



# Weekly Briefing

**Lithuania political briefing:**  
**The Outlook of Lithuania's Politics and Economy in 2024**  
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# **The Outlook of Lithuania's Politics and Economy in 2024**

## **Summary**

*The article provides an outlook of Lithuania's economy and domestic politics in 2024. First of all, the year 2024 will be marked by multiple elections in Lithuania. Lithuanians will vote in the Presidential, Parliament, EU Parliament elections as well as referendum on dual citizenship. Consequently, Lithuania's political landscape is set to be dynamic and full political maneuvering. Economic outlook in 2024 for Lithuania is cautiously optimistic, with modest economic growth, stable labour market and growth of wages exceeding inflation rates. However, geopolitical instability in the region, disruption of global supply chains and possible other external shocks may have a considerable impact on Lithuania's economy which is difficult to predict. The article also briefly discusses several political decisions and economic that are likely to be among those dominating the country's political agenda in 2024 and/or affect Lithuania's economic development. These are tax reform, cars pollution tax, defence expenditure, and "Green investment corridor".*

## **Introduction**

In 2023 Lithuania's political landscape was marked by significant events, including political scandals, corruption cases, escalating tensions with Russia and Belarus, and ongoing support for Ukraine. The country's economy and citizens had to cope with soaring inflation rates, which reached 20 per cent in January 2023, increasing food prices, slowing down real estate market and a technical recession. Despite domestic and international challenges, Lithuania's economy demonstrated resilience, avoided a severe recession with a slight economic contraction of about 0.4 per cent. However, the country is on the path of modest but stable economic expansion going forward in 2024. The article will overview the most significant political and economic developments that are likely to shape country's life in 2024.

## **Election Year**

The year 2024 is set to be a unique one for Lithuania, as the country will have three separate elections. Presidential elections in Lithuania will be held on the 12<sup>th</sup> of May 2024, dual

citizenship referendum (held on the same day with Presidential elections), and elections to the European Parliament held in June. Moreover, in October 2024, Lithuanians will go to the ballot boxes to vote in the Parliament elections.

The Presidential elections are likely to be fairly dull this time, as most political analysts predict that current Lithuania's president Gitanas Nausėda will win the elections and secure his second term in the post. Current Prime Minister will also participate in the presidential elections and will probably be the main contender to beat Gitanas Nausėda.

### **Referendum on dual citizenship**

Now in Lithuania, people who emigrated after the restoration of independence on March 11, 1990, are not eligible for dual citizenship, with some limited exceptions, as a clause in Lithuania's Constitution explicitly prohibits it. That causes a lot of inconvenience to Lithuanian people who emigrate abroad and want to acquire a citizenship of a different country. They face a dilemma whether to acquire a new citizenship as this would currently mean that their Lithuania's citizenship is automatically renounced. The Constitutional Court of Lithuania has clarified that the Constitution can be changed only through a referendum. Lithuania held a referendum on multiple nationalities in conjunction with the presidential election once before, back in 2019, but the constitutional amendment failed to get enough votes.<sup>1</sup>

While dual citizenship it is an important and long debated issue, the constitutional amendment will still be difficult to get through primarily because a high number of affirmative votes is required. "The Central Electoral Commission has calculated that more than 1.1 million 'yes' votes would be needed for the outcome [of the referendum] to be positive and for us to be able to amend Article 12 of the Constitution, which is a really big number" said MP Dalia Asanavičiūtė, head of a joint commission of the Seimas and the Lithuanian World Community.<sup>2</sup>

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<sup>1</sup> LRT: Lithuania to hold multiple citizenship referendum in 2024, at: <https://www.lrt.lt/en/news-in-english/19/1995960/lithuania-to-hold-multiple-citizenship-referendum-in-2024>

<sup>2</sup> LRT: Over 1 million 'yes' votes needed for Lithuania to allow multiple citizenship, at: <https://www.lrt.lt/en/news-in-english/19/1974937/over-1-million-yes-votes-needed-for-lithuania-to-allow-multiple-citizenship-mp>

## **Parliament elections**

The results in Lithuania's parliament (the Seimas) elections are always hard to predict, partly because Lithuania uses a mixed electoral system whereby 71 of its 141 members of parliament are elected by majority representation system and the remaining 70 members of parliament are elected by proportional representation system.

