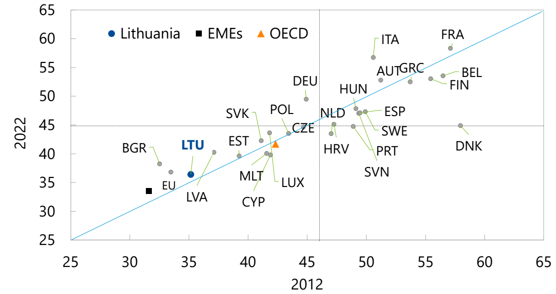
In percent of GDP	2026	2027	2028	2029	2030
Baseline fiscal impulse	1.3	-0.2	0.1	0.0	0.0
Recommended adjustment	-0.7	-0.5	-0.4	-0.2	-0.1
Fiscal impulse under adjustment scenario	0.6	-0.7	-0.3	-0.2	-0.1

Source: IMF staff calculations.
Notes: The fiscal impulse is calculated as the change in the overall balance. The baseline and recommended fiscal impulse, as well as the recommended fiscal adjustment, correspond to the baseline and recommended paths in Text Table 5.

21. Revenue mobilization should be complemented by other measures including improving spending efficiency (Text Figure 7). The levels of government spending remain below EU peers, but some savings are possible from increased spending efficiency including in health care and education. For example, hospital network rationalization could improve the quality of service while reducing costs. The teacher-student ratio is relatively high for secondary education and there is room to rationalize the school network while improving quality. Also, government employment is relatively high for EU standards, and there may be scope for efficiency gains.

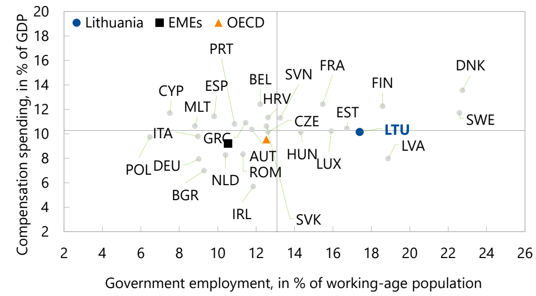
Text Figure 7. Government Spending Efficiency

Government Spending
(Percent of GDP)



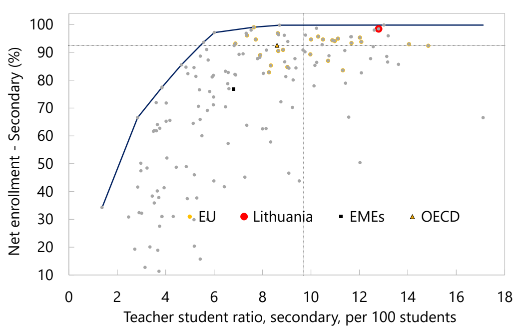
Sources: IMF Expenditure Assessment Tool (EAT), IMF; FAD Government Compensation Spending and Employment Dataset, IMF; FAD Government-Private Compensation Premium Dataset, IMF; and World Bank.

Govt. Compensation Spending and Employment
(Percent; latest value available)



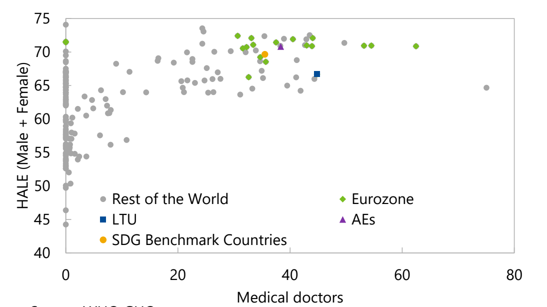
Sources: IMF Expenditure Assessment Tool (EAT), IMF; FAD Government Compensation Spending and Employment Dataset, IMF; FAD Government-Private Compensation Premium Dataset. IMF: and World Bank.

Teachers and Outcome, Secondary
(X-axis: ratio; Y-axis - percent)



Sources: FAD Expenditure Assessment Tool, IMF; and World Bank.

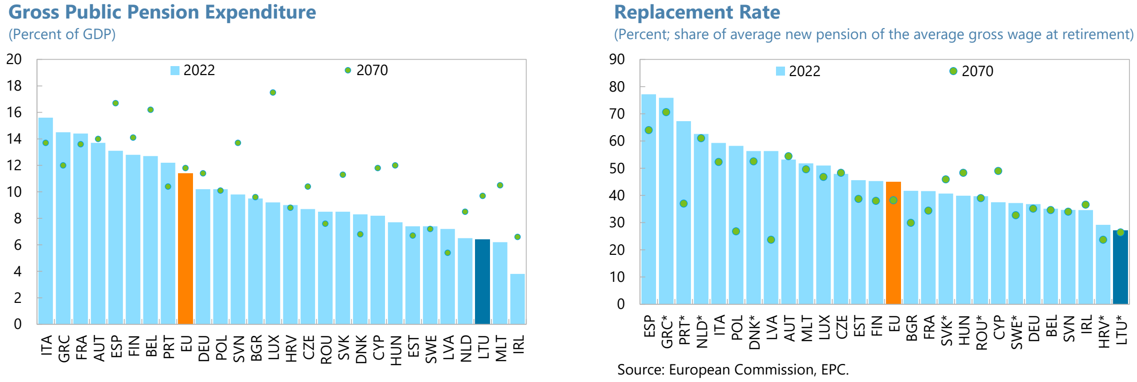
Health Adjusted Life Expectancy and Medical Doctor Density
(Per 10,000 population)



Source: WHO GHO.
Note: The SDG benchmark countries are based on SDG Health Costing Tool benchmark of high performing countries based on their per capita income.

22. **The multi-pillar pension system needs to be strengthened to ensure its financial and social sustainability while avoiding excessive pressures on future public finances.** Public pension expenditure is expected to rise over the next two decades linked to adverse demographic trends while replacement ratios remain low (Text Figure 8, Annex IV). The recent reform to Pillar II—removing automatic enrollment and introducing options to opt out, withdraw funds and interrupt contributions from early 2026 onwards—will likely weaken the pension system's spending adequacy and could further add fiscal pressures in the future. A broader reform of the pension system is needed to ensure financial sustainability and increase the adequacy of the system, not least by introducing strong incentives to contribute to the funding of the system, including ideally making participation compulsory.

Text Figure 8. Public Pension Expenditure and Replacement Rate



Source: European Commission, EPC.

Source: European Commission, EPC.
*All pensions (public and private).

23. In the event of adverse shocks, automatic stabilizes should be the main fiscal response. Given the mounting spending pressures, safeguarding fiscal space would need to continue to anchor the fiscal policy objective even in a downside scenario. Temporary support to the most vulnerable households and firms could be considered, but it needs to be well-targeted and time bound.

24. The recalibration of the national fiscal rule should continue to safeguard fiscal sustainability. The national fiscal rule—a structural balance rule with a debt anchor in the form of an expenditure correction mechanism covered by two laws, and tighter than EU rules—has ensured fiscal discipline, reducing debt-to-GDP after past economic downturns. The current review—with a draft proposal envisaged to be discussed at Parliament in the fall—should aim at reducing complexity while recalibrating the rule to meet new priority spendings within debt-stabilizing limits (IMF 18/186). Any modification should preserve the strong countercyclicality needed in a small open economy without independent monetary policy.

Authorities' Views

25. The authorities broadly agreed with staff on the need to mobilize additional revenues to preserve fiscal space. They recognize that the additional defense expenditure would compound the existing long-term spending pressures. The authorities highlighted that the approved tax changes aim at raising additional revenues starting from 2026 while improving progressivity and efficiency in the tax system. They noted the tax base for non-primary residential real estate will be broadened while the scope for generating higher primary residential real estate tax revenues is limited due to political constraints. They concurred that further fiscal savings could be gained by improving spending efficiency. However, these potential savings are relatively limited compared to the pressure stemming from increasing defense spending. Finally, the government stressed that the Pillar II pension reform, an electoral commitment, aims at enhancing the attractiveness of Pillar II by introducing more flexibility and sees the impact of the reform on the replacement rate to be limited while it will temporarily boost economic growth.

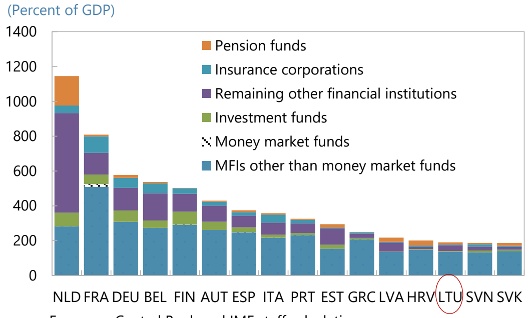
The central bank views the reform as likely to reduce the replacement rate over the long-term, implying increased pressure on public spending in the future.

B. Financial Sector Policies: Safeguarding Financial Stability and Integrity

26. Lithuania's financial markets have grown in recent years but remain highly bank-based (Text Figure 9)**.** The size of the financial sector remains small, despite further growth of financial assets of financial institutions in 2024, including pension funds, insurance corporations and investment funds. Capital markets continue to be shallow, notwithstanding the recent increase in corporate bond issuance. The banking sector remains dominated by a small number of banks, and the footprint of non-bank financial institutions continues to be limited, despite the increasing number of non-bank fintech companies, which are mostly focused on the European markets.

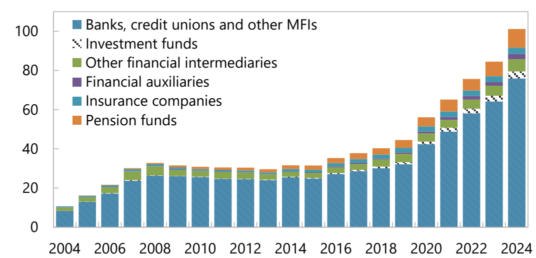
Text Figure 9. Financial System and Fintech Sector

Total Financial Assets Relative to GDP, 2024
(Percent of GDP)



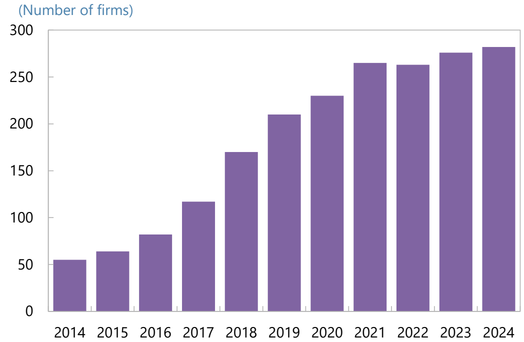
Sources: European Central Bank and IMF staff calculations.
Notes: Remaining other financial institutions includes all other financial institutions other than investment funds.

Assets of Financial Institutions
(EUR billions)



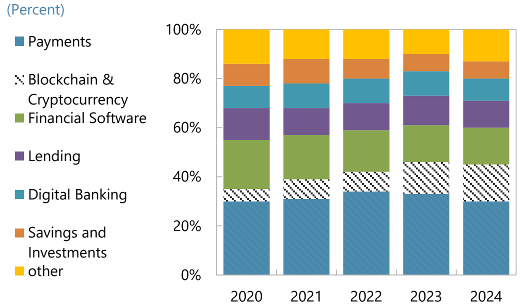
Source: Bank of Lithuania; IMF staff calculations.
Note: Financial auxiliaries include insurance brokers and agents, pension fund and CIU management companies, operators of crowdfunding and peer-to-peer lending platforms, etc. Other financial intermediaries include financial leasing companies, factoring companies, venture capital companies, etc.

Number of Fintechs in Lithuania
(Number of firms)



Source: Invest Lithuania, 2024.

Fintechs in Lithuania by Core Business Activity
(Percent)



Sources: Invest Lithuania and IMF staff calculations.
Note: Other includes compliance management and cybersecurity (digital identity, AML and Regtech, cybersecurity), big data and analytics, insurtech, etc.

27. Bank profitability is expected to moderate but to remain high. Financial conditions are expected to ease in 2025 due to declining ECB policy rates and increased competition in financial markets, such as from the increasing footprint of Fintech companies. The remuneration of funds in the ECB's deposit facility and net interest margins are likely to decline, albeit remaining sufficiently high to allow banks to retain relatively high profitability. The Lithuanian banking system remains one of the most cost-efficient in Europe (although increasing in 2024, the cost-to-income ratio remains well below the EU median), allowing banks to absorb additional costs from recent changes in regulations to remove mortgage refinancing fees and from the levy on banks, extended by one more year to 2025.

Text Table 7. Lithuania: Macroprudential Measures

Borrower-Based Measures
Maximum loan-to-value (LTV) ratio
85 percent for the first loan
70 percent for second and subsequent loans
Maximum debt-service-to-income (DSTI) ratio
40 percent
50 percent under 5 percent interest rate scenario
Maximum loan maturity
30 years
Bank-Based Measures
Systemically Important Institution (O-SII) buffer
SEB: 2 percent
Swedbank: 2 percent
Artea (former Šiaulių): 1 percent
Revolut: 2 percent (as of July 2024)
Counter-cyclical capital buffer
1 percent
Capital conservation buffer
2.5 percent
Sectoral systemic risk buffer
2 percent for the housing loan portfolio

28. The financial soundness of the banking sector points to robust resilience to shocks. Solvency and liquidity stress tests of the banking sector conducted by the Bank of Lithuania in 2024 suggest that banks would withstand adverse macroeconomic scenarios and unexpected liquidity shocks. While some smaller banks require enhancing capitalization and closer oversight, all in all, financial stability risks arising from the banking system are broadly contained, notwithstanding an increased frequency of cyberattacks on banks in recent years. In this regard, cyber resilience should continue to be strengthened, including through the full implementation of the Digital Operational Resilience Act (DORA) regulation.

29. The current macroprudential stance is broadly appropriate, but vigilance is warranted. Financial developments, including in residential real estate and private sector credit, so far have exhibited no major signs of overheating, but the sustained pace of expansion requires close monitoring and readiness to act in case early signs of an excessive financial expansion emerge. Despite the low exposure of banks, the commercial real estate market needs close oversight as risks of significant price corrections remain high due to the persistent imbalance between supply and demand. In the event of a significant adverse financial shock with the potential to trigger widespread losses in the banking sector, the relaxation of capital-based measures would be appropriate to minimize credit supply disruptions and support lending to the economy.

30. The AML/CFT framework has been strengthened significantly, and continued effective implementation focusing on ML/TF risks from non-resident activity is essential.

The authorities have completed a national ML/TF risk assessment, using an updated methodology, including analysis of ML/TF risks from increasing cross-border financial flows, and identified virtual asset service providers as well as electronic money and payment institutions as posing significant ML/TF risks. The BoL bolstered resources dedicated to AML/CFT supervision and should continue effective AML/CFT efforts to mitigate ML/TF risks from non-resident payments, including developing further AML/CFT measures for CENTROlink members. BoL is preparing for the transfer of supervision and market entry controls for crypto asset service providers from the Financial Crime Investigation Service in 2025 and should ensure risk tolerance alignment with other supervised sectors.

Authorities' Views

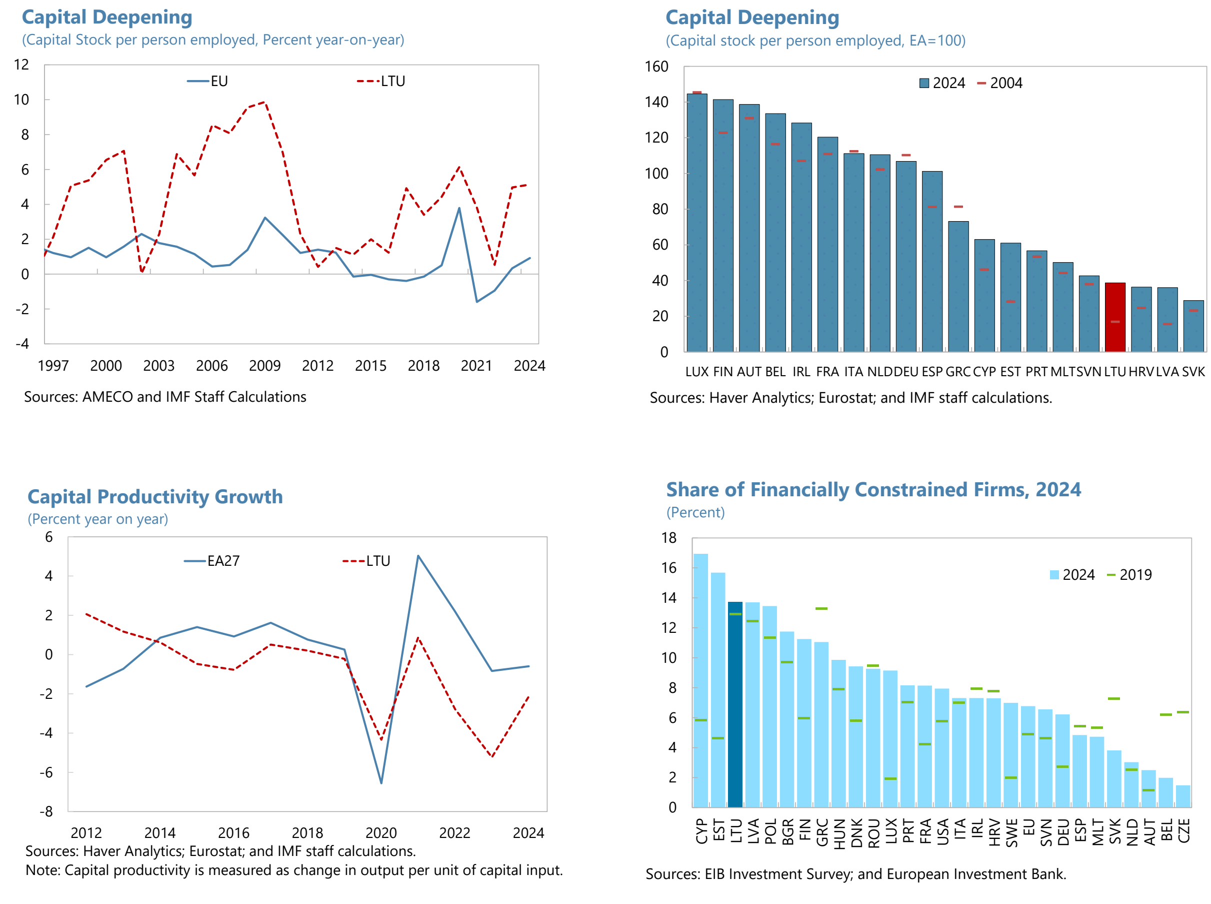
31. The authorities stressed that the banking sector remains financially sound and financial stability risks are contained. They highlighted that banks generally remain highly profitable and well capitalized, with ample liquidity buffers and low non-performing loan ratios even though a few smaller banks may need to increase capital ratios. The authorities noted that financial cycles, including housing markets and private sector credit, are recovering but not overheating and that the macroprudential stance is appropriate as the positive neutral counter cyclical buffer in place takes account of the current pace of financial expansion. They saw that main financial stability risks are associated with those from elevated trade policy uncertainty, possible price corrections in commercial real estate markets, and an increased frequency of cyberattacks on financial intermediaries. The authorities stressed that Lithuania's AML/CFT framework has been significantly strengthened and the implementation of AML/CFT measures are well underway, including the operationalization of the MiCA regime.

C. Structural Policies: Unlocking Productivity and Sustained Growth

32. Despite the recent resilience, Lithuania faces structural factors limiting productivity and long-term growth. The recent recovery has been largely driven by higher labor accumulation enabled by a temporary surge in net migrants while capital played a limited role and TFP growth has been stagnant, in contrast to the earlier periods of faster income convergence. Given expected population declines in the coming years, structural reforms to facilitate greater capital deepening and higher productivity growth are essential while migration can help mitigate negative effects from aging.

