NATIONAL AUDIT OFFICE OF LITHUANIA
• BRINGING BENEFITS •

To: the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

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Vilnius

The National Audit Office, implementing its functions of a budget policy monitoring institution (hereinafter referred as fiscal institution) set out in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, has carried out an assessment and issued an opinion of the Economic Development Scenario for 2019-2022 prepared by the Ministry of Finance of the Republic of Lithuania and published on 11 September 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.

Lithuania's economic growth was higher than expected in the first half of 2019. Balanced growth was positively contributed by final consumption expenditure, investment and net export. As a result of the accelerated absorption of European Union financial support in the first half of 2019, investment in Lithuania has been growing at a faster pace. The growth of the country's average gross monthly wage remains one of the key factors in supporting the growth of private consumption expenditure. This is contributed by the optimistic consumer expectations and a stable, slower than the growth of the average gross monthly wage, inflation.

External risk factors remain negative. The observed intensification of the trade dispute between the United States and China, high political uncertainty in Europe, including Brexit, the slowdown of world economies, is likely to affect the growth of major euro area economies. The fiscal institution notes that the slowdown in the growth of the main Lithuania's export partners' economies will stimulate the search for new export markets.

Internal risks are mainly related to domestic demand and trends in the labour market. In the current demographic situation, the number of employed persons is likely to decrease as the number of persons leaving the labour force will be higher than the number of those who supplement it. In the case of economic slowdown, the optimistic consumer expectations might significantly deteriorate. This would encourage households to save and delay consumption for the future. This might lead to a slower growth of domestic demand.

Household consumption and investment remain key drivers of GDP growth in the medium term. The expected slower wage growth might have an impact on household consumption. For Lithuania, as the small and open economy, international trade remains important. A slowdown in foreign trade partners' growth is likely to result in a slowdown in Lithuania's exports growth. Uncertainty in the international environment remains an important factor in increasing the risk of price growth in the medium term.

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; a review of economic development which took place during the first half of 2019.

When the growth rate of labour productivity is slower than wages, a risk for the country's competitiveness in international markets might occur. Following strong economic growth, and having not found new long-term development opportunities, the country might be at risk of entering the 'middle-income trap'. This phenomenon is presented in the Box A of the report on the Endorsement of the Economic Development Scenario.

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 11 September 2019. The Economic Development Scenario is suitable for the preparation of the 2020 draft budgets attributable to the general government.

Deputy Auditor General,
deputizing the Auditor General | Audrius Misevičius