NATIONAL AUDIT
OFFICE OF LITHUANIA

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

5 April 2022 No BPE–2

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, whose functions are implemented by the National Audit Office (hereinafter referred to as Fiscal Institution in the NAO), endorses the Economic Development Scenario for 2022–2025 published by the Ministry of Finance on 31 March 2022, which is suitable for the preparation of Stability Programme of Lithuania for 2022.

The increased uncertainty due to the war in Ukraine raises the risk of the change in internal and external conditions, which might have a significant effect on the deterioration of the economic situation, and the Scenario may not materialise. 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 the Economic Development Scenario to the Seimas.

Before the start of the war in Ukraine, the economic growth in 2022 was expected to be slower than in 2021 but remain significant. In December 2021, the Economic Development Scenario endorsed by the Fiscal Institution in the NAO envisaged that in 2022 economic development would no longer be driven by the low base effect due to the pandemic shock in 2020. The country's economic growth was projected to slow down to 3.7 % in 2022. However, the small and open Lithuanian economy is affected not only by the domestic situation but also by the external macroeconomic environment, which has changed significantly in February 2022.

Macroeconomic environment and risk factors

[1] On 26 March 2020, the National Audit Office, implementing the functions of the fiscal institution, issued an opinion on the compliance of the unusual event with the definition of exceptional circumstances. Internet access: https://www.valstybeskontrole.lt/EN/Product/23910/opinion-on-the-compliance-of-the-unusual-event-with-thedefinition-of-exceptional.

The effects of disruptions in supply chains and high inflation caused by the pandemic are intensified by the shock of supply and prices of energy resources and other raw materials triggered by the war in Ukraine. While consumers and businesses have partly adapted to the changes brought by the pandemic, the high uncertainty caused by the further development and duration of the Russia's war in Ukraine, the impact of the sanctions imposed by the EU and the US on Russia and Belarus and the impact of possible counter-sanctions increase the risk of longer-than-expected disruptions in supply chains, higher-than-expected prices of raw materials and energy resources, lower expectations of business and population:

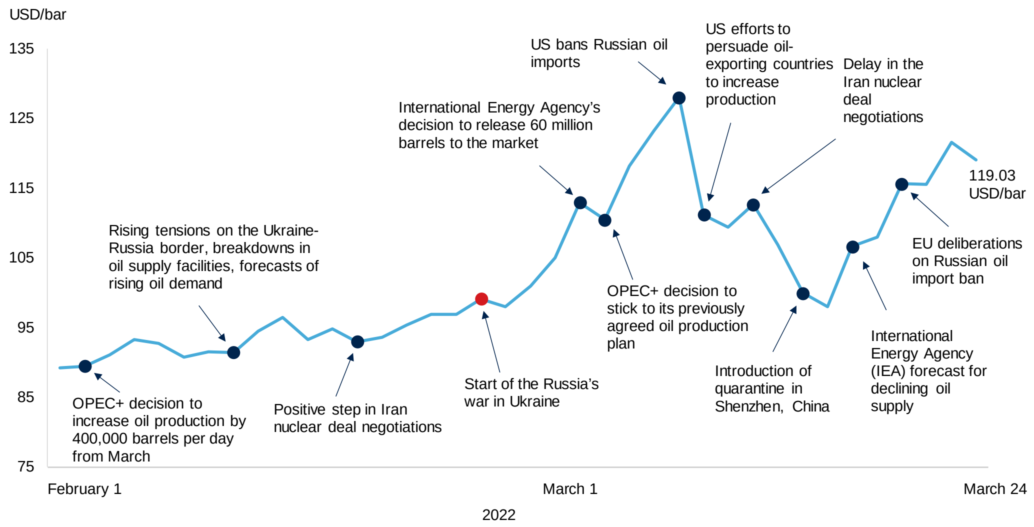
- Russia's hostilities in Ukraine have restricted supply chains of raw materials such as metals, wood, grain, fertilizers, which lead to increase in their prices. As Russia and Ukraine are the main exporters of grain in the world[2] and the metals extracted or produced in them occupy an important place in the world's raw materials supply chain, the military confrontation between these countries has led to a faster increase in the prices of these raw materials on the world markets. Grain prices are likely to be affected in the future by the duration of the war in Ukraine, which will affect the agricultural work related to sowing and harvesting and, as a result, will complicate the transportation of the harvest. War losses, such as the destruction of production infrastructure and the possible disruption of the supply of raw materials, will lead to higher costs.
- Russia is an important supplier of oil and gas in the world, therefore the war in Ukraine has a strong impact on the markets of these energy resources. In 2021, EU countries imported 29.9 % of natural gas from Russia[3], while Lithuania imported around 31.9 %. The share of Russian oil in EU and Lithuanian oil imports in 2021 was 29.7 % and 54.7 % respectively. The rise in oil prices, due to the mismatch between demand and supply, has been observed in the past, however, the main reason which allowed the oil price to climb to the unseen highs since 2008 was the war launched by Russia in Ukraine[4] (Figure 1). On the other hand, its growth was hampered by positive signals in Iran's nuclear deal negotiations, the plans of some oil-exporting countries to increase their production and the introduction of quarantine in one of China's major cities.