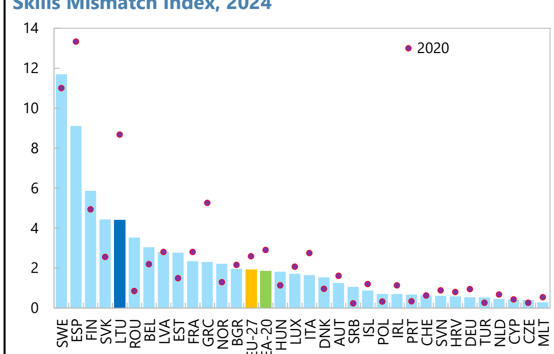
33. Higher investment is needed to support potential growth. Low capital intensity remains a key barrier to productivity growth and the transition towards a higher value-added oriented economy (Annex VII). Firms report difficulties in accessing finance as a major barrier to investment in Lithuania (Text Figure 10). Development of risk capital, co-financing and mechanisms for risk sharing tailored to enhance the flow of credit to small and medium sized enterprises (SMEs), targeted credit guarantee schemes and integrating digital solutions can help alleviate constraints on access to finance. In this context, the expanded role of the state-owned institution ILTE—previously INVEGA—can play a role, complementing the private banking sector in supporting investment in areas such as high value-added sectors, innovation, energy efficiency, and strategic infrastructures. To consolidate the institution's role as a national development bank, it is essential to ensure effective monitoring and transparency of ILTE operations. More fundamentally, deepening the EU's single market—combined with stronger incentives to develop domestic capital markets—would help support access to finance of corporates and further productive investments in the country.

Text Figure 10. Low Capital and Financial Deepening



34. Inefficiencies in the education system contribute significantly to the persistent skills mismatches in Lithuania's labor market. As one of the countries with the highest skills mismatches in Europe, Lithuania faces ongoing challenges despite measures including the government' active labor market policies and their evaluation and the smart specialization multi-year program aimed at enhancing workforce skills. Critical shortages persist in essential sectors, including nursing, engineering, and scientific fields,

Skills Mismatch Index, 2024

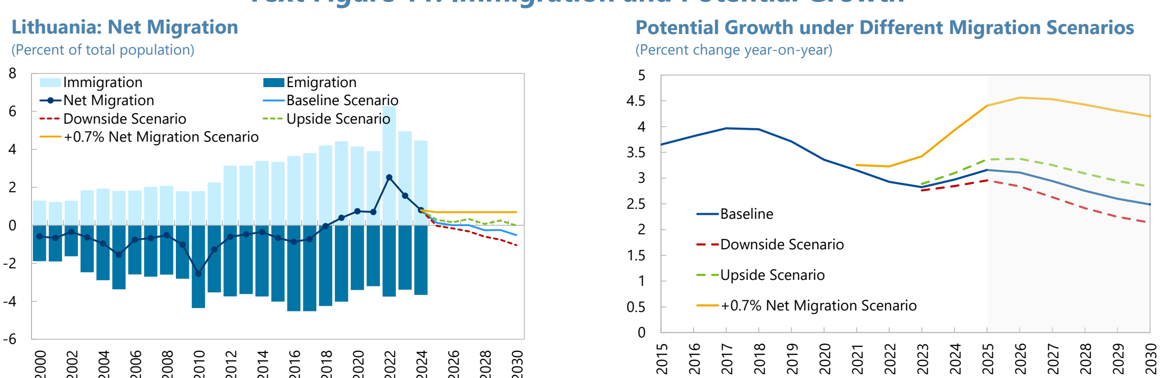


Source: Eurostat; and IMF staff calculations.

highlighting the urgent need for strategic reforms in education and training to better align with market demands. The 2024 higher education reform restructuring the state college system to align study programs with labor market needs support these efforts. In parallel, incentives to enhance the reskilling and retraining of workers to improve their digital skills and reforming the vocational training system are needed to enhance labor quality in an environment where specialized training in new technologies including AI is essential (¶36).

35. Ensuring effective integration of migrants into the labor market is crucial to sustain the labor force. Recent immigrants have been successfully absorbed into the Lithuanian labor market and legislative amendments have enabled easier migration for high-skilled workers despite the reduction of non-EU workers quota in 2025 (Text Figure 11). Staff's scenario analysis suggests that migration flows can significantly affect labor force dynamics and potential growth over the medium-term.[6] Policies should continue to focus on integrating migrants in the most productivity-enhancing way possible while allowing the participation of foreign professionals in those sectors with the largest shortages.

Text Figure 11. Immigration and Potential Growth



Sources: State Data Agency of Lithuania; Eurostat; and IMF staff calculations.

Sources: Haver Analytics; Eurostat; Penn World Tables; and IMF staff calculations.
Notes: Potential growth is historically higher in '+0.7%' scenario due to the HP-filter.

36. Further investment in digitalization and AI preparedness has the potential to boost productivity growth. Lithuania has invested significantly in digitalizing its economy in recent years, becoming one of the main Fintech Hubs in Europe. However, despite the progress in digitalization and in AI preparedness, its digital infrastructure remains close to the EU average. To unlock possibly substantial productivity gains, policies should aim to facilitate technological diffusion, job transition and AI adoption among firms, while introducing measures to mitigate associated risks in terms of possible job replacements and inequality deepening. Further progress in improving e-government services to reduce administrative burden on businesses

[6] For example, in a scenario where migration is sustained close to the levels seen in recent years, potential growth could rise by about one percentage point via increased labor supply, or even more if possible positive spillovers to TFP are greater. See "Potential Growth and Migration," Selected Issues Paper No. 25/x.

would also facilitate corporates and foreign investment in Lithuania, with positive impact on TFP developments.[7]

37. Energy security has been reinforced in the last years. The Baltic countries joined the European electricity grid in February 2025, completely disconnecting from the Russian electricity system. Moreover, Lithuania has diversified its energy sources and import dependency has been lowered through the intensification of domestic electricity production from renewable sources in the recent years. Still, being susceptible to risks associated with climate change, Lithuania needs to accelerate the green transition, particularly for adaptation. In this respect, future investment in new technologies to support potential growth (¶36) and defense initiatives to strengthening security (¶9) should not thwart efforts to reduce economy-wide emissions to achieve EU climate goals, thereby reducing short- and medium-term macroeconomic and financial stability risks, such as the recently adopted policies in the context of the updated National Energy and Climate Action Plan (NECP) for the period 2021–2030.

Authorities' Views

38. The authorities broadly concur with the staff regarding the structural challenges confronting Lithuania. They underscored the ongoing transition of the economic structure toward high value-added activities, which enhances the country's competitive position in foreign markets. Additionally, they recognize the demographic challenges Lithuania faces and view high-skilled migration as a viable solution—among other measures such as education and training—to alleviate labor shortages in higher value-added sectors. The authorities stressed the importance of advancing the EU Capital Market Union while simultaneously strengthening domestic policies to attract investments that foster economic development and reinforce productivity growth. In this context, the authorities expect the national promotional bank ILTE will play a key role in filling the gap in the capital market by providing risk capital and facilitating risk-sharing.

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39. The Lithuanian economy has performed well despite the multiple shocks in recent years. Following the sharp negative terms-of-trade shocks in 2021-22, the economy has quickly restored growth supported by the rising real income and a relatively good performance of the external sector amidst weak foreign demand. Non price competitiveness factors—such as the gradual shift towards high value-added activities—and above normal net migration flows have helped the economy to overperform other peers in the last years. Nevertheless, Lithuania faces new challenges of additional defense spending adding to other long-term spending pressures while the longstanding structural issues are still pending. Risks are tilted to downside, including a

[7] See "The Evolving Growth Model of Lithuania," Selected Issues Paper No. 25/259.

potential slowdown in trade partners, increased geopolitical risks, and rising fiscal risks from higher defense spending and from the pension system if replacement rates continue to decline.

40. A comprehensive strategy is needed to preserve fiscal space. The planned increase in defense spending to around 5 percent of GDP from the current 3 percent will raise financing needs significantly. The approved tax policy changes are helpful, but the revenue yield is estimated to be modest, with debt reaching over 60 percent of GDP by 2033 in the staff's baseline scenario. To stabilize debt at a still-low level, any unused spending or revenue overperformance in the current fiscal year should be saved. Going forward, additional fiscal adjustment is needed, including additional revenue and spending efficiency measures, to preserve fiscal space to help absorb future shocks.

41. Strengthening the multi-pillar pension system will further mitigate medium-term fiscal pressures. Significant increases in public pension expenditure are expected, and replacement ratios are projected to remain low over the next two decades. The recently approved Pillar II reform is likely to weaken further the pension system adequacy, leading to increased pressures on future public finances. Any future pension reform should be guided by the goal of ensuring the financial and social sustainability of the whole system, including by introducing strong incentives for workers to contribute to the funding of the system ideally through compulsory participation.

42. Financial sector policies should continue to focus on safeguarding financial stability. While the banking sector is liquid and well capitalized with low NPL ratios, continued close oversight and vigilance is warranted, including strengthening cyber resilience. The current macroprudential stance is broadly appropriate but expanding credit cycles and the house price upswing call for close monitoring and readiness to act in case early signs of an excessive financial expansion emerge. Risks of abrupt price corrections in the commercial real estate market associated with the persistent imbalance between supply and demand continue to require attention. If a significant adverse financial shock were to materialize, loosening capital-based measures would support lending to the economy, limiting disruptions.

43. With a substantially enhanced AML/CFT framework in place, effective oversight and implementation of AML/CFT measures need to continue. The third national risk assessment identified VASPs, EMIs and PIs as posing significant ML/TF risks. The authorities should continue AML/CFT efforts to mitigate cross-border risks, including Bank of Lithuania's oversight and market controls for newly licensed VASPs under MiCAR regime, supervisions of payment service institutions, and AML/CFT measures for CENTROlink members.

44. The external position is moderately stronger than the level implied by fundamentals and desirable policies. The current account surplus records moderately stronger than the norm, suggesting that there is scope to further expand investment, especially through structural reforms, but is expected to converge to the norm under the baseline scenario.

45. Potential growth faces constraints, requiring structural reforms to support more investments and higher productivity and address skill mismatches. Capital intensity continues to be low, productivity growth remains subdued, and skills mismatches persist. Measures to improve SME financing, including developing risk capital and risk-sharing will help facilitate investments while the state-owned institution ILTE can complement private banks by filling funding gaps for investments in strategic areas, including innovation and energy efficiency. A faster implementation of policies aimed at facilitating technological diffusion, job transition and AI adoption among firms has the potential to boost productivity growth in the business sector. Reforms to address skills mismatches would support the transition towards high value-added activities. These include education reforms to promote vocational training and policy measures to better integrate migrants into the labor market in a most productive way, including in sectors where critical shortages persist.

46. Lithuania has strengthened its energy resilience in recent years. The expanded renewable electricity generation has helped the economy to lower the import dependency. Despite the progress, Lithuania remains vulnerable to risks associated climate change, and the green transition, particularly adaptation, is essential. It is crucial to continue to focus on decarbonization efforts, amidst growing new priority areas for investment, to ensure achieving climate goals agreed at EU level and reduce macroeconomic and financial stability risks.

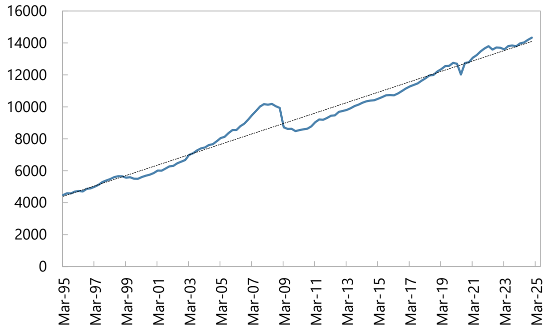
47. The next Article IV consultation with Lithuania is expected to be conducted on the standard 12-month cycle.

Figure 2. Lithuania: Real Sector

The economy has restored a solid growth path in 2024…

Real GDP

(SWDA, Bn EUR Ch.2020)

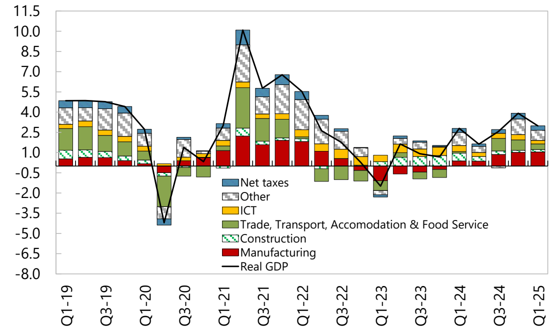


Sources: Eurostat and IMF staff calculations.

…with a broad-based recovery across sectors.

Real GDP Growth

(Year-on-year percentage change; contributions in percentage points)

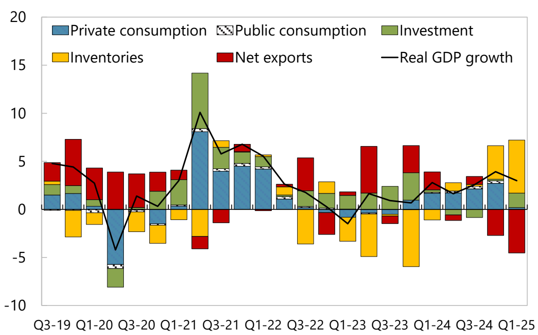


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Private consumption supported the recovery on the back of real income gains.

Real GDP

(Year-on-year percentage change; contributions in percentage points)

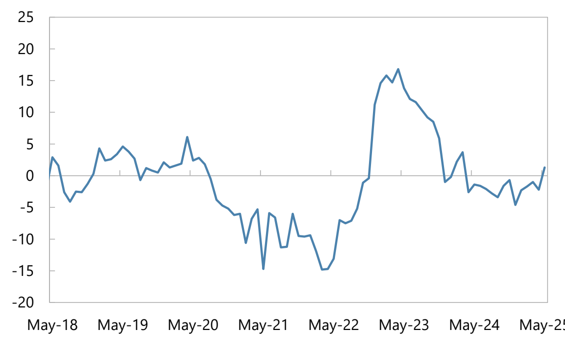


Sources: Haver Analytics; Eurostat; and IMF staff calculations.

The inventory cycle has normalized.

Manufacturing: Stocks of Finished Products

(Percent balance)

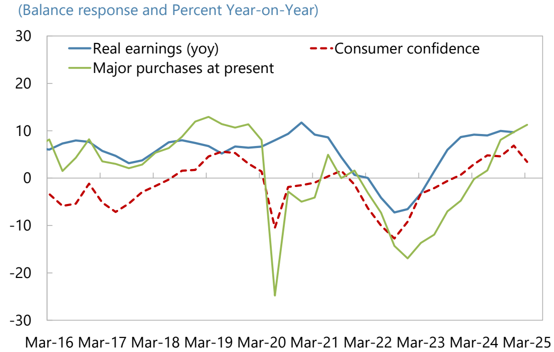


Sources: European Commission; Haver Analytics; and IMF staff calculations.

Early indicators suggest some decline in consumer confidence …

Private Consumption Indicators

(Balance response and Percent Year-on-Year)

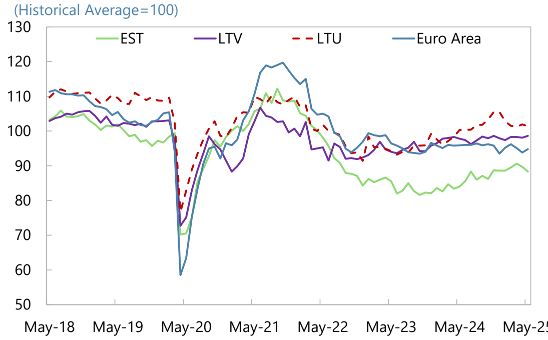


Sources: Haver Analytics, DG ECOFIN and IMF staff

…as well as weakened economic sentiment likely reflecting trade and geopolitical uncertainty in 2025.

Economic Sentiment

(Historical Average=100)



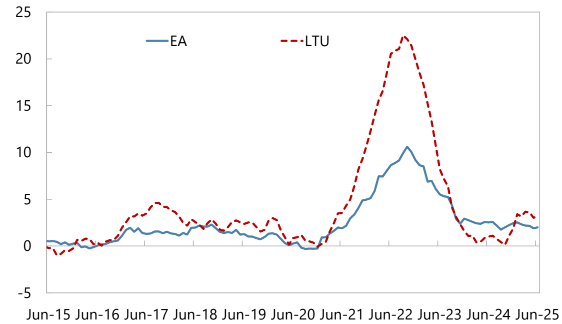
Sources: European Commission and Haver Analytics.

Figure 3. Lithuania: Inflation

Inflation has risen in recent months due to higher excise duties …

Headline Inflation

(Year-on-year percentage change)

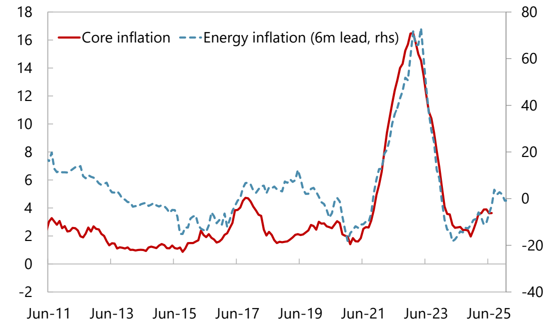


Sources: Eurostat; State Data Agency of Lithuania; Haver; and IMF staff calculations.

…while energy prices have stabilized.

Inflation: Pass-Through from Energy to Core

(Year-on-year percenage change)

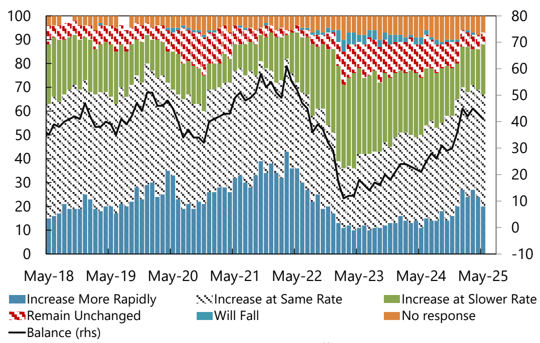


Sources: State Data Agency of Lithuania; Haver Analytics; and IMF staff calculations.

Inflation expectations are rising to a three-year high.

Inflation Expectations

(Percent)

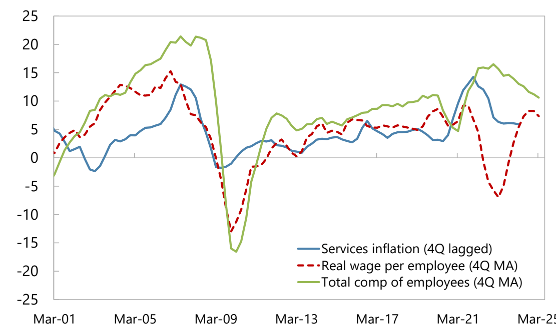


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Services inflation stabilized at high rates in 2024…

Services Inflation and Real Wages

(Year-on-year percentage change)

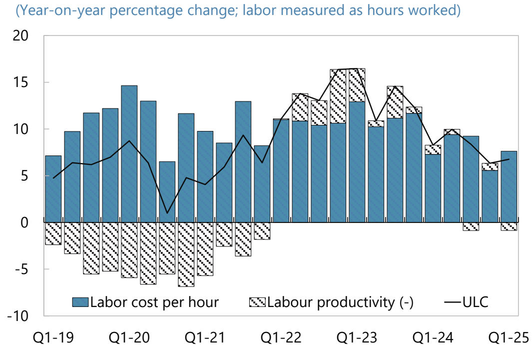


Sources: Haver Analytics; State Data Agency of Lithuania; and IMF staff calculations.