It looks like the election in October will be tough to the current centre-right ruling coalition which currently consists of three parties: the Conservative Party, the Liberal Movement, and the Freedom Party. According to a recent poll survey, the Conservative Party would attract 10.7 per cent of the votes, and the Liberal Movement – only 5.8 per cent of the votes. The Freedom Party would only collect 4 per cent of the votes, and is likely to be below the 5 per cent threshold which is necessary to have representation in the Seimas. Among the current opposition parties the Social Democrat Party would attract the most – 16.2 per cent of the vote, the Lithuanian Farmers and Greens Union would gain 7.7 per cent of the vote, and the Democrats party “For Lithuania” would get 6.9 per cent of the vote.<sup>3</sup> As the parliamentary elections approach, it's inevitable that the polling predictions and backing for various political parties will fluctuate. Regardless, the political landscape is set to become increasingly vibrant, marked by heightened confrontations among diverse political factions as they launch their electoral campaigns and strategize their coalitions for the post-election period.

## **Economic outlook**

The year 2024 is predicted to be moderately good for Lithuania's economy. After a mild decline in the economy in 2023, the Ministry of Finance predicts that Lithuania's economy will grow by 1.7 per cent in 2024.<sup>4</sup> This estimate is quite conservative and is even below that of the European Commission, which predicts that Lithuania's GDP will grow by about 2.1 per cent in 2024.<sup>5</sup>

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<sup>3</sup> LIETUVOS RYTAS: Partijų reitingų lentelėje – ir toliau štilis: lyderiai išlieka tie patys, at: <https://www.lrytas.lt/lietuvosdiena/aktualijos/2024/02/14/news/partiju-reitingu-lenteleje-ir-toliau-stilis-lyderiai-islieka-tie-patys-30543647>

<sup>4</sup> LRT: Finansų ministerija: 2024 metais Lietuvos ekonomika augs 1,7 proc., at: <https://www.lrt.lt/naujienos/verslas/4/2159868/finansu-ministerija-2024-metais-lietuvos-ekonomika-augs-1-7-proc>

<sup>5</sup> EUROPEAN COMMISSION: Economic forecast for Lithuania, at: [https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/lithuania/economic-forecast-lithuania\\_en](https://economy-finance.ec.europa.eu/economic-surveillance-eu-economies/lithuania/economic-forecast-lithuania_en)

It is also stated that the slowdown in inflation will continue - from 8.8 per cent in 2023 to 2.8 per cent in 2024. The unemployment rate should remain stable in 2024, and wage growth should be fast enough and exceed 7.5 percent. If estimates prove to be correct, it would mean that wages growth will considerably exceed the rate of inflation. "In 2024, people's purchasing power will strengthen, which will activate domestic consumption," according to Finance Minister Gintarė Skaistė.<sup>6</sup>

In the scenario, it is projected that wage growth remained rapid in 2023 and amounted to 12.5 per cent. In 2024 with wages growing more moderately in the private sector, wage growth will reach 7.6 per cent. In 2025-2026, the average wage could grow by 5 per cent per year.

Both in 2023 and 2024 wage growth will significantly exceed the rate of price growth. In 2023, the average annual inflation will be 8.8 per cent, and not only lower energy prices, but also the normalization of global supply chains and the tightening of monetary policy will contribute to a more favorable price development than last year. In 2024, average annual inflation is likely to decrease to 2.8 per cent. From 2025, the inflation rate should come even closer to the European Central Bank's 2 per cent. of the inflation target in the euro zone and make 2.3-2.4 per cent. Despite the slowdown in economic activity, the labor market remained stable this year, the unemployment rate will be 6.6 percent. It is expected that the unemployment rate will remain at the same level next year, and the growth in the number of employed persons will reach 0.3 per cent.

According to Ministry of Finance calculated macroeconomic scenarios, due to changes in monetary policy and the consequences of the war in Ukraine, the global demand for exports from Lithuania will be subdued in 2023, and the possibility of increasing the volume of exports will depend on the flexibility of exporting companies and the ability to invest in technological progress and productivity-enhancing measures. It is projected that in 2023, the annual change in Lithuanian exports of goods and services (at comparative prices) will amount to negative 4.4 percent. With the recovery of external demand, it is probable that Lithuania's exports will expand by 4.5 per cent in 2024.<sup>7</sup>

The government's prepared scenario of economic development predicts fairly high geopolitical instability and economic uncertainty in the external environment, with the

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<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

emergence of new geopolitical tensions in the Middle East, the global tightening of monetary policy and ongoing active military actions in Ukraine.

Escalation of the war in Ukraine and disruption of supply chains, escalation of the conflict in the Middle East and new geopolitical tensions, excessive tightening of monetary policy, faster growth of energy and other raw materials, food prices, less favorable development of the euro zone and the global economy, fluctuations in world financial markets, population aging and lack of workers, new outbreaks of the COVID-19 virus are some of the negative risk factors that may change the estimates of the key indicators in this scenario.