[2] In 2021, Russia and Ukraine ranked third among the top three exporters of wheat, barley, rapeseed, sunflower seeds and oil on the world market. Internet access: https://www.fao.org/3/cb9013en/cb9013en.pdf.

[3] Eurostat data. The average for 2019-2021 is 26.5%. Lithuania's main export partners: in 2021, Germany imported 37.5%, Latvia 92.0%, Sweden 21.8%, the Netherlands 44.1% and Poland 2.0% of total imports of these resources.

[4] As Russia is the largest oil exporter and the third largest oil extractor in the world, sanctions imposed on it after its military invasion into Ukraine led to a sharp increase in Brent oil price. Internet access: https://www.iea.org/reports/russian-supplies-to-global-energy-markets/oil-market-and-russian-supply-2.

Figure 1. Brent oil price fluctuations in February–March of 2022



Source: www.barchart.com. The chart uses the data of 24 March 2022.

Based on futures, Brent oil price is expected to remain higher in 2022 than in 2021, reaching an average of USD 106.1 per barrel[5]. The situation is also very tense in the gas market: in March, its' price increased almost 5 times compared to the same period a year ago. The cost of natural gas and other energy resources will affect the domestic consumption of both Lithuania and it's main export partners, as a larger part of the income will be allocated to the purchase of these goods. Moreover, the situation will encourage the search for alternative energy sources that would reduce dependence on the Russian energy market, thus increasing the need for green energy development in the medium term.

- Increased geopolitical tensions may lead to a deterioration of indicators of business sentiment. Expectations of institutional investors in Germany, Lithuania's main export partner, point to a negative economic outlook[6]. This may lead to lower investment flows from Germany to Lithuania. Investors' confidence in the economic prospects of the Baltic states may also be undermined by geopolitical uncertainty in the region.

The factors listed above will influence Lithuania's economic development by affecting inflation, production and international trade[7].

Against the backdrop of accelerated inflation, the world's central banks are adapting monetary policy instruments. For the time being, the European Central Bank does not change base interest rates and continues to conduct asset purchase programmes, nevertheless, provides for the possibility of a flexible monetary policy[8]. In March 2022, the

[5] Based on 24/03/2022 data. Internet access: www.barchart.com.

[6] The Germany ZEW Economic Sentiment Index fell from 54.3 in February to -39.3 in March. The index measures expectations of analysts for the economic outlook over the next 6 months and ranges from -100 (negative outlook) to 100 (positive outlook).

[7] The main export partners of goods of Lithuanian origin in 2021: Germany (10.1%), USA (9.2%), Poland (7.6%), Latvia (6.9%), the Netherlands (6.4%), Sweden (6.0%).