…supported by strong wage growth without productivity…

Unit Labor Cost

(Year-on-year percentage change; labor measured as hours worked)

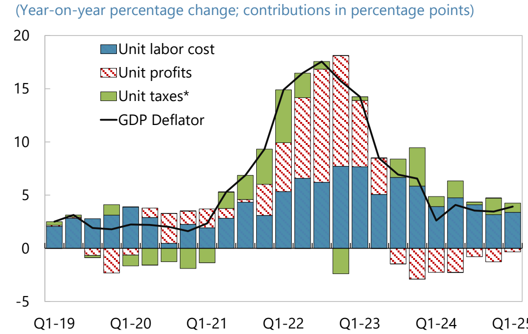


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

…and on the back of declining corporate profits.

GDP Deflator

(Year-on-year percentage change; contributions in percentage points)

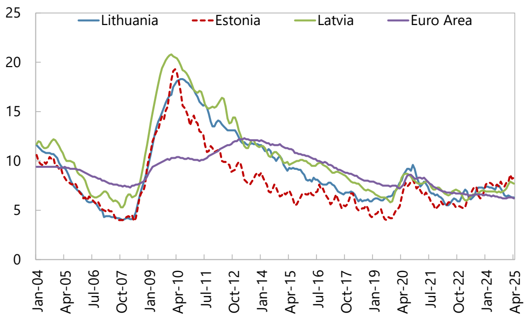


Sources: Eurostat; Haver Analytics; and IMF staff calculations.
(*) Indirect taxes net of subsidies

Figure 4. Lithuania: Labor Market Developments

Strong economic activity kept unemployment low…

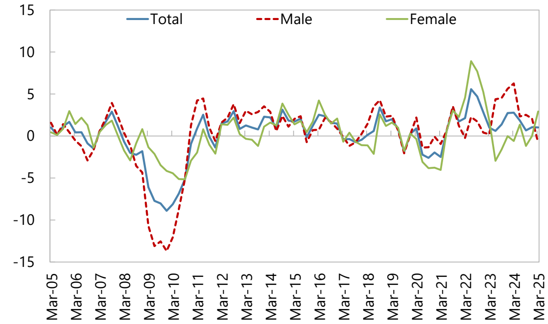
Unemployment Rate
(Percent, NSA)



Sources: Eurostat; and Haver Analytics.

…while employment gains in female workforce have picked up recently.

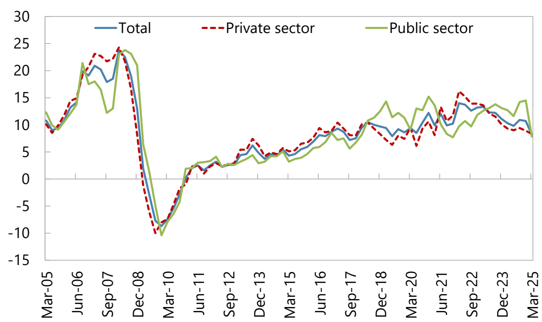
Employment Growth
(Year-on-year percentage change)



Sources: Eurostat; and Haver Analytics.

Wage growth remained strong…

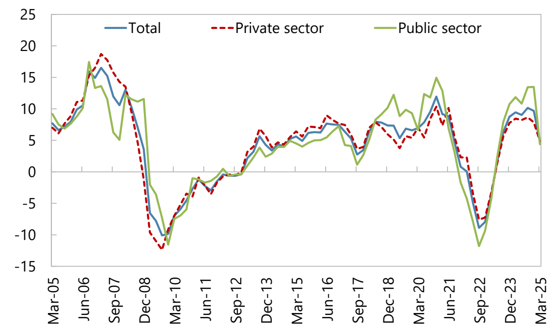
Nominal Wage Growth
(Year-on-year percentage change)



Sources: State Data Agency of Lithuania; Eurostat; and IMF staff calculations.

…especially in the public sector.

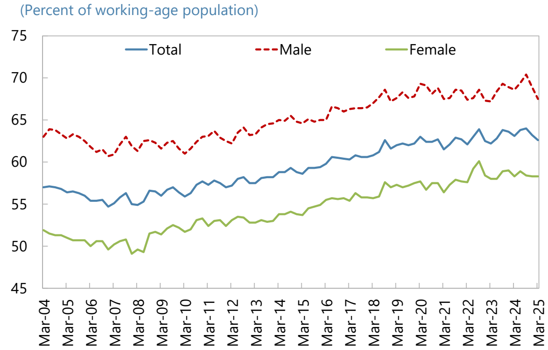
Real Wage Growth
(Year-on-year percentage change)



Sources: State Data Agency of Lithuania; Eurostat; and IMF staff calculations.

Participation rate is at historical highs…

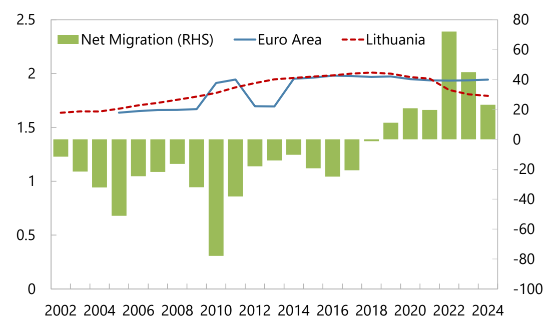
Labor Force Participation Rate
(Percent of working-age population)



Sources: Eurostat; and IMF staff calculations.

…and strong migration has narrowed old age dependency.

Old Age Dependency Ratio
(LHS - ratio; RHS - thousands)

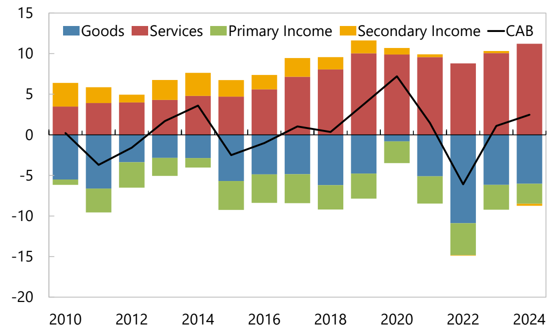


Sources: State Data Agency of Lithuania; Eurostat; and IMF staff calculations.

Figure 5. Lithuania: External Sector Developments

The current account continued to improve in 2024, driven by a higher trade balance, especially for services…

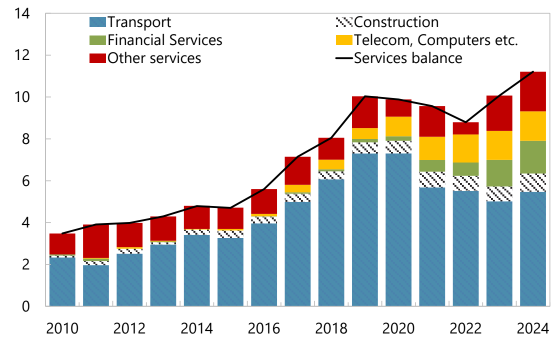
Current Account Balance
(Percent of GDP)



Sources: Haver Analytics; Bank of Lithuania; and IMF staff calculations.

…with transport and other services driving much of the improvement in 2024.

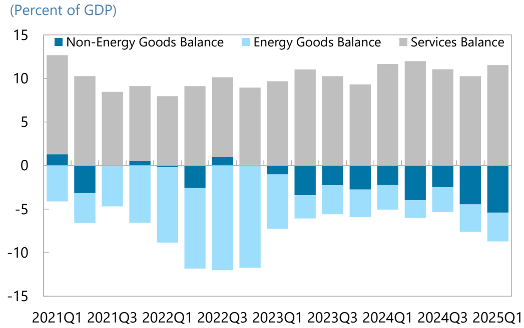
Services Balance
(Percent of GDP)



Sources: Haver Analytics; Bank of Lithuania; and IMF staff calculations.

The energy goods trade balance stabilized after recovering from the energy price shock in 2023…

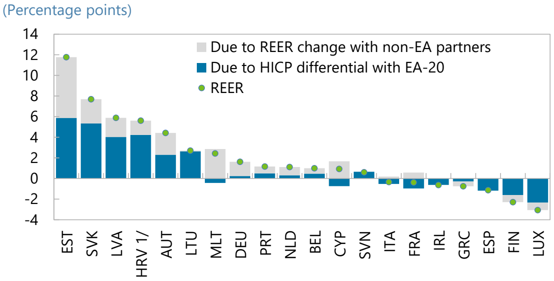
Trade Balance: Energy, Non-Energy, and Services
(Percent of GDP)



Sources: Eurostat; Bank of Lithuania; and IMF staff calculations.
Note: Energy captures trade in mineral oils, fuels and waxes.

…while REER depreciated, due in part to lower inflation, following years of real appreciation.

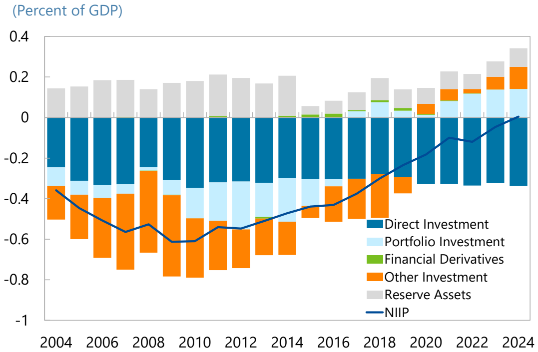
Change in HICP Based REER, 2022Q1-2025Q1
(Percentage points)



Sources: European Commission; *World Economic Outlook*, IMF; and IMF staff calculations.
1/ For the period between 2022Q1-2025Q1, there is also a bilateral exchange rate effect between the Croatian Kuna and the Euro which is incorporated in the HICP differential component.

The NIIP turned positive for the first time in 2024, driven by the improvements in the current account balance.

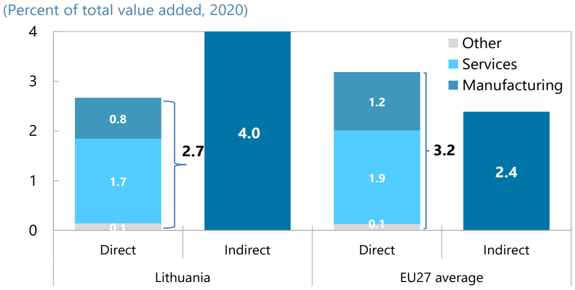
Net International Investment Position
(Percent of GDP)



Sources: Bank of Lithuania; Haver Analytics; and IMF staff calculations.

Lithuanian exports face somewhat higher exposure to the U.S. than the average mainly due to indirect exposure.

Exposure of Domestic Value Added (DVA) Exports to Trade with U.S.
(Percent of total value added, 2020)

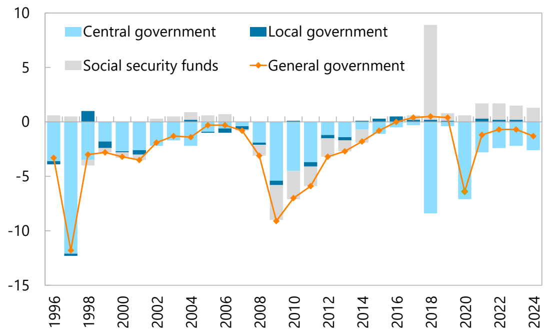


Sources: OECD TiVA 2023 Edition; Eurostat; and IMF staff calculations.
Note: The direct exposure is computed as the product of (i) the share of DVA exports to the US in total DVA exports, and (ii) the share of total DVA exports in total value added. The indirect exposure is computed as (i) the share of EU27's DVA exports to the US in total EU27's DVA exports, (ii) the share of the country's total DVA exports to the EU27 total DVA exports, and (iii) the share of total DVA exports in total value added.

Figure 6. Lithuania: Fiscal Developments

The deficit rose in 2024, largely driven by higher central government borrowing.

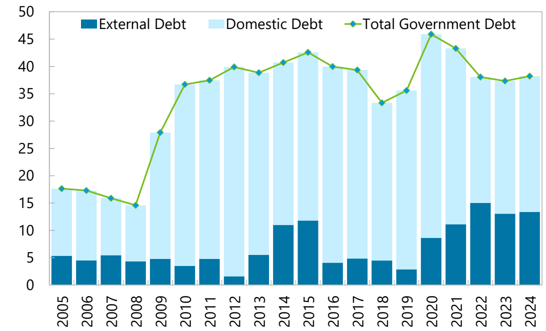
General Government Net Lending/Borrowing
(Percent of GDP)



Source: State Data Agency of Lithuania.

Government debt increased by 0.9 pp of GDP to 38.4 percent of GDP.

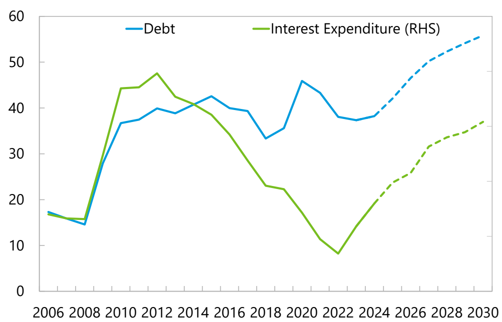
General Government Debt
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

Interest expenditure is expected to rise over time putting pressure on the debt level…

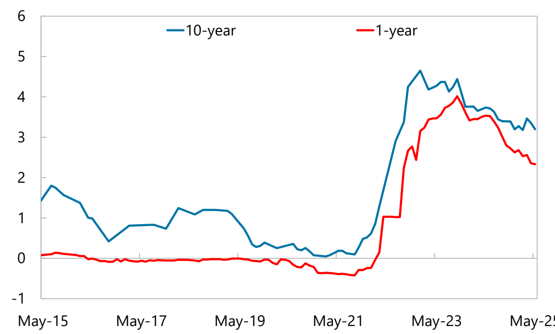
Debt and Interest Expenditure
(Percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

….as bond yields have increased in recent years and are only slowly declining.

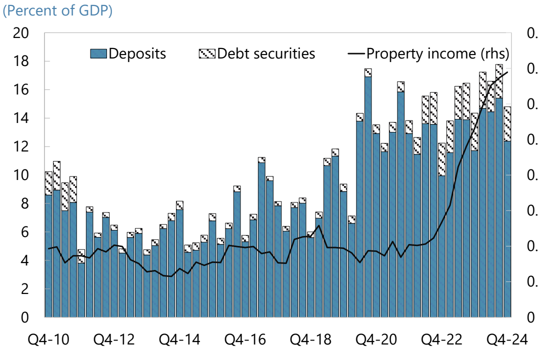
1-Year and 10-Year Bond Yields
(Percent)



Sources: London Stock Exchange Group; Haver Analytics; and Bloomberg L.P.

The government has increased deposits and debt security holdings, improving property income.

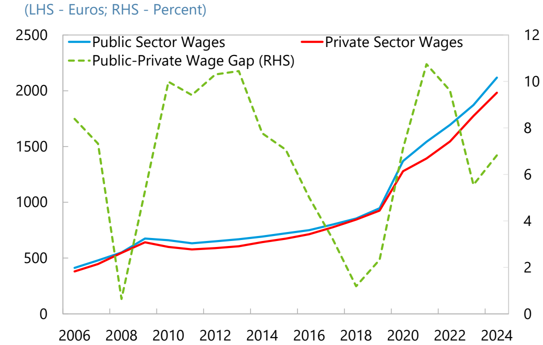
General Government Financial Assets
(Percent of GDP)



Sources: Haver Analytics; Eurostat; and IMF staff calculations.

Public sector wages are higher than private wages, and the gap has risen recently.

Public-Private Sector Wage Gap
(LHS - Euros; RHS - Percent)

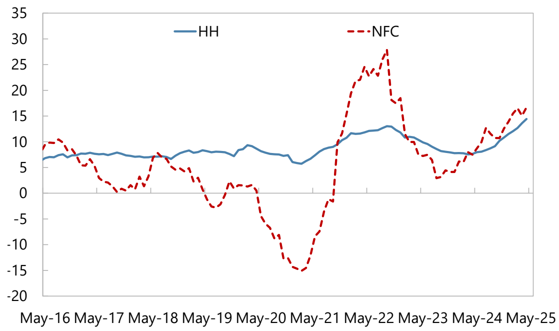


Sources: State Data Agency of Lithuania; Haver Analytics; and IMF staff calculations.

Figure 7. Lithuania: Banking Sector Developments

Credit growth expanded gradually in 2024 and early 2025…

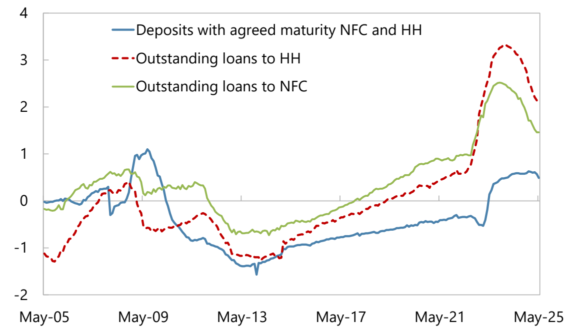
Credit to Households and Non-Financial Corporations
(Year-on-year percentage change)



Sources: Bank of Lithuania; Haver Analytics; and IMF staff calculations.

…and lending rates moderated, more than deposit rates.

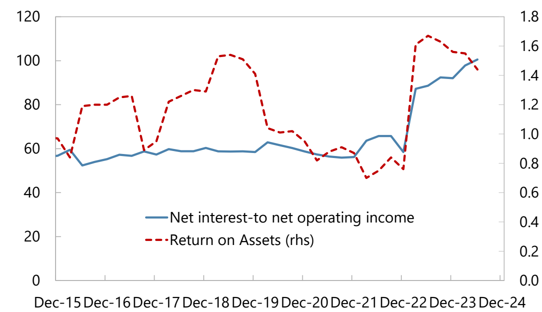
Interest Rates on Loans and Deposits
(Percentage points; differential with the Euro Area)



Sources: European Central Bank; Haver Analytics; and IMF staff calculations.

The profitability of the banking sector in Lithuania remained high in 2024…

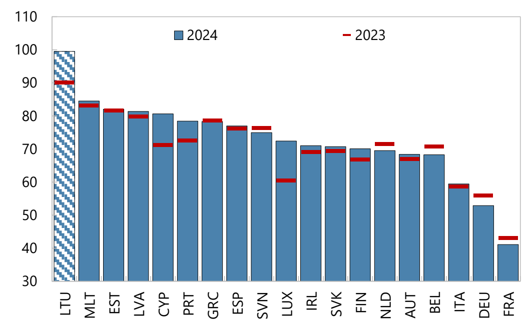
Banking Sector Profitability
(Percent, NSA)



Sources: European Banking Authority; Haver Analytics; and IMF staff calculations.

…benefitting from a strong net interest income ratio…

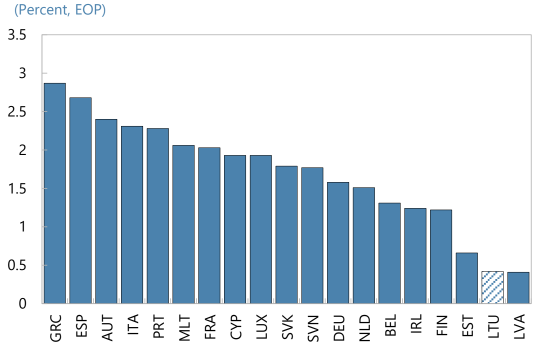
Net Interest Income to Net Operating Income
(Percent)



Sources: European Banking Authority; Haver Analytics; and IMF staff calculations.

…one of the lowest NPL ratios…

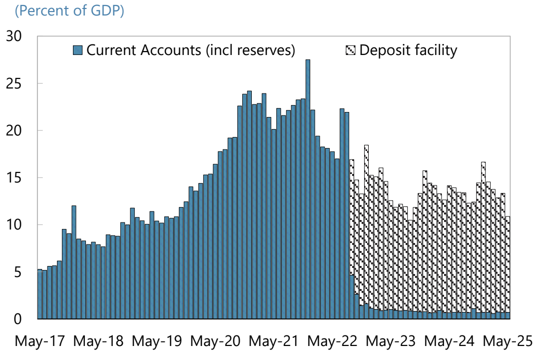
Non Performing Loans, 2024Q4
(Percent, EOP)



Sources: European Banking Authority; Haver Analytics; and IMF staff calculations.

