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 National Audit Office of Lithuania, implementing the functions of the fiscal institution, endorses the Economic Development Scenario for 2021–2024, published by the Ministry of Finance on 19 March 2021, as it is suitable for the preparation of the Stability Programme of Lithuania for 2021 and the budgets attributable to the general government.
The risk remains that the scenario may not materialise due to changes in internal and external conditions leading to a significant change in the economic situation. Until exceptional circumstances are cancelled, the Ministry of Finance shall publicly announce, at least quarterly, the updated Economic Development Scenario, while the National Audit Office of Lithuania, implementing the functions of the fiscal institution, shall submit its opinion on the endorsement of Economic Development Scenario to the Seimas.

The impact of COVID-19 on the Lithuanian economy in 2020 was ambiguous: on the one hand, the decline in the gross domestic product was one of the lowest in the European Union, on the other hand, the change in the unemployment rate was one of the highest. Labour force, together with capital and technology, are the main factors of production. Labour force as a factor of production is particularly relevant. With the loss of a job, the economic benefit is no longer created, the emotional health of the individual is affected, the living conditions are getting worse, and the gain of knowledge and experience is lost. Thus, the change in the unemployment rate is a more significant measure of COVID-19 impact on the Lithuanian economy than GDP. One of the smallest declines of the latter indicator in the European Union was driven by increased demand for chemical industry production (diagnostic and laboratory reagents), high agricultural yields and favourable grain purchase prices as well as increased exports of food, beverages and tobacco products.

In the opinions on the endorsement of the Economic Development Scenario, presented by the National Audit Office of Lithuania, implementing the functions of the fiscal

[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://www.ifi.lt/opinion.aspx?id=10368

institution, in July and December of 2020, it was specified that the projections of general government final consumption expenditure at constant prices (6.2–7.6% growth in 2020) may not materialise in 2020–2021. As a result of economic stimulus, it was projected that the share of the general government final consumption expenditure would increase significantly in the structure of the real GDP; however, the increase of this expenditure reached a multi-annual average.

The acceleration of the process of public vaccination is a factor stabilising not only the health system but the global and Lithuanian economies as well. After the containment of the pandemic, economic development will no longer be limited by the supply factors, while the use of savings accumulated by households and businesses during 2020 will stimulate the Lithuanian economy: consumption and, above all, private investment. It is projected that, with the growth of international trade, household consumption and investments will stimulate GDP growth in 2021–2023.

It should be noted, that the impact of the Recovery and Resilience Facility of the European Union was not included during the preparation process of the scenario. The successful allocation of these resources would positively affect economic development in the medium term. However, economic recovery could take longer due to slower mass vaccination, new outbreaks of COVID-19 mutations and tighter measures to control it.

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, 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 2021–2024 prepared by the Ministry of Finance of the Republic of Lithuania and published on 19 March 2021. Pursuant to provisions of Paragraph 6 (3) of Article 9 of the Law on National Audit Office of the Republic of Lithuania, the Fiscal Institution hereby submits its opinion to the Seimas of the Republic of Lithuania.

Auditor General Mindaugas Macijauskas