[8] Asset purchase measures are maintained, however the Governing Council stands ready to review the scope and/or duration of its net asset purchases if the financing conditions are incompatible with rising inflation. In

US Central Bank increased interest rates by 0.25 percentage points to a range of 0.25-0.5 %, reflecting the faster-than-expected risk of inflation growth. This increase was foreseen before the Russia's war in Ukraine. The central banks of the United Kingdom, Norway, Poland, the Czech Republic and Hungary also increase their base rates[9].

Internal risk factors relate to inflation, the sensitivity of certain sectors of the economy and the expectations of the population. Higher-than-expected inflation may slow down the growth of consumption and investment. The transport, construction and manufacturing sectors are expected to be negatively affected by the faster-than-expected increase in the prices of raw materials and transportation as well as the scarcity of these resources. Inflation, largely driven by energy and food prices, has the greatest impact on the purchasing power of pensioners and low-income earners. Accordingly, poverty indicators and the need for additional assistance to support domestic consumption may increase. In addition, as inflation rises rapidly, there is a risk of under-spending of EU funds, as the need for financing negotiated projects increases. New opportunities for exporters are available, such as the production of grain, renewable energy and defence-related products, and war refugees from Ukraine can supplement the labour market.

There are risks related to the collection of general government revenue and the accelerated growth rate of expenditure. General government expenditure is likely to prevent the deficit from falling as planned at the end of 2021[10]. Pressure on general government expenditure will come from the need to meet the needs of the lowest-income households in the face of rising prices, as well as the need to help those fleeing the war in Ukraine. In the medium term, the increase in expenditure for defence and investment in green energy is likely to accelerate more than previously anticipated.

According to the Fiscal Institution in the NAO, although the underlying tax bases for Economic Development Scenario (EDS) of March 2022 are forecasted better than in the EDS of September 2021, which led to the establishment of the draft budget, the forecasts are currently subject to particular uncertainty. The Fiscal Institution in the NAO estimates that nominal final consumption expenditure under the EDS of March will be 8 % higher than planned in September, as a result of an increase in inflation, which could result in higher VAT revenues for the general government than previously expected. It cannot be ruled out that deteriorating population expectations (Annex 1) could lead to an increase in savings, which would cause the forecast not to materialise. At the same time, while real GDP is projected to be lower than in September, rising prices lead to a higher forecast of nominal GDP on which corporate tax collection depends, but uncertainty may result in lower advance payments for corporate income tax than usual. In addition, the war in Ukraine may also affect the profits of the companies themselves, either through the granting of aid[11] or deteriorated results. Income from PIT is driven by growth of annual fund for wages and salaries, which is forecast 2 % (EUR 479.8 million) higher than planned in the Economic

addition, Eurosystem Repo Facility for Central Banks (EUREP) is extended until 15 January 2023. The latter has been in place since June 2020 and is part of the ECB's response to the COVID-19 pandemic to ensure liquidity.

[9] In March 2022, the central banks of the United Kingdom and Norway increased the base rate by 0.25 p.p. to 0.75%, Poland and the Czech Republic by 0.75% to 3.5% and 4.5%, respectively, and Hungary by 1.5 p.p. to 4.4%, nevertheless, monetary policy could be adapted in the light of geopolitical tensions.

[10] The Law of the Republic of Lithuania on the Approval the Financial Indicators of the State Budget and Municipal Budgets for 2022. Internet access: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/dec7de105f2211ecb2fe9975f8a9e52e?jfwid=yerqn2tbx.

[11] 03/03/2022, STI. Recognition of the assistance provided to Ukraine following the introduction of a state of emergency in Lithuania. Internet access: https://www.vmi.lt/evmi/documents/20142/737112/UploadServlet0303.pdf/e2501dbe-cca3-f5f3-66ee-a75b4b9cd005?t=1646294476111&lang=lt. Law amending Article 7 of the Law on Charity and Sponsorship No I-172 Internet access: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.5483/asr.