…and large amounts at the CB deposit facility despite DFR rates moderating since mid-2024.

Financial Sector Liquidity holdings at the Central Bank
(Percent of GDP)

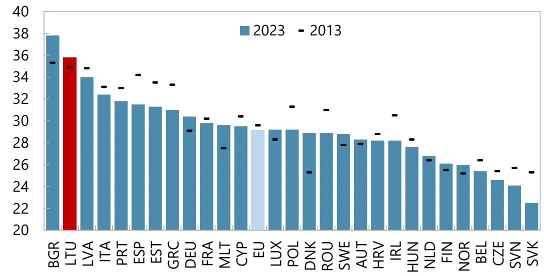


Sources: Haver Analytics; Bank of Lithuania; and IMF staff calculations.

Figure 8. Lithuania: Indicators of Inequality

Income inequality in Lithuania is among the highest in EU and has somewhat increased between 2013 and 2023…

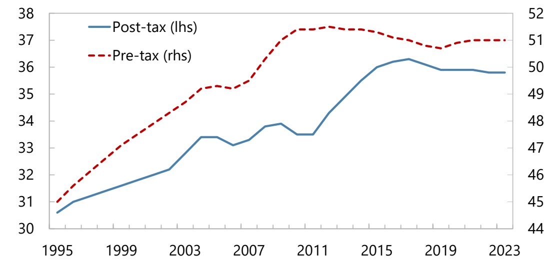
Within-country Income Inequality in the EU
(Gini index)



Sources: Solt (2020), Standardized World Income Inequality Database (SWIID).
Note: The chart refers to inequality in disposable (post-tax, post-transfer) income. The Gini index ranges from 0 (perfect equality: all individuals earn the same income) to 100 (extreme inequality: one individual earns all national income).

…with redistribution reducing inequality by about 30 percent on average.

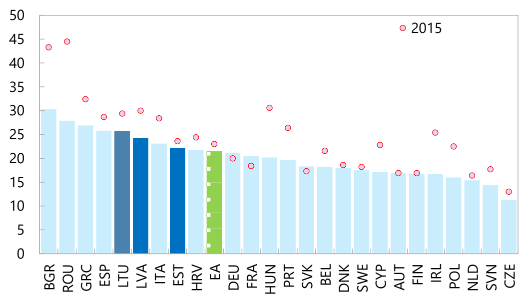
Evolution of Income Inequality in Lithuania
(Gini index)



Sources: Solt (2020), Standardized World Income Inequality Database (SWIID).
Note: The Gini index ranges from 0 (perfect equality: all individuals earn the same income) to 100 (extreme inequality: one individual earns all national income). Post-tax (Pre-tax) index refers to inequality in disposable post-tax and post-transfer (market pre-tax and pre-transfer) income.

Almost 25 percent of the population is at risk of poverty…

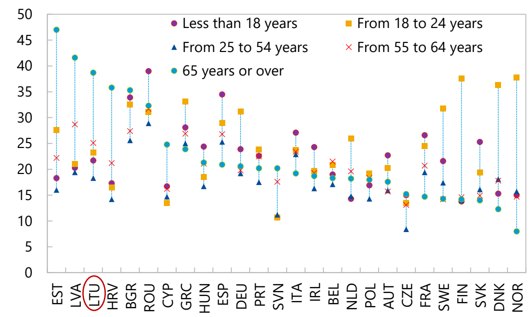
Persons at Risk of Poverty or Social Exclusion, 2024
(Percent)



Source: Eurostat.

…with poverty rates especially high among the elderly population…

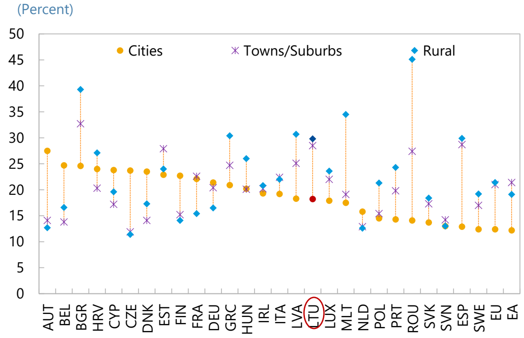
Persons at Risk of Poverty or Social Exclusion by Age, 2024
(Percent; higher value indicates higer risk)



Source: Eurostat.

….and in rural areas.

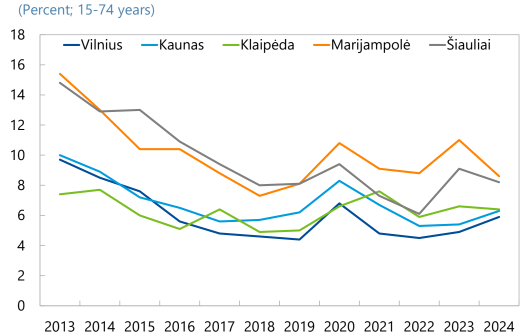
At Risk Of Poverty Rate, 2024
(Percent)



Source: Eurostat.

Differences in jobless rates across major cities persist.

Unemployment Rate
(Percent; 15-74 years)



Source: Statistics Lithuania.

Table 1. Lithuania: Selected Economic Indicators, 2022–2030

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
Output									
Real GDP growth (annual percentage change)	2.5	0.4	2.7	2.9	3.4	2.2	2.5	2.5	2.5
Domestic demand (contribution to growth)	2.2	-1.0	2.9	3.1	3.5	2.0	2.4	2.5	2.5
Domestic demand growth (year-on-year, in percent)	2.3	-1.3	3.1	3.3	3.7	2.1	2.5	2.6	2.6
Private consumption growth (year-on-year, in percent)	2.0	-0.3	3.6	2.9	3.7	1.4	2.0	2.2	2.2
Domestic fixed investment growth (year-on-year, in percent)	5.2	9.3	-1.1	5.0	5.3	5.0	4.7	4.6	4.5
Inventories (contribution to growth)	-0.3	-3.1	1.0	0.1	-0.1	-0.1	0.0	0.0	0.0
Net external demand (contribution to growth)	0.3	1.4	-0.1	-0.2	-0.1	0.2	0.2	0.0	0.0
Export growth (year-on-year, in percent)	12.4	-3.4	2.1	2.0	2.6	2.9	3.2	3.1	3.1
Import growth (year-on-year, in percent)	12.7	-5.3	2.4	2.5	2.9	2.9	3.3	3.4	3.4
Nominal GDP (in billions of euro)	67.4	73.8	78.4	83.9	88.9	92.8	97.4	102.4	107.5
Potential GDP growth	2.8	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.4
Output gap (percent of potential GDP)	1.4	-0.7	-0.5	0.0	0.8	0.4	0.1	0.0	0.0
Employment									
Employment (annual percentage change)	3.8	1.4	1.6	0.5	-0.2	-0.2	-0.2	-0.2	-0.2
Unemployment rate (year average, in percent of labor force)	6.0	6.9	7.1	6.6	6.1	6.0	5.9	5.9	5.9
Average monthly gross earnings (annual percentage change) 1/	13.3	12.2	10.4	8.1	5.8	5.2	5.4	5.2	5.2
Average monthly gross earnings, real (annual percentage change)	-4.6	3.5	9.6	4.9	3.1	2.7	2.8	2.7	2.8
Labor productivity (annual percentage change)	-1.3	-1.0	1.1	2.4	3.6	2.4	2.8	2.7	2.7
Prices									
HICP, period average (annual percentage change)	18.9	8.7	0.9	3.2	2.7	2.5	2.5	2.5	2.5
HICP core, period average (annual percentage change) 3/	13.6	10.7	2.6	3.6	3.0	2.7	2.4	2.4	2.4
HICP, end of period (year-on-year percentage change)	20.0	1.6	1.9	3.0	2.8	2.8	2.5	2.5	2.5
GDP deflator (year-on-year percentage change)	16.1	9.0	3.4	3.9	2.5	2.2	2.4	2.6	2.5
General Government Finances									
Revenue (percent of GDP)	35.5	36.7	38.2	38.3	38.1	38.3	38.4	38.3	38.3
Of which EU grants	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Expenditure (percent of GDP)	36.3	37.4	39.5	41.1	42.2	42.1	42.4	42.3	42.3
Of which: Non-interest	35.9	36.8	38.7	40.1	41.1	40.8	41.0	40.9	40.7
Interest	0.3	0.6	0.8	1.0	1.1	1.3	1.4	1.4	1.5
Fiscal balance (percent of GDP)	-0.7	-0.7	-1.3	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Fiscal balance excl. one-offs (percent of GDP)	-0.7	-0.7	-1.3	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Structural fiscal balance (percent of potential GDP) 2/	-1.5	-0.3	-1.1	-2.7	-4.4	-4.0	-4.0	-4.0	-4.0
Primary Balance (percent of GDP)	-0.5	-0.2	-0.6	-1.8	-3.1	-2.6	-2.7	-2.6	-2.5
Cyclically Adjusted Primary Balance (percent of potential GDP)	-1.0	-0.2	-0.9	-2.3	-3.8	-3.2	-3.1	-3.0	-2.9
General government gross debt (percent of GDP)	38.1	37.3	38.2	42.1	46.5	50.2	52.3	54.2	55.9
Of which: Foreign currency-denominated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance of Payments (in percent of GDP, unless otherwise specified)									
Current account balance	-6.1	1.1	2.5	2.0	1.9	1.8	1.8	1.9	1.8
Current account balance (billions of euros)	-4.1	0.8	1.9	1.7	1.7	1.7	1.8	1.9	1.9
Saving-Investment Balance (in percent of GDP)									
Gross national saving	22.0	23.1	22.8	23.0	23.3	23.8	24.4	25.0	25.4
Gross national investment	28.1	22.0	20.4	21.0	21.3	22.0	22.5	23.1	23.6
Foreign net savings	6.1	-1.1	-2.5	-2.0	-1.9	-1.8	-1.8	-1.9	-1.8

Sources: Lithuanian authorities; World Bank; Eurostat; and IMF staff estimates and projections.

Note: Data are presented on ESA2010, and BPM6 manuals basis.

1/ 2019 adjusted for tax reforms.

2/ Calculation takes into account standard cyclical adjustments as well as absorption gap.

3/ Excluding unprocessed food and energy.

Table 2. Lithuania: General Government Operations, 2022–30

(ESA 2010 aggregates, in percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
Statement of Operations									
Revenue	35.5	36.7	38.2	38.3	38.1	38.3	38.4	38.3	38.3
Revenue excluding EU grants	35.1	36.0	37.5	37.6	37.4	37.6	37.7	37.7	37.6
Tax revenue	21.6	21.8	22.3	22.3	22.5	22.7	22.7	22.6	22.7
Direct taxes	10.0	10.5	10.7	10.4	10.8	11.1	11.1	11.1	11.1
Personal income tax	7.6	7.7	8.2	8.3	8.4	8.5	8.5	8.5	8.5
Corporate income tax	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Other	0.0	0.4	0.5	0.0	0.0	0.1	0.1	0.1	0.1
Indirect taxes	11.6	11.2	11.6	11.9	11.6	11.6	11.6	11.5	11.6
VAT	8.4	8.0	8.2	7.9	8.0	7.9	7.9	7.9	7.9
Excises	2.5	2.4	2.5	2.7	2.7	2.7	2.7	2.7	2.7
Other	0.8	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Social contributions	10.2	10.5	11.1	11.1	11.0	11.1	11.2	11.2	11.2
Grants	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other revenue	3.3	3.7	4.2	4.2	3.9	3.7	3.8	3.8	3.7
Total Expenditure	36.3	37.4	39.5	41.1	42.2	42.1	42.4	42.3	42.3
Current spending	33.0	33.0	35.1	36.6	36.9	37.0	37.2	37.2	37.2
Compensation of employees	10.1	10.5	11.6	11.7	11.4	11.3	11.4	11.4	11.4
Goods and services	4.3	4.0	4.4	5.0	5.0	5.0	4.8	4.8	4.8
Interest payments	0.3	0.6	0.8	1.0	1.1	1.3	1.4	1.4	1.5
Foreign	0.2	0.4	0.5	0.7	0.7	0.9	0.9	0.9	1.0
Domestic	0.2	0.2	0.3	0.3	0.3	0.5	0.5	0.5	0.5
Subsidies	1.7	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Social benefits	14.0	14.8	15.4	16.1	15.8	15.9	16.2	16.2	16.1
Other expense	1.9	2.0	2.0	1.9	2.7	2.6	2.5	2.5	2.4
Capital spending	3.3	4.4	4.4	4.5	5.2	5.1	5.2	5.2	5.1
Overall Budget Balance	-0.7	-0.7	-1.3	-2.8	-4.1	-3.9	-4.0	-4.0	-4.0
Net acquisition of financial assets	0.6	2.7	1.8	3.6	2.8	1.8	0.5	0.4	0.3
Domestic	0.7	2.7	1.8	3.6	2.8	1.8	0.5	0.4	0.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.4	3.3	3.1	6.3	6.8	5.7	4.5	4.4	4.3
Domestic	5.4	0.1	1.1	2.2	2.4	2.0	1.6	1.5	1.5
Foreign	-4.0	3.2	2.0	4.1	4.4	3.7	2.9	2.8	2.8
Financial Balance Sheet									
Financial assets	28.6	29.6	29.6	…	…	…	…	…	…
Currency and deposits	9.9	11.7	11.7	…	…	…	…	…	…
Securities other than shares	1.6	1.7	1.7	…	…	…	…	…	…
Loans	2.6	2.9	2.9	…	…	…	…	…	…
Shares and other equity	10.4	9.9	9.9	…	…	…	…	…	…
Other financial assets	4.1	3.4	3.4	…	…	…	…	…	…
Financial liabilities	37.8	38.5	38.4	…	…	…	…	…	…
Currency and deposits	0.0	0.2	0.2	…	…	…	…	…	…
Securities other than shares	26.5	26.4	26.4	…	…	…	…	…	…
Loans	7.0	7.0	7.0	…	…	…	…	…	…
Other liabilities	4.2	4.7	4.7	…	…	…	…	…	…
Net financial worth	-9.1	-8.9	-8.8	…	…	…	…	…	…
Memorandum Items:									
GDP (in millions of euros)	67,448	73,804	78,413	83,852	88,852	92,817	97,445	102,414	107,529
General government debt (Maastricht def.)	38.1	37.3	38.2	42.1	46.5	50.2	52.3	54.2	55.9
Foreign debt	23.0	24.3	24.9	27.4	30.3	32.7	34.0	35.2	36.3
Domestic debt	15.0	13.0	13.4	14.7	16.3	17.5	18.3	18.9	19.5
Defense spending (in millions of euros)	1,412	1,852	2,426	…	…	…	…	…	…

Sources: Ministry of Finance; Ministry of Social Security; and IMF staff estimates.

Note: Passive projections from 2024 onward. Projections incorporate only announced budgetary measures.

Table 3. Lithuania: Balance of Payments, 2022–30

(Bil. Euros, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
Current Account Balance	-4.1	0.8	1.9	1.7	1.7	1.7	1.8	1.9	1.9
Merchandise trade balance	-7.3	-4.5	-4.7	-4.9	-5.0	-5.2	-5.3	-5.5	-5.7
Exports (f.o.b.)	41.1	36.6	35.8	35.2	35.5	36.6	38.1	39.8	41.5
Imports (f.o.b.)	48.5	41.2	40.5	40.1	40.5	41.8	43.5	45.3	47.2
Services balance	5.9	7.4	8.8	8.6	8.6	8.9	9.3	9.7	10.1
Exports	17.4	19.8	22.4	22.0	22.2	22.9	23.9	24.9	26.0
Imports	11.5	12.4	13.6	13.5	13.6	14.0	14.6	15.2	15.8
Primary income balance	-2.7	-2.3	-1.9	-2.1	-2.0	-2.0	-2.2	-2.4	-2.5
Receipts	1.4	2.8	3.2	3.4	3.7	4.0	4.2	4.4	4.6
Payments	4.1	5.1	5.1	5.5	5.8	6.0	6.4	6.7	7.1
Secondary income balance	0.0	0.2	-0.2	0.2	0.2	0.0	0.1	0.1	0.0
Capital and Financial Account Balance	4.3	-1.8	0.6	0.8	0.7	-0.9	-1.5	-1.5	-1.6
Capital account balance	1.0	1.2	1.2	1.7	1.5	0.5	0.6	0.6	0.6
Foreign direct investment balance	-3.1	-1.3	-3.2	-2.3	-2.4	-2.5	-2.6	-2.8	-2.8
Portfolio investment balance	1.9	1.3	-0.5	-0.9	-1.3	-1.0	-0.7	-0.8	-0.8
Financial derivatives	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Other investment balance	-2.0	3.0	4.4	4.2	4.5	5.0	5.5	5.7	5.9
Errors and omissions	-0.2	1.6	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	0.1	0.6	2.5	2.5	2.4	0.8	0.3	0.4	0.3
Financing	0.0	-0.6	-2.5	-2.5	-2.4	-0.8	-0.3	-0.4	-0.3
Gross international reserves (increase: -)	...	...	...	...	...	...	...	...	...
Use of Fund credit, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other prospective financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In Percent of GDP (unless indicated)									
Current Account Balance	-6.1	1.1	2.5	2.0	1.9	1.8	1.8	1.9	1.8
Trade balance of goods and services	-2.1	3.9	5.2	4.3	4.0	4.0	4.1	4.1	4.1
Exports	86.8	76.5	74.1	68.2	64.9	64.1	63.6	63.2	62.7
Imports	88.9	72.6	68.9	63.9	60.8	60.1	59.6	59.1	58.6
Primary income	-3.9	-3.1	-2.5	-2.5	-2.3	-2.2	-2.3	-2.3	-2.3
Secondary income	-0.1	0.3	-0.2	0.2	0.2	0.0	0.1	0.1	0.0
Capital and Financial Account Balance	6.4	-2.4	0.7	1.0	0.8	-1.0	-1.5	-1.5	-1.5
Capital account balance	1.5	1.6	1.6	2.1	1.7	0.6	0.7	0.6	0.6
Foreign direct investment balance	-4.6	-1.8	-4.1	-2.7	-2.7	-2.7	-2.7	-2.7	-2.6
Portfolio investment balance	2.8	1.8	-0.7	-1.1	-1.4	-1.1	-0.7	-0.7	-0.7
Financial derivatives balance	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Other investment balance	-3.0	4.1	5.6	5.0	5.1	5.4	5.7	5.6	5.4
Errors and omissions	-0.3	2.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	0.1	0.9	3.2	3.0	2.7	0.8	0.3	0.4	0.3
Gross External Debt 1/	67.0	69.4	77.7	81.2	84.7	88.1	89.8	91.0	92.1
Public	29.8	28.9	30.7	33.2	36.2	38.7	40.2	41.5	42.7
Short-term	8.1	7.1	6.2	6.6	7.1	7.6	7.9	8.2	8.5
Long-term	21.7	21.8	24.5	26.6	29.1	31.2	32.3	33.3	34.2
Private	37.2	40.5	47.1	48.0	48.5	49.3	49.5	49.5	49.4
Short-term	26.8	29.4	35.9	36.7	37.1	37.6	43.4	43.2	43.0
Long-term	10.4	11.1	11.2	11.2	11.4	11.7	6.1	6.3	6.4
Gross external debt (in percent of GS exports)	77.2	90.7	104.9	119.0	130.6	137.3	141.1	144.1	146.8
Net external debt	-7.8	-13.8	-16.7	-21.9	-26.6	-30.2	-33.6	-36.7	-39.5
Net international investment position	-12.0	-4.6	-2.1	2.3	5.9	8.2	10.5	12.5	14.4
Merchandise export volume (percent change) 2/	12.4	-3.4	2.1	2.0	2.6	2.9	3.2	3.1	3.1
Merchandise import volume (percent change) 2/	12.7	-5.3	2.4	2.5	2.9	2.9	3.3	3.4	3.4
Merchandise export prices (percent change) 2/	15.5	-0.2	-0.3	-3.5	-1.8	0.3	0.9	1.2	1.1
Merchandise import prices (percent change) 2/	24.9	-5.6	-4.0	-3.2	-2.0	0.4	0.8	0.8	0.9
GDP (in billion of Euros)	67.4	73.8	78.4	83.9	88.9	92.8	97.4	102.4	107.5

Sources: Data provided by the Lithuanian authorities; IMF International Financial and Trade Statistics; and IMF staff estimates and projections.

