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

Under the conditions of exceptional uncertainty [1], the Economic Development Scenario prepared by the Ministry of Finance of the Republic of Lithuania results from the assumptions identified and it is based on the available statistical data. The Fiscal Institution endorses the Economic Development Scenario for 2020–2023, published by the Ministry of Finance on 14 September 2020, confirming that it is suitable for the preparation of budgets attributed to the general government sector. However, the risk of the change of internal and external conditions, which might have a significant effect on the deterioration of the economic situation, remains and the scenario may not materialise. The Ministry of Finance shall publicly announce, at least quarterly, the updated Economic Development Scenario (until exceptional circumstances are cancelled), while the Fiscal Institution shall submit its opinion on the endorsement of Economic Development Scenario to the Seimas.

Lithuania was one of the European Union countries whose economy was the least affected by the COVID-19 in the first half of 2020. Such results of Lithuania's economy were determined by recovery of domestic trade, industry and a smaller than expected decline in exports of goods and services. A smaller than projected contraction of net exports of Lithuanian origin was driven by increased exports of products of chemical industry and food, beverages, tobacco products and miscellaneous manufactured articles. A decrease in the general price level was also monitored, but Lithuania avoided deflation. While growing average monthly gross earnings and positive consumer expectations supported the growth of household consumption expenditure, however private consumption expenditure due to COVID-19 declined in the first half of 2020. Economic growth was reduced by the contraction of gross fixed capital formation, especially in investment in transport equipment, which was driven by worsened future expectations of business and residents and uncertainty. However, the use of European Union financial support contributed to a slower decline in investment.

External risk factors remain negative. The decline in domestic demand in the world economies due to COVID-19 is having a negative effect on the volume of euro area's foreign trade.The ongoing conflict between the United States of America and China, the stalling trade agreement between the European Union and the United Kingdom, the

[1] On 26 March 2020, the Fiscal Institution issued an opinion on the compliance of the unusual event with the definition of exceptional circumstances. Internet access: http://ifi.lt/opinion.aspx?id=10368.

political uncertainty arising from the presidential election in the United States of America is exacerbating global instability and could have a negative impact on the European Union's external demand.

Internal risk factors are mainly related to uncertainty about COVID-19, domestic demand and labour market trends. Regarding the current demographic situation and the existing uncertainty, there is a risk that the number of the employed persons may decline more than expected and domestic demand will be weaker in the context of the growing saving rate of consumers.

Final consumption expenditure will be the main driver of economic growth in 2021–2022. Average monthly gross earnings are projected to continue to grow faster than prices. However, there is a risk that the fall in private consumption expenditure would be higher in case of cautious consumer expectations worsened in the event of a deterioration in economic or epidemiological situation. For Lithuania, as a small and open economy, international trade remains important. As a result of deteriorating economic indicators of foreign trade partners, a risk to the slowdown of Lithuania's export growth in the medium term remains.

The recovery of Lithuania's economy in medium term is projected in the Economic Development Scenario; however, during exceptional circumstances, it is especially important to assess the internal and external risks. During preparation of general government budgets, when the application of fiscal discipline rules has been limited, responsible, and transparent budgetary planning remains relevant.

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

The National Audit Office of the Republic of Lithuania, implementing its functions of budget policy monitoring institution (hereinafter referred to 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 on the Economic Development Scenario for 2020–2023 prepared by the Ministry of Finance of the Republic of Lithuania and published on 14 September 2020. 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.

Auditor General Mindaugas Macijauskas