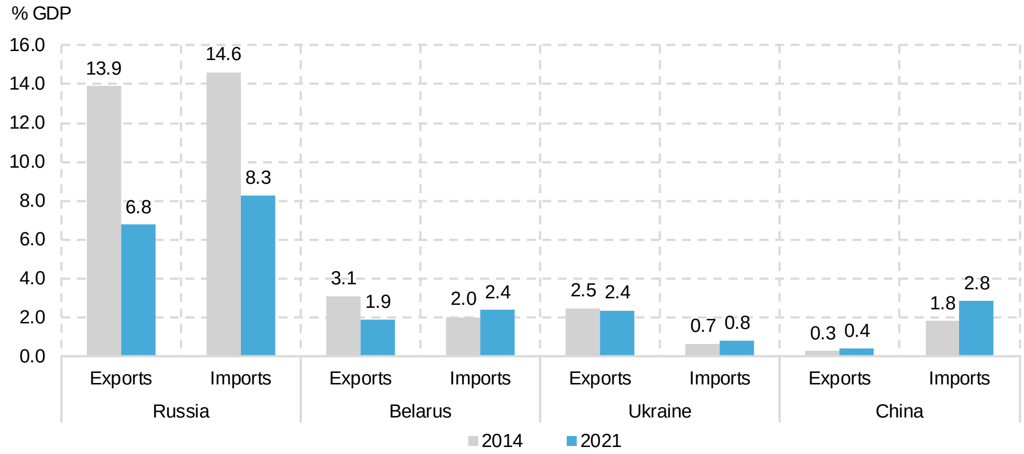
Development Scenario of September, but there is again uncertainty in the forecasts, as wage and employment growth may be affected by the situation in Ukraine.

In January–February 2021, the execution of personal income, value added, corporate income taxes and excise duties compared to the approved 2021 tax plan exceeded the multi-year trends and referred to annual revenue overruns. The implementation of the revenue plan for 2022 does not differ from the multi-year trend of the actual implementation of revenue (Annex 2). Due to higher inflation in 2022 than projected in September 2021, the uncertainty regarding the collection of the overrun revenue is high.

As the demand for current expenditure increases and revenue remains uncertain, it is important to look for structural sources of revenue in the medium term that would contribute not only to reducing the risk of growth in demand for borrowed funds but also to managing the risk of debt increases. This may be important in the future if the geographical situation would lead to an increase in Lithuania's debt service costs.

Lithuania's international trade volume with Russia and Belarus has decreased since 2014. As compared to 2014, the value-to-GDP ratio of exports of goods to these countries decreased by more than a third compared in 2021 (Figure 2). These exports consist mainly of re-exports, which, compared to the exports of goods of Lithuanian origin, generate lower value added[12]. The share of exports of services dominated by transport services also decreased to 1.4 % and 0.8 % of GDP respectively in 2021. Meanwhile, exports of goods to Ukraine and China amounted to 2.4 % and 0.4 % of GDP respectively in 2021. The value of Lithuanian imports of goods from Russia also decreased significantly: from 14.6 % of GDP in 2014 to 8.3 % in 2021. Imports from Belarus have remained rather stable at 2.4% of GDP in 2021. Imports from Ukraine and China were 0.8% and 2.8% of GDP respectively.