1/ Government external debt does not include guaranteed loans.

2/ Derived from national accounts data.

Table 4. Lithuania: Summary of Monetary Accounts, 2014–24

(Bil. Euros; unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Monetary Authority											
Gross foreign assets	7.9	2.9	3.0	4.2	5.7	5.3	4.7	5.9	5.5	5.8	6.0
Gross foreign liabilities	0.1	0.2	0.2	0.2	0.3	0.5	1.2	3.2	1.9	1.9	1.9
Net foreign assets	7.8	2.7	2.8	4.0	5.3	4.7	3.5	2.6	3.6	3.9	4.1
Net domestic assets	-1.9	6.5	9.8	11.7	13.4	10.8	17.0	22.1	17.2	18.9	20.1
Net credit to government	-1.2	0.0	1.0	-0.1	1.2	0.3	10.1	8.9	10.0	10.0	10.0
Credit to banks	0.0	1.0	0.7	0.6	0.5	0.3	6.3	16.8	7.9	9.6	10.7
Credit to private sector	0.0	1.7	4.8	8.0	8.9	8.2	0.5	0.4	0.2	0.2	0.2
Other items, net	-0.7	3.8	3.3	3.3	2.9	1.9	0.2	-3.9	-0.8	-0.8	-0.8
Reserve money	5.9	9.1	12.6	15.7	18.8	15.5	20.6	24.8	20.9	22.8	24.2
Currency outside the central bank	1.7	6.1	6.2	6.4	6.8	7.1	7.8	8.4	8.3	8.6	9.2
Currency outside banks	1.4	5.7	5.8	6.0	6.3	6.6	7.3	7.8	7.9	8.6	9.2
Cash in vaults of banks	0.3	0.4	0.4	0.4	0.4	0.5	0.4	0.5	0.4	0.0	0.0
Deposit money banks' deposits with BoL	4.3	3.1	6.4	9.3	12.0	8.5	12.8	16.4	12.5	14.2	15.0
Banking Survey											
Net foreign assets	4.5	-2.3	-3.5	-2.7	-2.2	-1.8	-3.5	-5.2	-5.8	-3.0	-2.8
Monetary authority	7.8	2.7	2.8	4.0	5.3	4.7	3.5	2.6	3.6	3.9	4.1
Banks and other banking institutions	-3.3	-5.0	-6.2	-6.7	-7.5	-6.5	-7.0	-7.8	-9.5	-6.9	-6.9
Net domestic assets	12.1	24.3	27.1	27.7	30.0	32.5	44.1	51.3	56.4	58.4	61.6
Net claims on government 1/	0.5	1.7	2.3	0.7	1.9	1.0	10.4	10.0	11.7	12.8	14.0
Monetary authority	-1.2	0.0	1.0	-0.1	1.2	0.3	10.1	8.9	10.0	10.0	10.0
Banks and other banking institutions	1.7	1.8	1.3	0.8	0.8	0.6	0.3	1.1	1.7	2.8	4.0
Credit to private sector	14.8	17.1	21.3	25.2	27.2	27.1	19.0	21.4	36.0	36.0	36.0
Credit to nonbank financial institutions	0.9	3.1	6.5	9.9	11.2	10.4	2.3	2.5	10.1	10.9	10.9
Other items, net	-4.1	2.5	-3.1	-8.1	-10.3	-5.9	12.3	17.4	-1.3	-0.5	0.3
Broad Money	16.6	22.0	23.6	25.0	27.8	30.7	40.6	46.1	50.6	55.4	58.8
Currency outside banks	1.4	5.7	5.8	6.0	6.3	6.6	7.3	7.8	7.9	8.6	9.2
Deposits	15.2	16.3	17.8	19.0	21.5	24.1	33.3	38.2	42.7	46.7	49.7
In national currency	11.3	15.4	16.9	18.1	20.6	23.1	31.7	36.3	40.2	44.0	46.7
In foreign currency	4.0	0.9	0.9	0.9	0.9	1.0	1.6	1.9	2.5	2.8	3.0
Memorandum Items:											
Reserve money (yearly percent change)	20.9	53.3	38.4	24.9	19.3	-17.4	32.4	20.5	-15.6	9.2	6.1
Broad money (yearly percent change)	1.2	32.9	7.2	5.8	11.4	10.4	32.1	13.5	9.8	9.4	6.2
Private sector credit (yearly percent change)	-0.9	4.1	7.1	4.5	6.0	3.3	-1.8	13.4	13.2	-3.6	5.8
Money multiplier	2.8	2.4	1.9	1.6	1.5	2.0	2.0	1.9	2.4	2.4	2.4
Currency outside banks, in percent of deposits	8.9	34.9	32.5	31.6	29.3	27.3	22.0	20.5	18.5	18.5	18.5
Foreign-currency deposits (percent of total deposits)	26.0	5.5	5.1	4.8	4.1	4.1	4.7	5.0	5.9	5.9	5.9
Foreign-currency loans (percent of total loans) 2/	72.7	0.9	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1
Velocity of broad money	2.2	1.7	1.6	1.7	1.7	1.6	1.2	1.2	1.3	1.3	1.3
Gross official reserves (billions of U.S. dollars) 3/	8.8	1.9	3.0	4.6	4.9	5.6	4.9	6.1	0.0	0.0	0.0
Gross official reserves (billions of euros) 3/	7.9	2.9	3.0	4.2	5.7	5.3	4.7	5.9	5.5	5.8	6.0
GDP	36.4	37.4	38.8	42.3	46.0	49.2	50.3	56.7	67.4	73.8	78.4

Sources: Bank of Lithuania; and IMF staff estimates and projections.

1/ Excludes local government deposits; includes counterpart funds.

2/ Loans to households and non-financial corporations.

3/ BOP basis. Differs from gross foreign assets as shown in the monetary authority's balance sheet because of valuation effects (BoP-basis official reserves include accrued interest on deposits and securities but exclude investments in shares and other equity).

Table 5. Lithuania: Financial Soundness Indicators, 2018–24

(in percent)

	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Capital adequacy							
Regulatory capital to risk-weighted assets 1/ 2/	18.6	23.7	24.0	23.5	20.4	20.0	21.4
Regulatory Tier 1 capital to risk-weighted assets 1/ 2/	18.5	23.3	23.6	23.2	20.2	18.7	20.0
Capital to assets 1/	8.6	9.1	8.1	7.1	6.0	6.7	6.7
Asset quality							
Nonperforming loans to capital 1/ 3/	26.9	15.2	15.0	8.6	7.2	7.3	8.4
Nonperforming loans net of provisions to capital 1/ 3/	20.0	10.5	10.4	6.0	4.6	4.5	0.9
Nonperforming loans to total (non-interbank) loans 1/ 3/	2.5	1.5	1.4	0.7	0.6	0.6	0.6
Nonperforming loans to capital 1/ 3/ 4/	26.9	15.2	15.0	8.6	7.2	7.3	8.4
o/w impaired loans to capital 1/ 3/ 4/	26.0	14.3	14.2	7.7	6.9	6.9	7.9
Nonperforming loans net of provisions to capital 1/ 3/ 4/ 5/	20.0	10.5	10.4	6.0	4.6	4.5	0.9
Nonperforming loans to total (non-interbank) loans 3/ 4/	2.5	1.5	1.4	0.7	0.6	0.6	0.6
o/w impaired loans to total (non-interbank) loans 4/	2.4	1.4	1.3	0.6	0.5	0.6	0.6
Impairment losses to total (non-interbank) loans 6/ 7/	0.85	0.60	0.62	0.39	0.43	0.58	0.46
Impairment losses to nonperforming loans 3/ 4/ 6/ 7/	33.41	39.36	43.81	56.80	77.75	89.83	88.76
Sectoral distribution of corporate loans 8/							
Agriculture, forestry and fishing	3.6	3.2	3.5	3.0	2.8	2.7	3.2
Mining and quarrying	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Manufacturing	14.0	14.9	14.7	14.6	14.3	13.3	13.9
Electricity, gas, steam and air conditioning supply	5.3	7.4	5.7	5.3	7.2	7.2	8.7
Water supply; sewerage, waste management and remediation activities	0.6	0.6	0.7	1.0	1.0	1.0	0.9
Construction	3.7	3.1	2.9	3.1	4.0	5.3	5.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	25.4	23.0	19.4	21.3	20.3	19.4	18.2
Transportation and storage	8.7	9.3	9.0	8.1	5.4	6.0	5.7
Accommodation and food service activities	3.0	2.6	3.1	2.3	1.9	2.1	1.9
Information and communication	2.0	1.8	1.1	0.8	1.0	1.1	1.5
Real estate activities	25.0	27.0	31.9	32.5	32.2	30.7	29.6
Professional, scientific and technical activities	2.6	1.8	2.2	3.0	3.3	3.8	3.8
Administrative and support service activities	2.6	2.4	2.9	2.6	3.6	3.8	3.7
Remaining activities	3.0	2.6	2.5	2.2	2.8	3.4	2.5
Residential real estate loans to total (non-interbank) loans	42.5	44.5	49.3	48.6	47.8	48.1	47.0
Earnings and profitability							
RoE 1/ 9/	12.7	12.3	10.7	10.3	10.6	23.6	20.2
RoA 9/	1.3	1.1	0.8	0.8	0.9	1.7	1.5
Interest margin to gross income	53.7	52.2	53.9	51.2	46.1	59.2	56.3
Noninterest expenses to gross income	50.5	47.5	52.7	55.7	60.8	60.5	65.9
Trading and foreign exchange gains (losses) to gross income	6.2	6.2	6.3	7.4	10.5	2.7	2.1
Personnel expenses to noninterest expenses	42.2	43.2	43.5	41.3	23.3	14.4	14.3
Liquidity							
Liquidity coverage ratio	254.2	272.4	743.3	392.3	389.6	342.0	346.7
Liquid assets to total assets 10/	25.6	28.9	37.0	43.7	40.5	36.1	36.0
Loan to deposit ratio in the banking sector 11/	89.3	81.9	61.4	64.0	55.9	54.2	51.8
Memo item							
Provisioning (in percent of NPLs)	33.4	64.5	64.7	83.3	45.5	47.8	...

Sources: Bank of Lithuania; and http://fsi.imf.org/.

General notes:

A. Banking system data was compiled by aggregating banks solo (i.e. no cross-border cross-sector consolidation) data.

B. No intra-sector adjustments were made.

C. FSIs were mostly derived from supervisory data and comprise all banks and foreign bank branches incorporated in Lithuania, except if stated otherwise.

D. Starting 2008, bank financial data is collected through FINREP tables (EU-wide common reporting templates). This might have some influence on the values of the indicors compiled.
The fact should be considered when making straightforward comparison of time series.

1/ Excluding foreign bank branches.

2/ As defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

3/ Consolidated data are used. Due to changes in consolidation methodology, data from Q1 2014 are not entirely comparable with previous.
2015 Q3 - 2016 Q1 data were adjusted eliminating accounting changes due to the transaction between Swedbank, AB, and Danske Bank A/S Lithuania Branch.

4/ From end-2005 to Q1-2008, NPLs are loans overdue more than 60 days. Untill 2004 NPLs are loans in Substandard, Doubtful and Loss loans categories.
Starting June 2008, non-performing loans are defined as the sum of impaired loans and non-impaired loans that are overdue more than 60 days.

5/ Specific provisions include allowances for both individually and collectively assessed loans.

6/ Specific provisions include provisions against general portfolio risk until end-2004. From end-2005, due to the change in definition of NPLs, specific provisions are not directly attributable to the NPLs. Therefore, the ratio may be negative.

7/ Specific provisions include allowances for both individually and collectively assessed loans.

8/ According to Nace 1 up to Sept 2011. Data according to Nace 2 thereafter.

9/ Total profits (losses) after tax. Interim quarterly results are annualised.

10/ Composition of liquid assets and current liabilities is defined in the Liquidity Ratio Calculation Rules approved by Resolution No. 1 of the Board of the Bank of Lithuania of 29 January 2004.

11/ Consolidated data; due to changes in data consolidation methodology, data from Q1 2014 are not entirely comparable with previous data.

Annex I. Risk Assessment Matrix[1]

Source of Risks, Likelihood, and Time Horizon	Impact on Lithuania	Recommended Policy Response
External Risks		
High (Short-term) **Trade policy and investment shocks.** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High** Lithuania is vulnerable to higher trade barriers and disruptions to FDI flows and to global value chains, which could increase the prices of critical imported inputs, reduce market access to exports, and limit FDI flows, with near- and medium-term negative effects on investment, inflation and GDP.	Diversify further trade, financial flows, and sources of energy supplies. Accelerate structural reforms to strengthen competitiveness and build resilience.
Medium (Short-term) **Regional conflicts.** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium** The direct trade impact with Russia, Ukraine and Belarus will be small. The main impact could come through rising commodity prices and from a weaker global outlook and confidence effects.	Use fiscal space to provide targeted relief to vulnerable firms and households and let automatic stabilizers work fully if both inflation and growth are negatively affected.
Medium (Short-term) **Social discontent.** Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium** High rates of inequality and of persons at risk of poverty or social exclusion could increase further government spending pressures and create resistance to necessary structural reforms with short-term costs.	Prioritize fiscal reforms to improve social safety nets, including through targeted spending, and ensure that structural reforms are sequenced, well packaged and reflect social consensus, with complementary and compensatory measures that consider the potential distributional effects.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks, Likelihood, and Time Horizon	Impact on Lithuania	Recommended Policy Response
Medium (Short-term) **Commodity price volatility.** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**High/Medium** Further increases in energy and food prices will put additional pressure on consumers and firms. However, their balance sheets are strong, and the government has fiscal space to provide support.	Allow price signals to work and provide targeted support to vulnerable groups and those most affected.
Medium (Short-term) **Tighter financial conditions and systemic instability.** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Banks have enough capital and liquidity buffers to absorb shocks, but there are potential pockets of vulnerability and the risk of a disorderly correction of the real estate market.	Risks and vulnerabilities require monitoring. If there are credit supply disruptions or a disorderly correction of the real estate market, macroprudential policies will have to be relaxed.
High (Long-term) **Deepening geo-economic fragmentation.** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**Medium** The slowdown in global growth and trade will affect Lithuania's overall trade prospects weakening the labor market.	Continue EU trade integration to secure access to a large market. Pursue education and healthcare reform to shift the labor force to higher value-added sectors with fast growing labor demand.
Medium (Short-term) **Cyberthreats.** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**Medium** Credit growth and investment could be impaired, though high liquidity in the economy could limit the impact.	Step up collaboration with home country supervisors and strengthen crisis preparedness.
Medium (Long-term) **Climate change.** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium** While Lithuania could benefit from higher temperatures, associated increased volatility entails risks to biodiversity, food production, infrastructure, and weather sensitive activities.	Continue to strengthen climate-related policies along with energy security, including increasing the share of renewables.

Source of Risks, Likelihood, and Time Horizon	Impact on Lithuania	Recommended Policy Response
Domestic Risks		
Medium (Short/Medium-term) **Uncertainty about net migration inflows.** Net migration, including from non-EU countries and returning Lithuanians, could be higher or larger than expected.	**Medium** Higher than expected net migration can further support employment growth and mitigate the impact of declining labor force and alleviate skills mismatches. On the other hand, a large decline in net migration will reduce labor supply and further limit employment growth.	Continue to support the integration of immigrants into the labor market. Encourage further labor market participation by women and older workers.
High (Medium-term) **Failure to implement structural reforms.** Elusive implementation of reforms in critical areas, including education and health care, limit opportunities to increase potential growth and productivity.	**High** Income convergence would be further delayed while social demands continue to rise without commensurate growth and revenue.	Accelerate the implementation of structural reforms and elaborate a medium-term fiscal plan that raises potential and meets social needs.
Medium (Medium/Long-term) **Addressing near- and long-term spending pressures.** Failure to implement adequate fiscal reforms given additional spending pressures related to aging, climate, and defense.	**High** Higher public debt would increase concerns of debt sustainability and macro-financial stability.	Implement pension reform, healthcare and education reforms to improve efficiency and tax policy changes to increase revenue collection.

Annex II. Implementation of Past IMF Recommendations

Education	
Issue	Existing inefficiencies on the education system. Inefficient tertiary education system.
Recommendations	Education reforms to foster vocational training, review nexus between universities, financial incentives, and quality standards. Improve efficiency of the system.
Authorities' actions	In 2024, Lithuania implemented new provisions in the Law on Education to optimize the general education school network, including measures such as setting minimum and maximum class sizes and school sizes, with state funding contingent on these thresholds and requiring schools to have at least 60 pupils to operate as legal entities, and mandating municipalities to prepare five-year restructuring plans for 2026-30 to ensure a balanced and efficient school network. The state college system was also restructured to align with labor market needs. A government decision adopted at the end of 2024 states that a school's general education program can be suspended if it fails to meet at least one of the criteria for such programs and the school is unable to correct the deficiencies within a year.
Healthcare	
Issue	One of the highest levels of preventable and treatable mortality in Europe. The system remains hospital-care centered while out-patient and long-term care for elderly lag.
Recommendations	Efficiency could be improved by focusing on preventive care and reducing the costs of pharmaceuticals and the hospitals network.
Authorities' actions	The reforms in 2024 expanded primary healthcare services, especially in rural areas, and increased funding for diagnostics, long-term nursing, and mental health services. The new government program has as a central goal to improve the quality and accessibility of health services. They have committed to increasing public expenditure, slowing privatization, ensuring adequate geographical distribution of healthcare providers and reducing administrative burdens for healthcare professionals.
Tax Policy	
Issue	Low overall tax collection with high labor tax wedge and low wealth and environmental-related taxes. Tax system has limited redistributive impact.
Recommendations	There is scope to increase tax revenues while preserving the competitive tax environment, by raising the CIT, reducing tax expenditures, increasing environmental taxes or modernizing the property tax regime.

Authorities' actions	As part of the defense package, as of January 1, 2025, the authorities implemented small changes including an increase of CIT rate to 16% from 15% (to 6% from 5% in the case of SMEs on certain requirements), increased rate for qualifying profits and higher excise duties. The authorities' tax reform targets a mix of taxes including making the PIT more progressive, raising the CIT and VAT rates, broadening the tax base in property taxes except for primary residences, introducing an excise duty for sugary drinks, and introducing an insurance tax – approved in June 2025 and to be implemented in January 2026.
Labor Market	
Issue	Flexible labor market with high skill-mismatches and labor shortages mostly in high-skill industries. High minimum wage introduces distortions in regional areas with low wages.
Recommendations	Reduce the tax wedge. Strengthen ALMPs, including life-long learning and apprenticeships, and increase its funding. Reduce barriers to non-EU migration and increase retirement age. Pause minimum wage increase and consider having differentiated minimum wage across regions.
Authorities' actions	ALMPs were enhanced (introduced internships, mobility support, recognition of self-education). Ex-post evaluation of ALMP was launched in 2024. Minimum wage was increased by 12.3 percent in 2025. The work permit quota for foreigners was reduced in 2025, while the authorities have removed the breakdown of work permits assigned by the economic sector, allowing for more flexibility.
Pensions	
Issue	Low and falling replacement ratios for a rapidly aging population. Highly redistributive—currently the most effective redistributive policy tool—but not targeted at the poor.
Recommendations	Link retirement age to life expectancy and tighten early retirement. Raise gross pensions (to at least preserve replacement ratios) and subject them to progressive PIT. Strengthen multi-pillar system by funding non-contributory basic pensions through general revenues and by making payments to second pillar compulsory. Scale back incidence of disability pensions.
Authorities' actions	The new government has approved a reform of the 2nd pillar pension scheme—including the replacement of automatic enrolment with voluntary participation and the introduction of a 24-month opt-out period.