There are also positive risks, such as stronger domestic and foreign demand, fiscal policy promoting economic growth, more effective implementation of the "New Generation Lithuania" plan and other EU-funded projects, better demographic trends and immigration of skilled workers, faster transition to green energy.

### **Tax Reform**

It is likely that Lithuania's Seimas will again discuss the tax reform in its spring sessions. Tax reform has been on the political agenda for more than a year, and has been discussed in Lithuania's economics article in March 2023.<sup>8</sup> The tax reform has had numerous amendments and changes from the original concept, but the final voting on it has been postponed several times. The ability of the ruling coalition to push the tax reform through the voting stage successfully is questionable, both because of disagreements regarding some of the reforms main concepts among members of the ruling coalition, as well as because approaching elections season makes it more politically risky to vote on major taxation changes before the elections.

The government submitted the tax reform to the parliament last summer. Among other things, it provides for higher taxation of individual activities and wider real estate. The Seimas approved the package after its presentation in June, but in the autumn it got stuck due to disagreements between the coalition partners on some issues.<sup>9</sup>

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<sup>8</sup> CHINA CEE INSTITUTE: Lithuania economy briefing, Vol. 60. No. 2 (LT) March 2023 – Tax Reform, at: <https://china-cee.eu/2023/04/05/lithuania-economy-briefing-tax-reform/>

<sup>9</sup> LRT: Prognozė: svarbiausi Lietuvos ekonomikos ir verslo įvykiai 2024-aisiais, at: <https://www.lrt.lt/naujienos/verslas/4/2162404/prognoze-svarbiausi-lietuvos-ekonomikos-ir-verslo-ivykiai-2024-aisiais>

## Defence Expenditure

As the war in Ukraine shows no signs of subsiding, bolstering the country's defence and increasing expenditure on defence is as important as ever. In 2023 Lithuania was able to increase its defence spending to 2.52 per cent of its GDP. As for the year 2024, already confirmed assignments to defence budget amount to 2.09 billion euros, which is expected to be around 2.77 per cent of Lithuania's GDP. Part of this amount – 134.8 million euros is expected to come from the temporary solidarity contributions paid by the banks, according to the law requiring banks to pay a windfall tax on their profits in 2023 and 2024.<sup>10</sup> The tax on banks was discussed in Lithuania's economics article in 2023 May.<sup>11</sup> Many experts as well as politicians call for even bigger assignments for the country's defence budget, but finding even more financing for defence expenditure is increasingly difficult, especially having in mind that one of the financing sources – the temporary solidarity contributions – is coming to an end, and will have to be substituted with another financing source.

Lithuania has ambitious but necessary plans as far as its defence budget and defence capabilities are concerned. These include providing necessary infrastructure and financing for the German brigade, general conscription and a division with tanks. In order to reach these milestones, more than 6.6 billion euros are needed, on top of the currently confirmed assignments for defence budget, by the end of 2034. This would mean that expenditure on defence should reach 3 per cent of Lithuania's GDP in 2024, and by the year 2027 it should be increased to 3.53 per cent of Lithuania's GDP. Needless to say, finding financing for such scale of military expenditure will require difficult political decisions, starting in 2024.

Responding to the unfavorable geopolitical context and the challenges arising from the implementation and acceleration of projects strengthening Lithuania's security, last week Prime Minister Ingrida Šimonytė invited interested parties to discuss additional funding for defense. During the meeting, the Ministry of National Defense (MND) presented the needs of the country.<sup>12</sup>

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<sup>10</sup> LIETUVOS RESPUBLIKOS KRAŠTO APSAUGOS MINISTERIJA: Gynybos biudžetas, at: <https://kam.lt/faktai-ir-skaiciai/gynybos-biudzetas/>

<sup>11</sup> CHINA CEE INSTITUTE: Lithuania economy briefing, Vol. 62. No. 2 (LT) May 2023 – New tax on banks, at: <https://china-cee.eu/2023/07/03/lithuania-economy-briefing-new-tax-on-banks/>

<sup>12</sup> DELFI: Kiek reikia Lietuvos poreikiams: viską išpildžius, gynybos biudžetas viršytų 3 proc. BVP, at: <https://www.delfi.lt/news/daily/lithuania/kiek-reikia-lietuvos-poreikiams-viska-ispildzius-gynybos-biudzetas-virsytu-3-proc-bvp-95779665>

The start of the year 2024 was already marked by discussions where to find money for the defence expenditure. One likely financing source is in the form of increased VAT, or increased income tax. The discussions regarding financing the country's defence budget are likely to continue and stand fairly high on the political agenda.