Figure 2. Lithuania's international trade in goods with Russia, Belarus, Ukraine, and China



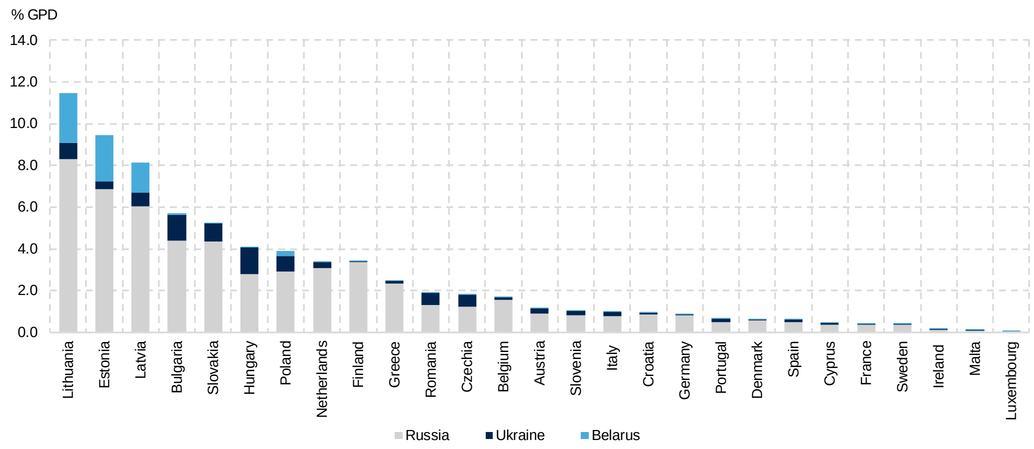
Source: Statistics Lithuania, calculations by the National Audit Office implementing the functions of the fiscal institution

The Baltic states remain the largest importers from Russia and Belarus in the European Union (Figure 3). The need to reallocate markets for imports of energy products and raw materials is now particularly relevant. In 2021, Lithuania imported mainly mineral fuels, wood and articles of wood, iron and steel, and fertilizers from Russia

[12] In 2021, exports of Lithuanian-origin goods to Russia amounted to only 0.7% of GDP, and to Belarus to 0.2% of GDP.

and Belarus[13]. Imports of mineral fuels are important for energy-intensive industries in Lithuania, such as oil refining or fertilizer production. These raw materials are also needed for other industries, the construction sector. The changed geopolitical situation has significantly increased the need to reallocate the import markets for these products.

Figure 3. Imports of goods from Russia, Belarus and Ukraine into EU countries in 2021



Source: Eurostat, calculations by the National Audit Office implementing the functions of the fiscal institution

The development of Lithuania's economy in the medium term

The Economic Development Scenario for 2022–2025 published by the Ministry of Finance on 31 March 2022, is endorsed because the projections of changes in GDP at constant and current prices, household consumption expenditure, average earnings and employment do not contradict the expert assessment of the National Audit Office implementing the functions of the fiscal institution.

The Economic Development Scenario prepared by the Ministry of Finance projects that 1.6% of real GDP growth in 2022 will be driven by domestic demand and faster economic growth in the medium term is likely as the geopolitical situation becomes more stable. The increase in uncertainty, sanctions and global hike in energy and raw material prices during the war in Ukraine led to a negative revision of real GDP components in 2022 (Table 1). Lithuania's international trade is expected to be the most affected, nonetheless household consumption expenditure and investment will support the growth of the country's economy. Even though the uncertainty is high, when the geopolitical situation stabilises and import markets for raw materials are reallocated, in 2023, real GDP growth is projected to accelerate to 2.5% and inflation to slow down to 3.0%.

[13] 50.0% of all mineral fuels were imported from Russia and 5.5% from Belarus. 15.6% and 25.1% of wood and wood products were imported from these countries. Imports of iron and steel accounted for 20.7% and 11.0% of total imports, while imports of fertilisers accounted for 30.5% and 22.6% respectively.