Annex III. External Sector Assessment

Overall Assessment: *The external position of Lithuania in 2024 was moderately stronger than the level implied by fundamentals and desirable policies. The current account continued to improve, driven by a stronger trade balance, especially for services, as well as a better primary income balance due to higher net investment income. Over the medium-term and under the policies expected under the baseline scenario with a continuing strong services balance and increased defense spending, Lithuania's current account balance is expected to converge near the vicinity of the norm, removing concern about long-term misalignments.*

Potential Policy Responses: *The current account surplus records somewhat stronger than the norm under the baseline scenario, suggesting that there is scope to further expand investment, especially through structural reforms. Fiscal consolidation, if implemented as recommended, could lead to slower convergence to the norm.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Between 2009 and 2024, the NIIP has strengthened almost every year by a total of more than 50 percentage points of GDP, turning positive for the first time in 2024. The trend improvement over the past 15 years reflects the correction of the structural deficit of goods trade after GFC and the improvement in international competitiveness driven by an improving services trade balance as well as diversification in products and trading partners.

Assessment. The current NIIP and its projected path do not imply risks to external sustainability.

2024 (% GDP)	NIIP: 0.5	Gross Assets: 125.0	Debt Assets: 59.9	Gross Liab.: 124.5	Debt Liab.: 43.3

Current Account

Background. The current account recorded a surplus of 2.5 percent of GDP in 2024, from a 1.1 percent surplus in 2023 and a deficit of -6.1 percent in 2022. The increase to a surplus in 2024 is explained primarily by an improvement in the trade balance, especially of services from 10.1 percent of GDP in 2023 to 11.2 percent.

Assessment. The EBA-lite CA model estimates that the current account gap is 1.3 percent with a CA norm estimated at 1.3 percent of GDP. The main contributors are fiscal deficits, which are lower relative to other countries, and health spending, which is also relatively low.

Lithuania: EBA-lite Model Results, 2024

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**2.5**	
Cyclical contributions (from model) (-)	-0.1	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**2.6**	
CA Norm (from model) 2/	**1.3**	
Adjustments to the norm (+)	0.0	

Lithuania: EBA-lite Model Results, 2024
(concluded)

Adjusted CA Norm	**1.3**	
CA Gap	**1.3**	**-1.8**
o/w Relative policy gap	3.0	
Elasticity	-0.5	
REER Gap (in percent)	**-2.5**	**3.5**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate depreciated by around 2 percent in 2024, reversing the trend of sustained REER appreciation from 2015-23.

Assessment. The current account model yields a REER gap of -2.5 percent while the REER model suggests a positive gap. The REER overvaluation trend seems to have paused with the small real depreciation in 2024. The real depreciation reflects in part lower inflation than in trading partners.

Capital and Financial Accounts: Flows and Policy Measures

Background. Lithuania continued to experience some capital outflows during 2024. These outflows were driven by the central bank balance and net other investment outflows, offsetting net FDI inflows and net portfolio investment inflows.

Assessment. Risks related to capital flows are assessed to be small given the stable growth prospect.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves in the euro area tend to be low relative to standard metrics, but the currency is free floating.

Annex IV. The Reform of Pillar II Pension

1. The pension system has been reformed multiple times since independence. A major reform was approved in 2000, introducing a new pension system, leading to the pension system consisting of three pillars since 2004:[1]

- Pillar I: a statutory mandatory public unfunded PAYG defined-benefit system, with the main objective of providing a universal safety net for the elderly.
- Pillar II: a statutory quasi-mandatory funded defined-contribution system financed with personal contributions and state subsidies, to supplement Pillar I pension benefits.
- Pillar III: a voluntary private funded pension scheme, designed to comprise private retirement savings options, with public involvement limited to regulation to ensure investor protection.[2]

Subsequent reforms, in 2013 and 2018, aimed at ensuring financial sustainability and enhancing the adequacy of the system.[3]

2. The current pension system is likely to imply significant increases in public pension expenditure over the next two decades, but replacement ratios are projected to remain very low. The 2024 EC Ageing Report projects public pension expenditure in Lithuania to increase from 6.4 percent of GDP in 2022—one of the lowest levels in the EU—to 9.6 percent in 2045 and to remain broadly stable until 2070. Despite the significant projected increase, mainly driven by adverse demographic trends (i.e., an increase in the old-age dependency ratio), the public pension expenditure ratio is expected to remain below the EU average. Limitations on the adequacy of pension spending are reflected in the lowest replacement rate in the EU. The replacement rate for all pensions (public and private) is projected to decrease from 27.2 percent in 2022 to 26.5 percent in 2045 and to 26.4 percent in 2070, well-below the target rate in the 40-60 percent range suggested by international practice and ILO standards.

3. A reform of Pillar II was approved in June 2025. Starting from January 1, 2026 the new reform of Pillar II of the pension system implies the following changes:

[1] The multi-pillar system is based on the model proposed by the World Bank (1994, *Averting the Old Age Crisis*, New York, Oxford University Press), following the pension system adopted by Chile in the early 1980s. See Schiff et al. (2000): *Pension Reform in the Baltics. Issues and Prospects*. IMF Occasional Paper N. 200.

[2] Notable aspects of the three pillars include the following. Pillar I has a large redistributive component due to the relatively weak link between contributions and benefits, but it has insufficiently addressed old age poverty. Pillar II allows for diversification of the pension system and does not have redistributive effects since entitlements depend solely on the voluntary contributions that are proportional to wages. Pillar III is considered regressive, benefiting solely high-income earners.

[3] For a detailed description of the pension system see IMF (2024a): Lithuania: Selected Issues Papers, June 2024 (Box 1. Lithuania's Current Pension System). IMF (2024b): 2024 Article IV Staff Report (Annex V. Lithuania's Pension System), July 2024. European Commission (2024): The 2024 pension adequacy report – Current and future income adequacy in old age in the EU. Volume II, Publications Office of the European Union, June 2024.

- Voluntary participation: Participation in the Pillar II scheme will become voluntary, and automatic enrolment will be discontinued.
- Option to opt out: Current participants will have a two-year window (January 1, 2026 – December 31, 2027) to exit Pillar II and withdraw their accumulated funds, specifically their contributions and any investment returns made with their own funds associated to the scheme. In such case, contributions made on their behalf by the Lithuania's State Social Insurance Fund Board (Sodra) or the state budget will be converted into additional pension accounting units in the Sodra pension system (Pillar I).
- Additional options for remaining participants: Individuals who choose to remain in Pillar II will have the ability to select their preferred contribution rate and, if necessary, to suspend contributions. They will be able to opt for the standard 3% contribution, increase it or suspend payments if their financial situation worsens. Contributions may be interrupted for up to one year, with the option to extend this period repeatedly without limit, formally remaining in the scheme but in practice without participating. Members will also continue to receive the Government's incentive contribution of 1.5% of the national average gross earnings of the year before last.
- Enhanced access to accumulated funds: Participants will have a once-in-a-lifetime option to withdraw 25% of the accumulated funds (up to a maximum of the amount contributed by the participant himself) by the retirement pension age (subject to a fixed withdrawal deduction of 3% of the amount withdrawn). Participants who have saved up to half the amount required for a mandatory annuity will be allowed to withdraw their entire balance within five years of retirement or less. The 3% deduction on withdrawals of 25% will not apply if this right is exercised by an individual who has reached retirement age. In specific cases of disability, serious illness and palliative care needs, participants will be able to cease accumulating funds and withdraw all accumulated funds, without paying taxes on these amounts and with payment to be made within 30 days.

4. The reform of Pillar II is likely to weaken the pension system's spending adequacy. The reform of Pillar II allows for reduced accumulation of pension benefits, thereby most likely implying a decline in the replacement rate and further undermining the adequacy of the pension system. The risks associated to in the reform of Pillar II are illustrated by the experience of Estonia, where a 2021 reform making the statutory funded scheme voluntary led to one third of participants in the pension insurance fund opting out of the scheme and withdrawing the money by mid-2023. [4]

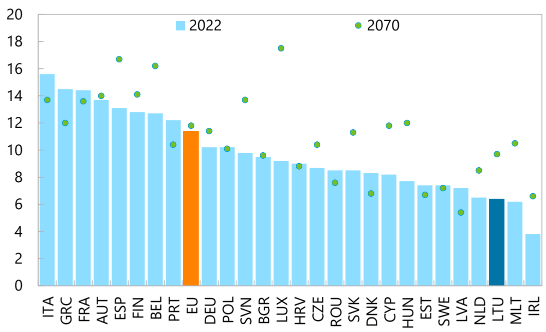
5. An ex-ante assessment of the Pillar II reform by the Bank of Lithuania points to risks to the pension adequacy. Model simulations suggest that if 40% of Pillar II participants withdrew their funds primarily for consumption purposes, in the short term the business cycle would become more

[4] See European Commission (2024): cit.

volatile, while in the medium to long term average replacement rates would decline further, with low-income individuals disproportionately affected.[5]

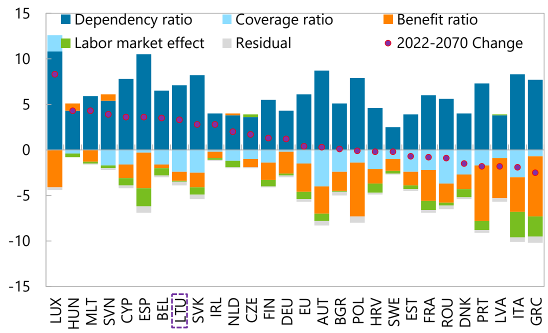
Public Pension Expenditure and Replacement Rate

Gross Public Pension Expenditure
(Percent of GDP)



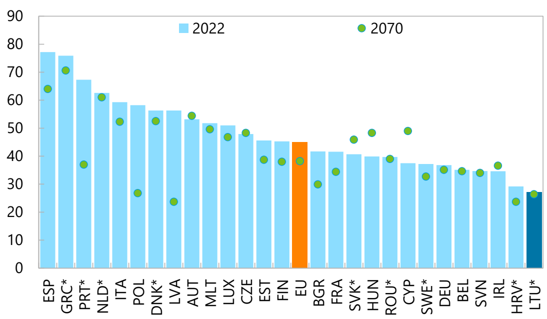
Source: European Commission, EPC.

Contribution to Change in Public Pension Expenditure
(Percentage points of GDP)



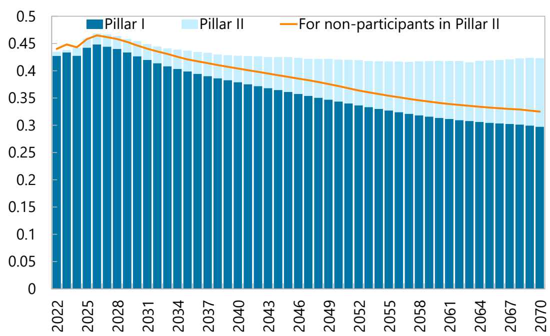
Source: European Commission, EPC

Replacement Rate
(Percent; share of average new pension of the average gross wage at retirement)



Source: European Commission, EPC.
*All pensions (public and private).

Average Replacement Ratios
(Percent of net income prior to retirement)



Source: Ministry of Social Affairs and Labor.

[5] See Bielskis, Brenna, Garcia-Louzao, Girstmair and Mulay (2025): An Ex-Ante Assessment of the Proposal to Reform the Second Pillar of the Lithuanian Pension System, Bank of Lithuania Occasional Paper Series No 57 / 2025.

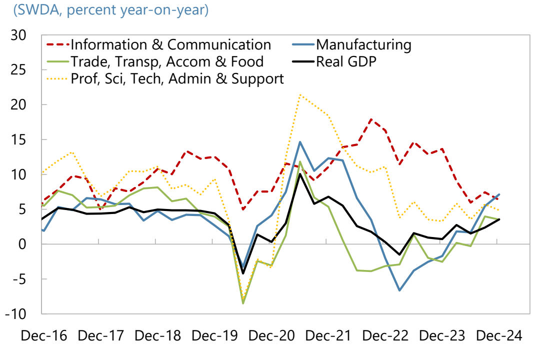
Annex V. ICT Sector in Lithuania

1. Lithuania has remained resilient to the latest shocks, partially supported by the strong performance of Information and Communication Technologies (ICT). The ICT sector acts as a key determinant of the competitive edge in the knowledge economy, attracting investments and creating innovation. By generating new technologies applicable to a wide range of other sectors, ICT activities play a strategic role in the promotion of growth, innovation and competitiveness across European economies. The impact of ICT industries is crucial for increased productivity and efficiency (Eurostat, 2025). Aware of the potential of the sector, the Lithuanian authorities have adopted different strategies (e.g., 2021-27 Smart Specialization, 2023-28 Fintech Strategy) with the objective of developing a high value-added economy while reinforcing competitiveness and innovation.

2. The ICT sector in Lithuania has experienced significant growth over the past decade, positioning the country as a regional leader in technology and innovation. Factors explaining the growth of the sector include (i) a policy support including tax incentives for startups and investments in technology infrastructure, (ii) a high skilled workforce, (iii) foreign investments, and (iv) the self-positioning on emerging technologies (e.g. Fintech), and (v) a strong digital infrastructure. The ICT sector has grown at an annual rate of approximately 10 percent over the last 10 years, increasing their representativeness from 3 percent of GDP in 2015 to 5.3 percent at the end of 2024. The strength of the sector has been key offsetting the downturn of traditional drivers of growth such as manufacturing and transport services, which were more exposed to the war in Ukraine and 2021-22 international inflation episode. ICT related activities have been also fundamental to the restoration of the external surplus, with exports reaching 3.1 percent of GDP in 2024 from only 0.5 percent in 2015, supported by a diversified range of services and trade partners.

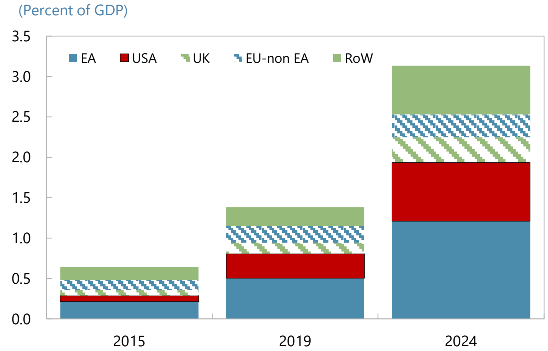
ICT Sector Developments

Real GDP and Value Added
(SWDA, percent year-on-year)



Sources: Haver Analytics, Eurostat and IMF staff calculations

Exports of Telecom, Computer & Information Services
(Percent of GDP)



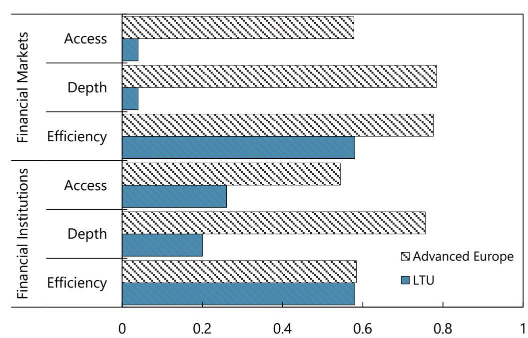
Sources: Haver Analytics and IMF staff calculations

Annex VI. Barriers to Deepening Capital Intensity

1. **Potential growth is constrained by a low capital intensity**. Capital deepening is a key driver of growth in labor productivity and, by extension, of output growth, contributing on average between one-third and 40 percent to labor productivity growth (ECB, 2021). It is also a reference of the economic development of a country, signaling a more prominent role of infrastructure, machinery or technology on the economic structure. Capital deepening in Lithuania has also benefited from convergence towards frontier EU economies, growing above the EU average. Still, the capital stock per person employed is well below other peers, signaling the need for stronger capital accumulation looking forward to complete the catch-up process.

2. **Deepening capital markets would help support private investment and growth**. Financial development is recognized as a key driver of productivity growth. Well-developed financial systems provide a variety of instruments to support innovation by funding new business ventures. Financial development in Lithuania, measured by the IMF's Financial Development Index, lags the average for European advanced economies and the gap has remained constant since the GFC, with financial markets depth and access indicators significantly lagging behind European peers. Deepening capital markets over time would help support private investment and growth.

Financial Development Index



Sources: IMF and IMF staff calculations

3. **Availability of finance also limits further developments of business investment and the economic transition.** With a large share of firms facing financial constraints, corporate investment in Lithuania mostly focus on replacement rather than capacity expansion, limiting further progress on capital accumulation and the transition towards a high-tech economy. Business regulation and access to finance are perceived as the major barriers to invest in Lithuania. This could be unlocked through credit guarantee schemes or simplifying the business registration process by reducing bureaucratic obstacles and integrating digital solutions for faster processing.

4. **The program of the new government includes several initiatives aimed at easing the administrative burden on businesses.** These include a public sector leadership in implementing a centralized digital transformation and improving e-government services. Additional proposals include accelerating and simplify the procedures for investors and facilitate conditions for issuing construction permits. Further progress on these areas would facilitate corporates and foreign investment in Lithuania, with positive impact on TFP developments.

Annex VII. Debt Sustainability Analysis

Annex VII. Table 1. Lithuania: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	The overall risk of sovereign stress is low, with low levels of vulnerability in the near- and medium-term and moderate in the long-term.
Near-term 1/	...	...	
Medium-term	**Low**	**Low**	Medium-term risks are assessed as low in line with the mechanical low signal on the basis of the strength of institutions and prudent policies, the low level of public debt as a share of GDP, the access to wider pool of investors in Europe, and the ECB's stabilizing role.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test		...	
Long-term	...	**Moderate**	Long-term risks are moderate as the increasing defense spending and aging-related expenditures on health and social security will eventually feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	The projected debt path is expected to stabilize and GFNs will remain at manageable levels, especially with the reinstatement of the domestic fiscal rule and additional revenue mobilization. Therefore debt is assessed as sustainable.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Lithuania is at a low overall risk of sovereign stress with sustainable public debt. Most indicators have normalized after the pandemic and the inflationary shock caused by Russia's war in Ukraine. Public debt is expected to approach 60 percent over the medium term, with no difficulty in financing. Lithuania should continue with structural reforms to tackle risks arising from climate change and population aging while improving long-run growth, and implement revenue mobilization and spending efficiency measures to preserve fiscal space.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

Note: Two planned loans from the EIB and NIB totaling around 1 percent of 2026 GDP are not included in the DSA, as their specific financing details and time period are not yet available. The loans are not expected to affect the sustainability assessment.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex VII. Table 2. Lithuania: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						
Subsectors captured in the baseline					Inclusion	
1 Budgetary central government					Yes	
2 Extra budgetary funds (EBFs)					No	Not applicable
3 Social security funds (SSFs)					Yes	
4 State governments					No	Not applicable
5 Local governments					Yes	
6 Public nonfinancial corporations					Yes	
7 Central bank					Yes	
8 Other public financial corporations					Yes	
3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:	Basis of recording		Valuation of debt stock			
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:		Consolidated		Non-consolidated		

Row groupings: CPS (rows 1–8); NFPS (rows 1–6); GG: expected (rows 1–5); CG (rows 1–2).

