To: the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

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The National Audit Office, implementing its functions of a budget policy monitoring institution (hereinafter – fiscal institution) set out by the Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty, has carried out the assessment of the Economic Development Scenario for 2019-2022 prepared by the Ministry of Finance and published it on 21 March 2019. Pursuant to provisions of Paragraph 6 (3) of Article 9 of the Law on National Audit Office, the fiscal institution hereby submits its opinion to the Seimas of the Republic of Lithuania.

Although the GDP growth has increased in the United States of America during the last year, it has slowed down in euro area and China. The slower growth of the three largest countries (namely Germany, France and Italy) which generate about 65% of GDP of the euro area had the greatest impact on the slowdown in the euro area. The growth rate of China is slowed down not only by the global trade war but also by the transition of its economy from exporting to a consumption-led economy. The global trade war and the internal processes in the countries, which are slowing down the growth of their economies create a domino effect. The economic slowdown of China has a direct impact on the euro area: Germany exports around 7% of its goods to China which means that exports of Germany decreases with growth rate slowdown in China. Germany is the most important partner for exports of goods to France, Italy, Belgium, the Netherlands, and other major euro area countries, which are adversely affected by a declining demand of Germany. The UK economy is adversely affected not only by Brexit but also by a slower growth in China, Germany and Italy, where UK exports close to 20% of its total exports. The slower growth of these largest economies will negatively affect the exports of goods of Lithuanian origin.

The balance of external risk has remained negative since September 2018. A stronger slowdown in the economy of China may also have a negative impact on the sluggish growth of the global economy, especially in the euro area. High political uncertainty in Europe may slow down borrowing of private sector. Financial markets that were fluctuating at the end of 2018 remain vulnerable.

The growth of the Lithuania's economy is expected to slow down in 2019, because of uncertainty in international environment and remaining negative balance of external risk factors. The slower growth of external demand reduces the projections of growth rates of exports and imports in 2019. Domestic demand should continue to remain the main driver of economic growth in Lithuania. The increase in average monthly gross earnings in the country, tax-free allowance, the payment of childcare and unemployment benefits, indexation of pensions in 2019 leading to increase of disposable income, and will be the key factors boosting private consumption.

An analysis of the differences between the projections for 2018, endorsed by the fiscal institution *a posteriori*, and the actual figures published by Statistics Lithuania revealed that the scenarios developed by the Ministry of Finance of the Republic of Lithuania were cautious and consistent with the provisions set out in the European Council Directive on requirements for budgetary frameworks of the Member States.

The report "On the Endorsement of the Economic Development Scenario" provides an analysis of the macroeconomic indicators, the international environment, risk factors and assumptions underlying this opinion and the retrospective assessment of the projections for 2018.

The scenario prepared by the Ministry of Finance of the Republic of Lithuania results from the assumptions chosen and identified, it is based on the available statistical data, and does not contradict economic regularities. The fiscal institution hereby endorses the Economic Development Scenario for 2019-2022, which was published on the website of the Ministry of Finance of the Republic of Lithuania on 21 March 2019. The Economic Development Scenario is suitable for the preparation of the Stability Programme of Lithuania for 2019 and the budgets attributable to the general government.

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