Table 1. Ministry of Finance's projections for the Economic Development Scenario of March 2022

Indicator, %	2021	2022P	2023P	2024P	2025P
Key macroeconomic indicators, rate of change					
GDP at constant prices	4.9	1.6 (3.7) ▼	2.5 (3.5) ▼	3.0 (3.5) ▼	3.0 (–)
Household consumption expenditure	7.3	2.1 (4.0) ▼	3.4 (3.9) ▼	3.4 (3.9) ▼	3.4 (–)
Gross fixed capital formation	7.0	2.7 (7.5) ▼	4.8 (8.0) ▼	5.4 (8.0) ▼	5.4 (–)
Exports of goods and services	14.1	–6.0 (5.3) ▼	3.3 (5.1) ▼	3.7 (5.1) ▼	3.7 (–)
Imports of goods and services	17.0	–6.0 (6.3) ▼	4.1 (6.5) ▼	4.1 (6.5) ▼	4.1 (–)
GDP at current prices	11.8	8.9 (7.9) ▼	5.6 (5.6)	5.0 (5.6) ▼	5.0 (–)
Price indices, rate of change					
GDP deflator	6.5	7.1 (4.0) ▲	3.0 (2.0) ▲	2.0 (2.0)	2.0 (–)
Harmonised index of consumer prices (average annual)	4.6	9.8 (4.0) ▼	3.0 (2.0) ▼	2.0 (2.0)	2.0 (–)
Labour market indicators					
Change in average gross monthly earnings	9.8	8.8 (9.3) ▼	5.2 (5.8) ▼	5.0 (5.7) ▼	5.0 (–)
Unemployment rate (according to the Labour Force Survey methodology)	7.1	7.3 (6.4) ▼	6.9 (6.0) ▼	6.6 (5.8) ▼	6.3 (–)
Change in the number of employed persons (according to the Labour Force Survey methodology)	0.8	–0.2 (0.6) ▼	0.1 (0.0) ▼	-0.3 (-0.4) ▼	-0.4 (–)

*The Ministry of Finance's projections for the Economic Development Scenario of December 2021 are presented in the brackets.
** The EDS indicators marked in a bluish background are endorsed by the Fiscal Institution in the NAO.

Source: Ministry of Finance

In February 2022, compared to February 2021, the turnover of retail trade (excluding fuels) increased by 12.3%. Household consumption expenditure is expected to grow in Q1 2022 due to the comparative base effect[14], less constrained and favourable domestic trade. In 2022, domestic consumption will be positively affected by the implementation of discretionary policy measures[15], increasing the income of the population, and by savings of the households accumulated during the pandemic. The deposit statistics published by the Bank of Lithuania show that the growth rate of the financial reserve accumulated by the population is slowing[16]. High inflation undermines consumers' purchasing power and a risk emerges of foregoing the comsumption of non-basic necessities. According to the results of the February consumer survey, households are still considering their financial situation to be favourable, however, in the face of protracted price increases and uncertainty about the state of war in Ukraine, more cautious expectations of the population in the choice of goods or services is expected in 2022.

[14] In Q1 2021, compared to the same period a year earlier, the change in household consumption expenditure accounted for 0.6%.

[15] Increases in the minimum monthly wage, tax-exempt amount of income and social benefits.

[16] Household deposits in banks amounted to EUR 20.1 billion in February 2022, down by 1.2% within a month. The annual growth rate of household deposits continued to decline and accounted for 9.1% in February 2022 and 21.7% in February 2021.

The projected increase in the unemployment rate in 2022 is likely to be mainly driven by a possible decrease in the number of employees in construction and transport activities. Increased production costs and the search for new suppliers and markets for production may encourage these businesses to adjust their business plans. This may have a negative impact on the employment in the short term, which will partly lead to a slowdown in the growth of average gross monthly earnings. On the other hand, the growth of the these earnings will be supported by an increase in the minimum monthly wages and in wages of employees of public sector and the persisting shortage of skilled workforce in the labour market. Average gross monthly earnings growth is expected to slow down in 2023, while the number of the employed persons is expected to grow slightly.