Color code: chosen coverage; Missing from recommended coverage; Not applicable

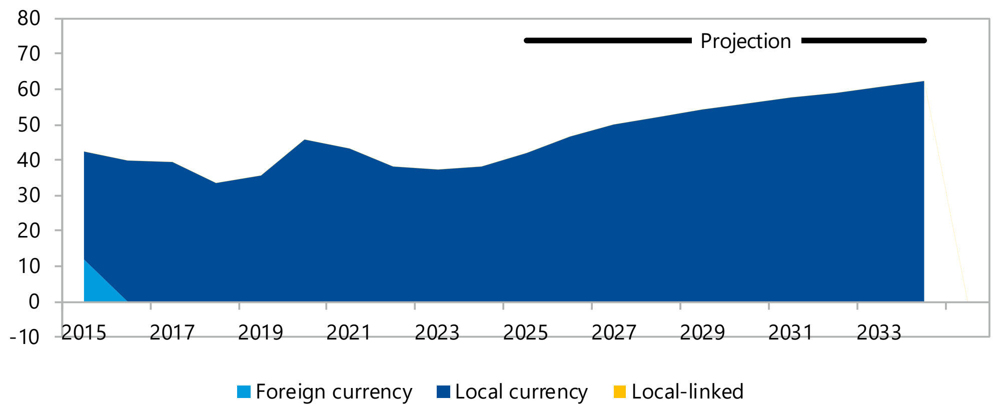
Reporting on Intra-Government Debt Holdings

Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

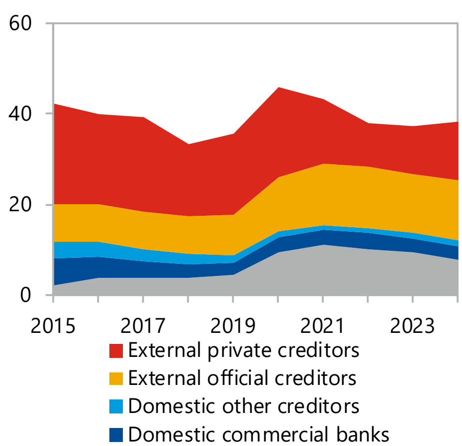
Annex VII. Table 3. Lithuania: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



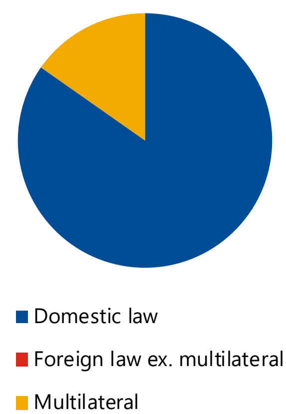
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



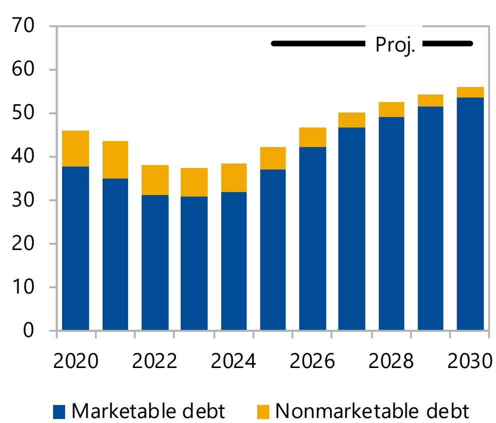
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



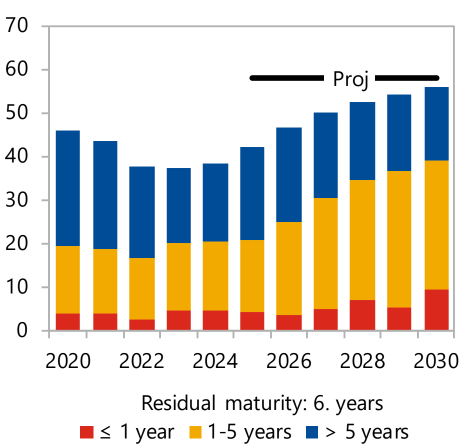
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Since the Euro introduction, Lithuania does not hold any foreign-currency denominanted debt.

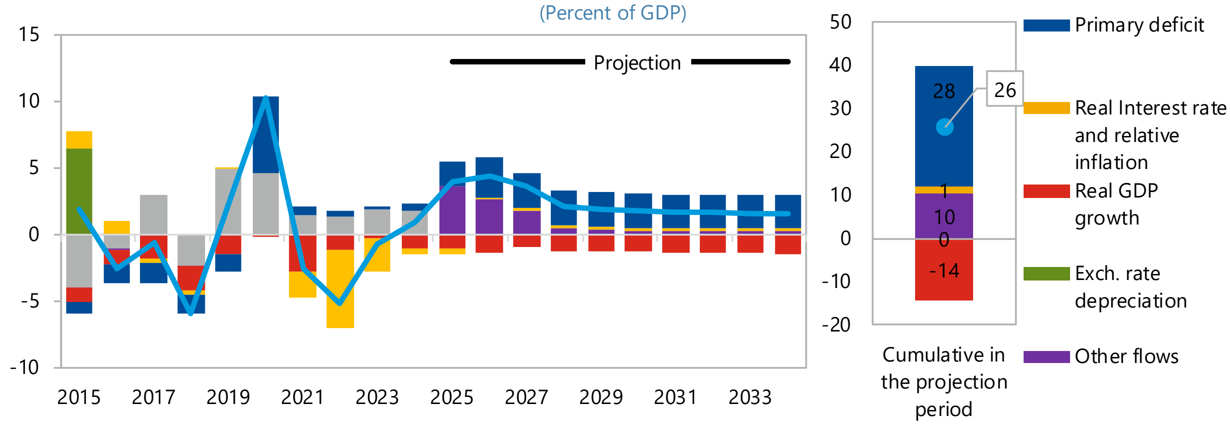
Annex VII. Table 4. Lithuania: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	38.2	42.1	46.5	50.2	52.3	54.2	55.9	57.6	59.2	60.8	62.3
Change in public debt	0.9	3.9	4.4	3.6	2.1	1.9	1.7	1.7	1.6	1.6	1.5
Contribution of identified flows	-0.9	3.9	4.4	3.6	2.1	1.9	1.7	1.7	1.6	1.6	1.5
Primary deficit	0.6	1.8	3.1	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5
Noninterest revenues	38.2	38.2	38.0	38.2	38.3	38.3	38.2	38.2	38.2	38.2	38.2
Noninterest expenditures	38.7	40.1	41.1	40.8	41.0	40.9	40.7	40.7	40.7	40.7	40.7
Automatic debt dynamics	-1.4	-1.5	-1.3	-0.8	-1.0	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2
Real interest rate and relative inflation	-0.4	-0.5	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Real interest rate	-0.4	-0.5	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.0	-1.1	-1.4	-1.0	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.5
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.1	3.6	2.6	1.8	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other transactions	0.0	3.7	2.7	1.8	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Contribution of residual	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.4	6.5	8.3	8.1	9.4	11.2	9.7	13.9	14.2	13.2	12.7
of which: debt service	5.0	4.7	5.3	5.5	6.8	8.7	7.3	11.4	11.7	10.8	10.2
Local currency	5.0	4.7	5.3	5.5	6.8	8.7	7.3	11.4	11.7	10.8	10.2
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.7	2.9	3.4	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator; percent)	3.4	3.9	2.5	2.2	2.4	2.6	2.5	2.6	2.6	2.6	2.6
Nominal GDP growth (percent)	6.2	6.9	6.0	4.5	5.0	5.1	5.0	5.1	5.1	5.1	5.1
Effective interest rate (percent)	2.3	2.6	2.7	2.8	2.8	2.8	2.9	2.9	2.9	2.9	3.0

Contribution to Change in Public Debt

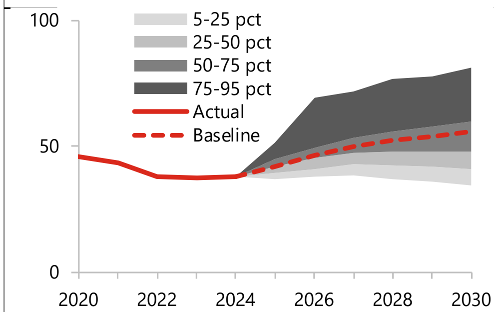
(Percent of GDP)



Commentary: Public debt is projected to aproach 60 percent of GDP in the medium-term.

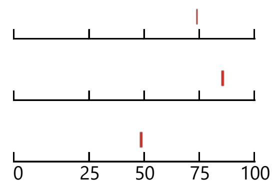
Annex VII. Table 5. Lithuania: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

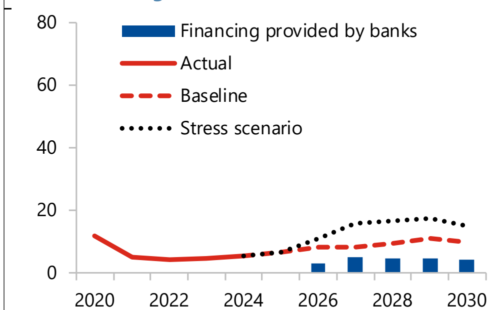


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	46.6	0.7	
Probability of debt non-stabilizaiton *(percent)*	59.2	0.5	
Terminal debt-to-GDP x institutions index	13.4	0.3	
Debt fanchart index (DFI)		1.5	
Risk signal: 3/		Moderate	

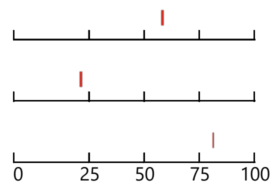


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

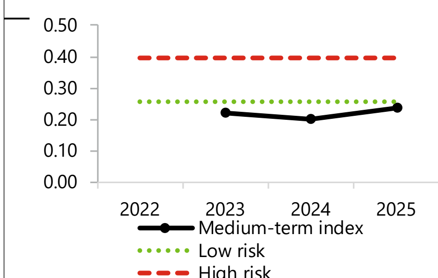
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	8.9	3.0	
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.1	1.0	
Chg. In banks' claims in stress *(pct banks' assets)*	11.3	3.8	
GFN financeability index (GFI)		7.8	
Risk signal: 4/		Moderate	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.5	0.3	0.5	0.2
GFN finaceability index	7.8	0.2	0.5	0.1
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 43.2 pct.

Commentary: Medium-term risk assessment does not point to major concerns.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex VII. Table 6. Lithuania: Realism of Baseline Assumptions

Forecast Track Record 1/

	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			

	real-time	t+3	t+5
Historical Output Gap Revisions 2/			

Comparator Group:

Advanced Economies, Non-Commodity Exporter, Surveillance

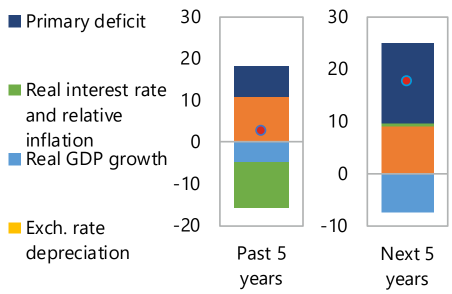
Color Code:

Optimistic
- > 75th percentile
- 50-75th percentile

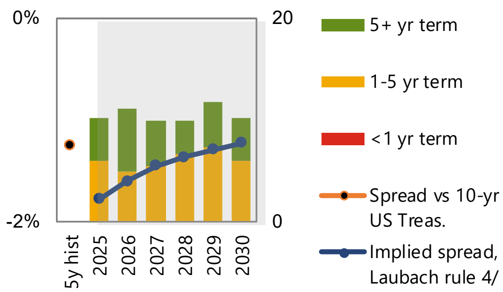
Pessimistic
- 25-50th percentile
- < 25th percentile

Public Debt Creating Flows

(Percent of GDP)

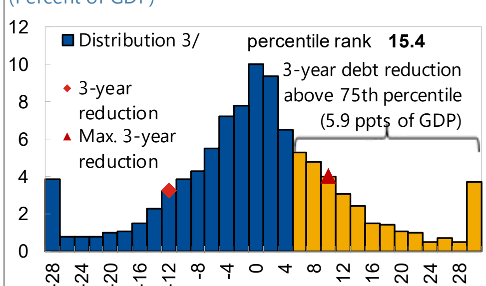


Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

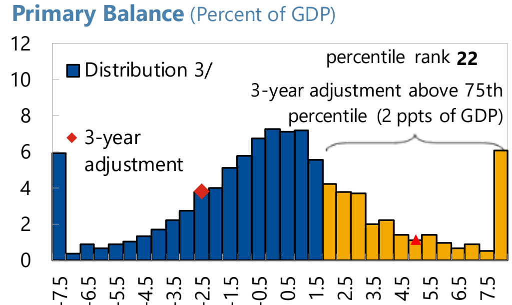


3-Year Debt Reduction

(Percent of GDP)

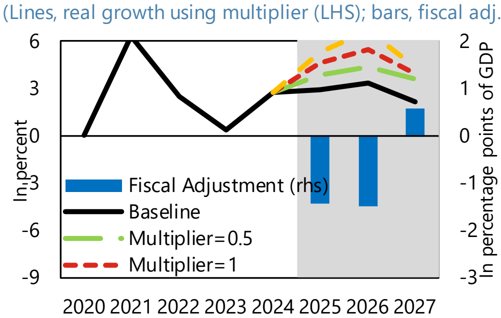


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



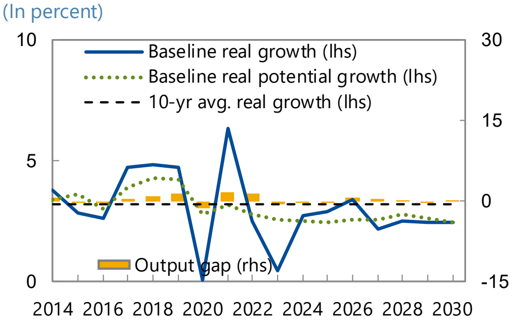
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth

(In percent)



Commentary: Realism analysis does not point to major concerns.

Source: IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on verti

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in tl

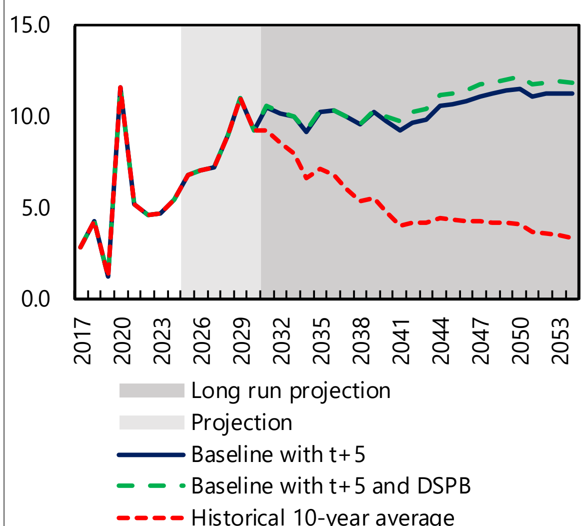
Annex VII. Table 7. Lithuania: Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

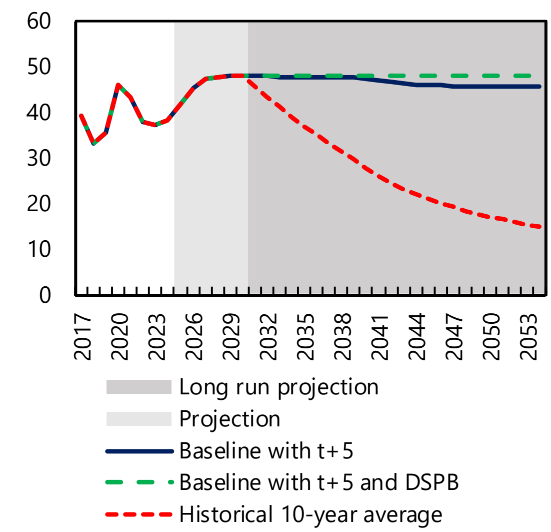
Lithuania: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



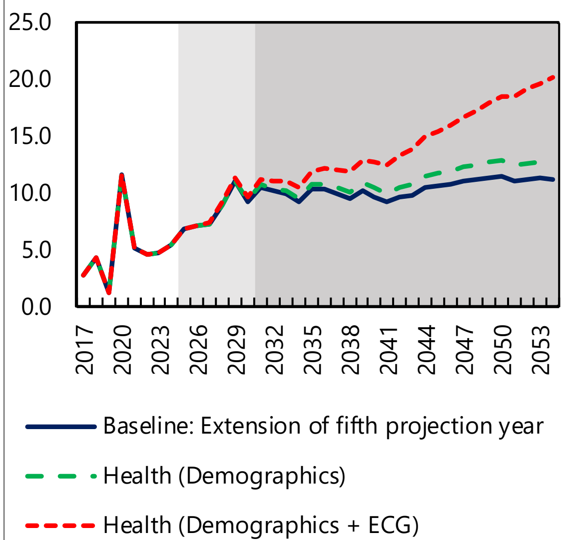
Total Public Debt-to-GDP Ratio



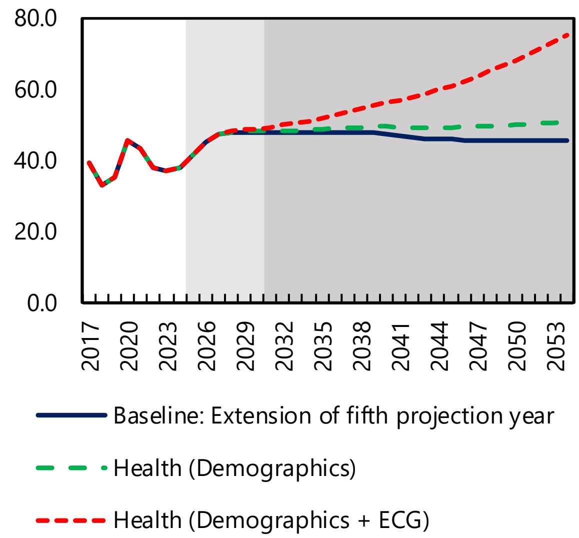
Commentary: Assuming a continuation of the baseline scenario or an evolution in line with the historical average for the long-term, both debt and gross-financing needs relative to GDP will decrease and remain within reasonable intervals posing no considerable risk. The above indication of risks results from the methodology's assessment of GFN and amortization relative to Lithuania's historical trajectory, which is very low, rather than peers. In any case, in the medium-term GFN increases slightly but remains low and manageable.

Annex VII. Table 8. Lithuania: Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Including ECG (external, contingent and government) liabilities in health expenditures in line with expected demographic trends, GFN-to-GDP and Debt-to-GDP ratios will rise over the long-term given no change in the system and on the revenue side.

Annex VIII. Data Issues

Annex VIII. Table 1. Lithuania: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	A	A	A		
Granularity 3/	B		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data collection and dissemination is overall adequate for surveillance. Some open issues remain: i) Sectoral breakdown of non-financial accounts at quarterly basis are not produced which hampers surveillance, ii) significant net errors and omissions in the BoP, iii) large volatility of the inventories component in National Accounts, signaling potential measurement issues between supply and demand estimations of GDP.

Changes since the last Article IV consultation. No changes.

Corrective actions and capacity development priorities. There are currently no plans to produce quarterly data for the non-financial accounts, nor to enhance the estimation of Errors and Omissions and inventories. Apart from this item, there are no macro-critical needs for adjustments.

Use of data and/or estimates different from official statistics in the Article IV consultation. No surveillance need for third-party data.

Other data gaps. The release of the quarterly non-financial accounts at the sectoral level would enhance surveillance, while facilitating the understanding of investment and saving decisions of private sectors. While being not mandatory by Eurostat, it would also complete the picture from the National Accounts.