### **Cars Pollution Tax**

Last November, after the European Commission warned Lithuania about non-fulfilling obligations to reduce the pollution emitted by transport with nitrogen oxides, it cannot be ruled out that we will have to discuss the vehicle or car pollution tax again.<sup>13</sup>

The car pollution tax has been one of the items on the agenda of the ruling coalition which still has not been delivered. The car pollution tax has raised lots of discussions recently but the proposal introducing this tax was voted down by the Seimas. In January of last year, the Seimas rejected a law proposing to waive the car registration tax and leave only the annual pollution tax. The Ministry of the Environment proposed to collect the tax from 2023, but during the transition period it would have been halved, and it would have come into effect in full in 2025.

Lithuania so far has failed to fulfil its obligations to reduce nitrogen oxide emissions. Therefore, according to deputy Minister Raminta Radavičienė, Lithuanian politicians "should discuss such politically unpopular and unfavorable decisions. The main thing now is to find effective measures to reduce nitrogen oxides pollution in Lithuania, especially focusing on measures focused on road transport."<sup>14</sup> It is possible that this car pollution tax will be on political agenda in 2024, and perhaps one of the items discussed during election campaign.

### **Green Investment Corridor**

From July 2024, the so-called "green investment corridor" will be applied more widely to companies implementing large projects that attract a lot of investment. The green investment

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<sup>13</sup> LRT: Prognozė: svarbiausi Lietuvos ekonomikos ir verslo įvykiai 2024-aisiais, at: <https://www.lrt.lt/naujienos/verslas/4/2162404/prognoze-svarbiausi-lietuvos-ekonomikos-ir-verslo-ivykiai-2024-aisiais>

<sup>14</sup> TV3: Automobilių taršos mokestis: staigiai prikelta ir vėl numarinta idėja, at: <https://www.tv3.lt/naujiena/lietuva/automobiliu-tarsos-mokestis-staigiai-prikelta-ir-vel-numarinta-ideja-n1277840>



corridor initiative and legal framework is not exactly new but in 2024 will start being applied much more widely than before.

More than three years ago, the Ministry of Economy and Innovation (EIM) of the Republic of Lithuania (LR) opened the so-called green corridor for large investment projects. It guarantees simpler and faster procedures (territory planning, construction, land management, migration and other areas) for the investor's establishment in Lithuania as well as up to 20 years during which profits from the investment project will not be taxed. The corridor aims to attract more job-creating projects and compete with other economies for large-scale investments.

However, the facilitations were only for large economic units, specifying the minimum amount invested and the number of jobs created. In December 2023 the Seimas voted to reduce the mandatory number of jobs to be created from 150 (200 in Vilnius City Municipality) to 20. The passed law ensures that “those projects that are receptive to capital investment, but due to their exceptional nature, create fewer new jobs than provided for in the current legal regulation, are also recognized as Large Projects”. The easing of the criterion is introduced with restrictions - a lower number of jobs created is subject to a higher wage requirement. The wage requirement would not apply when the number of jobs created meets the limits of 150 and 200 jobs established in the current Investment Law of the Republic of Lithuania.<sup>15</sup>

Consequently, the second part of the year 2024 will give a first indication whether the more relaxed requirements to be eligible for the benefits of the “green investment corridor” will result in increased attractiveness of Lithuania to investors.

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<sup>15</sup> LIETUVOS RESPUBLIKOS EKONOMIKOS IR INOVACIJŲ MINISTERIJA: Žaliasis koridorius stambiems investiciniams projektams, at: <https://eimin.lrv.lt/lt/veiklos-sritys/investiciju-veiklos-sritis/zaliasis-koridorius/>

## **Conclusion**

In conclusion, the year 2024 is poised to be a pivotal year for Lithuania, with its political and economic landscapes expected to undergo significant transformations. The year will be marked by multiple elections, which are likely to reshape the political landscape and introduce new dynamics. Economically, Lithuania is cautiously optimistic, expecting modest growth and wage increases that outpace inflation. However, the potential impact of geopolitical instability, global supply chain disruptions, and other unforeseen shocks on Lithuania's economy remains a concern. Key political decisions and economic policies, such as tax reform, a car pollution tax, defense expenditure, and the "Green Investment Corridor," are expected to dominate the country's political agenda and influence its economic trajectory.