Due to increased uncertainty, more cautious business expectations are likely to slow down investment in the country. Private sector investment may be lower due to challenges for business development: disruptions in supply chains, the cost of raw materials, energy resources, and possible tightening of monetary policy. Investment in transport equipment may also fall due to the challenges posed by the Mobility Package[17], which will lead to cost increases. According to a March survey of enterprise managers in areas of services, industry, construction and commerce, the proportion of companies reporting that their activities are constrained by financial difficulties is on average twice as high as a year ago[18]. Growth in gross fixed capital formation (GFCF) should be supported by public sector investment, which will benefit from the EU's Multiannual Financial Frameworks and the increasing resources of the Recovery and Resilience Facility. As noted in the OECD assessment [19], faster investment costs in renewable energy, energy independence, defence and security could become a high priority for countries, but could also create additional pressure on government finances.

The economic sanctions imposed on Russia and Belarus and the reaction of Lithuanian business to the war in Ukraine are likely to have an impact on much of Lithuania's international trade with these countries. The war not only severely restricts trade with Ukraine but will also slow down the growth of Lithuania's main export markets. The projected slower growth in household consumption and investment than in 2021 will affect the import volumes. Real exports and imports of goods and services are expected to fall by 6.0% in 2022. In anticipation of a more stable geopolitical situation in 2023 and the reallocation of raw materials import markets, the growth of real exports and imports is projected (Table 1).

In EDS of March 2022, the growth of this year's Harmonised Index of Consumer Prices (HICP) is projected to be 9.8%. In February, compared to a year ago, with a 46.1 % increase in energy commodities prices, inflation reached 14.0%. Recently, this share of expenditure has had the greatest impact on HICP growth. As prices of oil, gas, fertilizers and wheat prices rise in global markets, a high estimate of inflation will be driven by high energy and food prices. In Lithuania's consumer basket, energy accounts for a larger share than the average in the euro area (EA), while the increase in energy prices is one of the highest, nonetheless, it is worth noting that price increases in Lithuania are faster than in the EA or other Baltic countries in other price groups as well (Figure 4).

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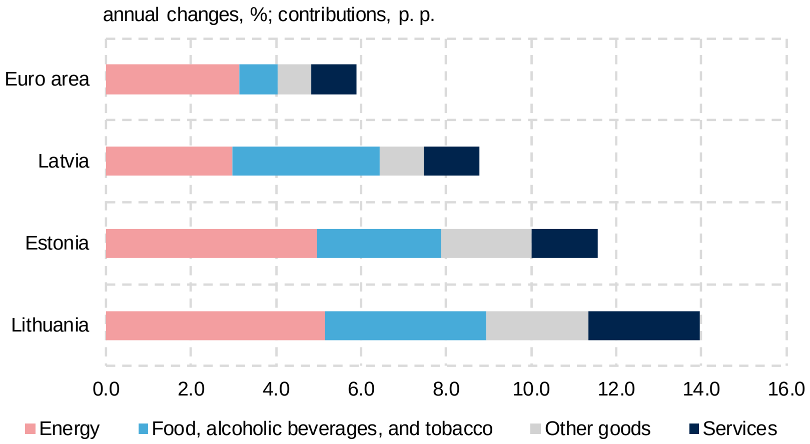
[17] On 21 February 2022, the Mobility Package's requirement to return trucks to their country of registration every eight weeks came into force. According to estimates by the Global Logistics Alliance (GLA), this provision will lead to an increase of €1.2 billion in costs for the Lithuanian road freight transport sector .

[18] On average, 10.6% of the companies surveyed reported financial problems in March 2021 and 21.4% in March 2022.

[19] Organisation for Economic Cooperation and Development. Economic and Social Impacts and Policy Implications of the War in Ukraine. Internet access: https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en.