Annex VIII. Table 2. Lithuania: Data Standards Initiatives

Lithuania adheres to the Special Data Dissemination Standard (SDDS) Plus since July 2018 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VIII. Table 3. Lithuania: Table of Common Indicators Required for Surveillance

As of July 10, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Lithuania[8]	Expected Timeliness[6,7]	Lithuania[8]
Exchange Rates	9-Jul-25	9-Jul-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May-25	Jun-25	M	M	M	30	1W	10
Reserve/Base Money	May-25	Jun-25	M	M	M	30	2W	14
Broad Money	May-25	Jun-25	M	M	M	30	1M	30
Central Bank Balance Sheet	May-25	Jun-25	M	M	M	30	2W	14
Consolidated Balance Sheet of the Banking System	May-25	Jun-25	M	M	M	30	1M	30
Interest Rates[2]	9-Jul-25	9-Jul-25	D	D	D	...	...	...
Consumer Price Index	May-25	Jun-25	M	M	M	30	1M	10
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2025Q1	Jun-25	Q	Q	A/Q	90	2Q/12M	120
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2025Q1	Jun-25	Q	Q	M	30	1M	30
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2025Q1	Jun-25	Q	Q	Q	30	1Q	30
External Current Account Balance	2025Q1	Jun-25	Q	Q	Q	90	1Q	84
Exports and Imports of Goods and Services	May-25	Jun-25	M	M	M	30	8W	40
GDP/GNP	2025Q1	May-25	Q	Q	Q	90	1Q	60
Gross External Debt	2025Q1	May-25	Q	Q	Q	90	1Q	90
International Investment Position	2025Q1	May-25	Q	Q	Q	90	1Q	84

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

REPUBLIC OF LITHUANIA

July 29, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by | European Department

CONTENTS

FUND RELATIONS

(As of June 30, 2025)

Membership Status: Joined: April 29, 1992; Article VIII.

General Resources Account:

	SDR Million	Percent of Quota
Quota	441.60	100.00
Fund holdings of currency (Exchange Rate)	321.34	72.77
Reserve Tranche Position	120.27	27.24

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	560.49	100.00
Holdings	574.39	102.48

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Aug 30, 2001	Mar 29, 2003	86.52	0.00
Stand-By	Mar 08, 2000	Jun 07, 2001	61.80	0.00
Stand-By	Oct 24, 1994	Oct 23, 1997	134.55	134.55

Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2026	2027	2028	2029
Principal				
Charges/Interest	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00

Implementation of HIPC Initiative: Not applicable.

Implementation of MDRI Assistance: Not applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not applicable.

Exchange Rate Arrangement:

The currency of Lithuania is the euro. The exchange rate arrangement of the euro area is free floating. Lithuania participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Lithuania has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions except for those maintained solely for the preservation of national or international security and which have been notified to the Fund pursuant to Executive Board Decision No. 144 (52/51).

Previous Article IV Consultation:

Lithuania is on the 12-month consultation cycle. The last Article IV consultation was concluded on July 24, 2024. The staff report and other related documents are available at: https://www.imf.org/en/Publications/CR/Issues/2024/07/23/Republic-of-Lithuania-2024-Article-IV-Consultation-Press-Release-and-Staff-Report-552201

Safeguards Assessment:

Under the Fund's safeguards assessment policy, the Bank of Lithuania (BoL) was subject to and completed a safeguards assessment with respect to the Stand-By Arrangement (the SBA was approved on August 30, 2001 and expired on March 29, 2003) on December 10, 2001. The assessment identified certain weaknesses and proposed appropriate recommendations as reported in EBS/01/211. The BoL has implemented these recommendations.

FSAP Participation and ROSCs:

An FSAP Update mission was completed on November 19, 2007. Fiscal and statistics ROSCs were completed in November 2002 and December 2002, respectively.

Table 1. Lithuania: Technical Assistance from the Fund, 2001–24

Department	Issue	Action	Date	Counterpart
FAD	Tax policy issues	Mission	Jun. 3–26, 2001	Ministry of Finance
STA	ROSC	Mission	May 8–22, 2002	Department of Statistics, Ministry of Finance, and Bank of Lithuania
FAD	ROSC	Mission	Jul. 10–23, 2002	Ministry of Finance
FAD	Treasury Operations	Mr. Ramachandran	Nov. 22–Dec. 5, 2004	Ministry of Finance
FAD	Decentralization	Mission	Dec. 3–15, 2004	Ministry of Finance
STA	External debt statistics	Mission	Aug. 2–4, 2006	Bank of Lithuania
MCM	Stress testing	Mr. Miguel A. Segoviano Basurto	Jun. 11–21, 2007	Bank of Lithuania
STA	External debt statistics	Mission	Nov. 8–19, 2007	Bank of Lithuania
FAD	Public expenditure review	WB mission / Ms. Budina (FAD) participation	Apr. 14–24, 2009	Ministry of Finance
FAD	Tax Administration	Mission	Aug. 26–Sep. 8, 2009	Ministry of Finance
MCM/LEG	Bank Resolution/Banking Law	Mission	Sep. 28–Oct. 6, 2009	Bank of Lithuania/Ministry of Finance
FAD	Reform of Social Security and Health Funds	Mission	Apr. 6–20, 2010	Ministry of Finance/State Social Insurance Fund Board
LEG	Personal Bankruptcy Reform	Mission	Apr. 30–May 8, 2010	Ministry of Economy
FAD	Tax Administration	Mission	Jul. 14–27, 2010	Ministry of Finance
FAD	General Tax Policy	Mission	Oct. 19–25, 2010	Ministry of Finance
STA	GFS 2001 Statistics	Mission	Feb. 11–22, 2013	Ministry of Finance
MCM	Credit Unions	Mission	Nov. 18–29, 2013	Bank of Lithuania
MCM	Stress Testing	Mission	Dec. 16–18, 2013	Bank of Lithuania
FAD	Local Government Finance	Mission	Dec. 9–16, 2014	Ministry of Finance
FAD	Fiscal Transparency	Mission	Nov. 28–Dec. 11, 2018	Ministry of Finance
FAD	Value Added Tax Gap	Mission	Oct. 23–Nov. 6, 2019 Feb. 27–Mar. 5, 2020 May 3–Nov. 26, 2021	State Tax Inspectorate
FAD	High Wealth Individuals Management	Mission	Feb. 25–Mar. 30, 2021 May 20–25, 2021 Jul. 28–30, 2021 Jan. 10–20, 2022 Feb. 8–9, 2022 Sep. 26 – Oct. 5 2022	State Tax Inspectorate

Table 1. Lithuania: Technical Assistance from the Fund, 2001–26 (concluded)				
Department	**Issue**	**Action**	**Date**	**Counterpart**
			Nov. 23 – Dec. 9, 2022 Feb. 20 – Mar. 15, 2023 Apr. 7 – Apr. 28, 2023	
LEG	AML/CFT Framework	Mission	May 2–6, 2022 May 25–Jun. 2, 2022	Bank of Lithuania/Financial Intelligence Unit
FAD	Compliance Gap Integration	Mission	Mar. 1 – Apr. 28, 2023	State Tax Inspectorate
FAD	Advancing Spending Reviews	Mission	Sep 2025 – Nov 2025 (TBD)	Ministry of Finance
FAD	VAT Gap, Tax Administration, Shadow Economy	Virtual/Mission	Sep 2025 – Dec 2026 (TBD)	State Tax Inspectorate, State Data Agency, Financial Crime Investigation Service, Ministry of Finance

Resident Representative:

None.

Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT): Lithuania's compliance with the Financial Action Task Force (FATF) standard was assessed by MONEYVAL, the FATF-style regional body of which it is a member, in April 2012 and December 2018.

The 2018 MONEYVAL assessment rated Lithuania's AML/CFT regime as insufficiently effective in ten out of eleven pillars of an effective system, including moderate effectiveness of AML/CFT supervision, preventive measures by reporting entities, and ML/TF risk understanding and domestic coordination. Given the results of the assessment, Lithuania was placed in an enhanced follow-up process. Following the MONEYVAL assessment, Lithuania has strengthened its legislative and regulatory framework and taken steps to enhance its AML/CFT effectiveness.

In December 2024 Lithuania's fifth enhanced follow-up report and the first compliance enhancing procedures report (CEP) were adopted, concluding that Lithuania has made sufficient progress in addressing shortcomings for Recommendation 6 (Targeted financial sanctions related to terrorism and terrorist financing). Therefore, Lithuania was removed from CEPs. Lithuania has only 4 FATF Recommendations remaining rated as 'Partially Compliant', while Lithuania is considered as either 'Compliant' or 'Largely Compliant' with 36 FATF Recommendations.

The government has established an AML Centre of Excellence, which is designed to facilitate information sharing and strengthen collaboration among key stakeholders. A National Risk Assessment (NRA) was completed in 2019 and the report was published in 2020. Based on the NRA report, a plan for the measures to mitigate the risk of ML/TF for 2021–2023 was prepared in consultation with competent authorities. The Bank of Lithuania has also approved a new policy for AML/CFT supervision and the ML/TF Risk Scoring Methodology against ML/TF risks.

Lithuania transposed the 5th Anti Money Laundering and Terrorist Financing Directive on January 10, 2020. The new legislation, among other things, makes public the registers of beneficial owners of companies (and under some conditions trusts) operating within the EU and improves interconnectedness of member countries' national registers. The amendment of the Law on the Prevention of Money Laundering and Terrorist Financing VIII–275, which emphasizes the prevention, detection, investigation, or prosecution of serious criminal offences, was adopted by the Seimas and entered into force on August 1, 2021. Virtual currencies and custodian wallet providers were included into the scope of the AML/CFT Law amendments. Further amendments to the AMLCFT framework have been recently implemented that would address remaining risks in the VASP sector and enhance the regulation and supervision of designated non-financial businesses and professions.

Statement by Mr. Vasiliauskas, Executive Director for Lithuania
September 8, 2025

On behalf of the Lithuanian authorities, we would like to thank the IMF mission team for the candid and constructive dialogue during the 2025 Article IV consultation, as well as for the comprehensive and well-balanced staff report. We extend our appreciation to the new mission chief, Ms. Kazuko Shirono, who led her first mission to Lithuania. The authorities concur with the thrust of staff's findings and recommendations, which broadly align with their own assessment and policy priorities.

Political Situation

On August 26, following the Seimas' assent, the President appointed a new Prime Minister, and the formation of the new government is underway. Lithuania's strong institutional framework ensures policy continuity, and the reform implementation remains on track. There is broad cross-party consensus on the country's strategic priorities, including unwavering support for Ukraine, and a sustained increase of defense spending in line with NATO commitments.

Recent Economic Developments, Outlook, and Risks

Over the recent years, economic activity has proven resilient despite Russia's ongoing war against Ukraine and other global headwinds. In 2024, output expanded by 2.7 percent – well above the EU peer average. Inflation fell sharply through 2024 before picking up modestly to 1.9 percent by year-end, reflecting higher energy prices and excise taxes. This year, real GDP growth (QoQ) amounted to 0.6 percent in Q1 before slowing down to 0.2 percent in Q2. Notably, economic expansion has been broad-based across sectors, including a strong performance of manufacturing and the continued rise of high value-added services. Following a temporary slowdown linked to post-pandemic labor hoarding, labor productivity has been recovering, between Q3 of 2024 and Q2 this year, the average quarterly productivity growth reached 0.9 percent, surpassing both the pre-Covid-19 pace, and the long-term average observed over 2004–2025.

The economy is expected to grow by around 2.8 percent this year. Domestic demand continues to anchor economic growth, with investment supported by EU funding and household consumption strengthened by robust financial positions and rising purchasing power (wage growth averaged 8.4 percent during the first half of this year). Structural factors suggest that gradual productivity gains can be expected to move forward due to sustained high investment (with investment-to-GDP remaining about 5 percentage points above the pre-Covid levels), rising share of high-value-added manufacturing, and a fast-growing ICT sector. Average inflation is projected to rise to around 3.3 percent in 2025, reflecting the fading impact of energy disinflation, persistent services inflation, higher food prices, and increases in excise duties.

The authorities acknowledge that external risks are tilted to the downside, but sustained economic expansion remains the baseline scenario. Slower growth among key euro area trading partners or a deterioration in global trade sentiment could weigh on exports and investment. On the upside, increased defense spending can boost productivity and growth if a sufficient share of the funds is directed to R&D, infrastructure, and domestic industries. Moreover, the Pillar II pension changes, once implemented, would temporarily boost consumption and output growth—as some participants withdraw their accumulated funds from Pillar II—with the output gradually returning to the pre-policy trends in the medium term.

The impact of U.S. tariffs on Lithuanian exports is likely to be contained. According to the Bank of Lithuania (BoL), the cumulative effect of the various U.S. tariff scenarios on GDP growth is projected to range between -0.25 and -0.82 percentage points over 2025–27. The authorities estimate that the effective U.S. tariffs on Lithuania's goods and services currently amounts to around 13 percent, as around a third of Lithuanian exports to the U.S. are exempted from tariffs.

Fiscal Policy

The authorities reaffirm their commitment to a prudent and sustainable fiscal policy while accommodating the additional spending pressures. They share staff's assessment that additional revenue mobilization is warranted over the medium term to preserve fiscal space. In particular, the planned significant increase in defense spending – rising to about 3.3 percent of GDP this year and to 5-6 percent of GDP in 2026-30 – will add to long-term expenditure pressures from adverse demographics, social needs, and the green transition. The authorities are determined to address these challenges through forward-looking fiscal planning. They concur with staff on the importance of enhancing efficiency both on the revenue and expenditure side. In this regard, they would like to thank the IMF for its valuable technical assistance, including the upcoming TA project on reducing Lithuania's VAT compliance gap.

The approved tax changes will raise additional revenue starting from 2026 while improving progressivity and efficiency in the tax system. Taken together, the tax changes are expected to yield up to 0.6 percent of GDP in additional annual revenue by 2027. One of the central elements of the reform is pooling virtually all annual personal income with targeted exceptions, including wages, self-employment, rental and capital incomes, and applying a three-bracket tax schedule (20/25/32 percent) by income bands. This will strengthen the fairness of the taxation framework while reducing the opportunities for tax arbitrage. In parallel, social security contribution rules for the self-employed are being tightened to ensure more consistent and equitable contributions. The standard Corporate Income Tax (CIT) rate will increase from 16 to 17 percent, while the reduced CIT rate for small businesses will be adjusted from 6 to 7 percent. In the area of property taxation, the tax base for non-primary residential real estate will be broadened, while municipalities will set the rates (within a

0.1–1 percent range) for primary residences valued above €450,000. The reduced VAT rates will be raised, and several VAT exemptions (for residential heating, hot water, and fuelwood) will be abolished. Part of the revenue income will be directly attributed to the Defense Fund newly established last year. The authorities estimate only a limited effect on the level of economic output of the new revenue measures, up to 0.3-0.4 percent of GDP over a five-year horizon, while not accounting for the effect of increased domestic spending.

The government stresses that the Pillar II pension amendments, an electoral commitment, aims at enhancing the attractiveness of Pillar II by introducing more flexibility. Changes to Pillar II end automatic enrollment, make participation voluntary, and grant savers greater leeway, allowing opt-outs, partial withdrawals, and tailored contribution options while preserving the top-up from the budget for those who continue saving. The government sees the impact of the reform on the replacement rate to be limited. The central bank views the changes as likely to reduce the replacement rate over the long-term, implying increased pressure on public spending in the future.

Financial Sector Policies

The authorities concur with staff that Lithuania's banking sector remains well-capitalized, highly profitable, and liquid, and that financial stability risks are contained. Banks' capital adequacy and liquidity ratios comfortably exceed regulatory minimum, and non-performing loans (NPLs) remain at historically low levels (around 0.5 percent of total loans). While bank profits moderated somewhat, the sector's return on equity and assets are still among the strongest in Europe. Stress testing of the banking sector's solvency and liquidity conducted by the BoL indicates that the sector remains resilient to a deterioration in economic developments or unexpected liquidity shocks of varying durations.

A gradual financial expansion is underway, reflecting falling interest rates and strengthening credit demand. Housing market activity shows signs of recovery. Housing price growth has picked up, making up for the slowdown observed in 2023–24, yet it remains broadly consistent with underlying economic fundamentals. Housing affordability has improved over the past two years, as personal incomes have risen faster than house prices. The volume of bank credit provided to non-financial corporations remains low compared to Lithuania's economic growth, while businesses continue to face challenges in accessing finance, highlighting the need to further develop domestic capital markets. Main financial stability risks stem from the elevated trade policy uncertainty, possible price corrections in commercial real estate markets, and an increased frequency of cyberattacks on financial intermediaries,

The macroprudential stance remains proactive and appropriately calibrated to the evolving market conditions. The BoL has maintained prudent borrower-based limits to mitigate risks from credit and real estate cycles, while the positive neutral counter cyclical buffer (CCyB) of 1 percent takes account of the current pace of financial expansion. Regulatory changes effective this year have been aimed at increasing competition in the mortgage market and enhancing consumer protection. They include streamlined mortgage refinancing, making it faster and, in most cases, free for borrowers. This has led to a marked increase in lower-margin refinancings and renegotiations with incumbent lenders. Moreover, lenders must now offer each potential borrower at least two interest rate options: a variable rate and a fixed rate for no less than five years. To better balance the borrower-based measures and reduce the affordability gap between the first-time buyers versus existing homeowners, the BoL has also launched a consultation on targeted changes to the borrowing regulations. This includes a slightly higher maximum loan-to value ratio (90 percent instead of 85 percent currently) for first-home mortgages, stricter requirements for the second and subsequent mortgages, and an adjusted design of debt service-to-income requirement to ensure a more stable effect across the interest rate cycle.

Lithuania's AML/CFT framework has been significantly strengthened and the implementation of AML/CFT measures is well underway. This includes the enhanced supervision of payment institutions and CENTROlink payment system participants, as well as the oversight of newly licensed crypto-asset service providers under MiCAR. In recent years, decisive actions have been taken to increase supervisory resources and improve inter-agency coordination in the AML/CFT area. The BoL has bolstered its dedicated AML supervision capacity and is intensifying on-site inspections of higher-risk financial institutions. These steps, alongside close cooperation with regional and international partners, are helping to ensure that Lithuania's financial sector growth (particularly in the fintech sector) is accompanied by strong safeguards against financial crime.

Structural Policies

Over the past decade, Lithuania has achieved remarkable income convergence with the EU, and the economic structure has been evolving in a positive direction. Lithuania's exports are broadly diversified across products and markets, a factor underpinning its stronger post-pandemic performance compared with regional peers. In manufacturing, the production of modern chemical products, optical equipment, automotive electronics, and components for computers and electronic devices has expanded significantly. The exports of high technology goods have increased by 50 percent over the last five years. In the services sector, information and ICT services have been booming, as the sector has doubled its share of GDP over the past decade and is increasingly integrated into global value chains. In the annual IMD World Competitiveness Ranking, Lithuania has made a historic leap this year, climbing nine positions to reach its highest rank so far (21st place).

However, structural challenges need to be addressed to boost Lithuania's long-term growth potential. Sustaining rapid convergence going forward will require robust productivity growth and to reduce sensitivity to rising labor costs. In this regard, the authorities have prioritized a set of structural reforms aimed at enhancing the economy's productive capacity. A key focus is on facilitating higher private investment and faster technology adoption, including via efficient use of EU funds and incentives for innovation. The government is investing in infrastructure and human capital and implementing labor market policies to reduce skills mismatches (such as expanding vocational training and re-skilling programs). The authorities also highlight ongoing efforts to further deepen the local capital market, as evidenced by the recent increase in corporate bond issuance, while the newly consolidated national promotional institution ILTE will play a key role in filling the gap by facilitating risk-sharing.