Figure 4. HICP and factors of change in the EA and the Baltics in February 2022

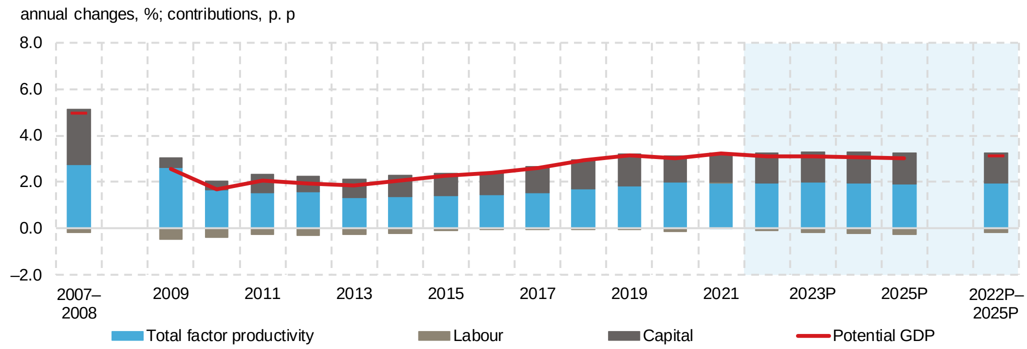


Source: calculations by the National Audit Office implementing the functions of the fiscal institution

The general price level is projected to increase more in 2022 than in 2021. Accelerating inflation, which is calculated according to HICP, will increase the growth of the household consumption expenditure deflator. The shift in the export and import deflator will be driven by the global surge in energy and raw material prices and the redistribution of the markets for these products. Growth in GFCF and government consumption expenditure deflators is projected to be faster than observed in 2021. The Ministry of Finance projects that the growth of the general price level could slow down to 3.0 % in 2023.

The National Audit Office, implementing the functions of the fiscal institution, projects potential GDP[20] to increase on average by around 3.1% annually between 2022 and 2025 (Figure 5). Decomposing into contributions of factors, total factor productivity contributes around 2.0 p.p. to potential GDP growth. The contribution of capital, which is closely linked to the overall development of investment, is 1.3 p.p. The impact of the labour factor is negative at –0.2 p.p. The output gap is expected to be 0.6 % of potential GDP in 2022 and the country's real GDP is expected to reach potential level in 2023. The updated Heatmap of the Lithuanian Economy shows that the temperature of the economy is likely to remain above 2021 levels in the first quarter of 2022 (Annex 3).

Figure 5. Potential GDP growth and its contributions



Source: Eurostat, calculations by the National Audit Office implementing the functions of the fiscal institution

[20] The Assessment methods are further specified in the Description of the Assessment and Approval of the Economic Development Scenario. Internet access: https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf.

The development of Lithuania's economy in 2021

The country's economic growth in 2021 was rapid and reached 4.9%. While household consumption expenditure and investment contributed mainly positively to real GDP growth, the impact of net exports has been negative in the face of strong growth of imports. The gross value added was mainly enhanced by manufacturing, the results of which were mainly driven by the chemical and furniture industry.

Higher than inflation growth in the average gross monthly earnings, lower unemployment and improved consumer expectations have facilitated strong growth in household consumption expenditure in 2021. The increase in GFCF in the country was driven by the private sector, whose investment was promoted by improved business expectations, increased production demand, high industrial capacity utilisation level, and persisting labour shortages.

Following the shock of the pandemic, high international trade indicators in Lithuania have been observed with the rapid growth of export markets. Exports of chemicals, furniture, wood and base metals contributed most to the growth in export value of goods of Lithuanian origin (excluding mineral products). Increased investment and household consumption contributed to the growth of imports of goods and services.

In 2021, when prices in oil, gas and electricity have increased, 4,6% annual increase in the HICP was mainly driven by the transport and housing, water, electricity, gas and other fuels components.

The National Audit Office of the Republic of Lithuania, implementing its functions of a 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 of the Economic Development Scenario for 2022–2025 prepared by the Ministry of Finance of the Republic of Lithuania and published on 31 March 2022, and prepared its opinion. Pursuant to provisions of Paragraph 7 (3) of Article 8 of the Law on National Audit Office of the Republic of Lithuania, the National Audit Office hereby submits its opinion to the Seimas of the Republic of Lithuania.

Head of Budget Monitoring Department — Saulė Skripkauskienė

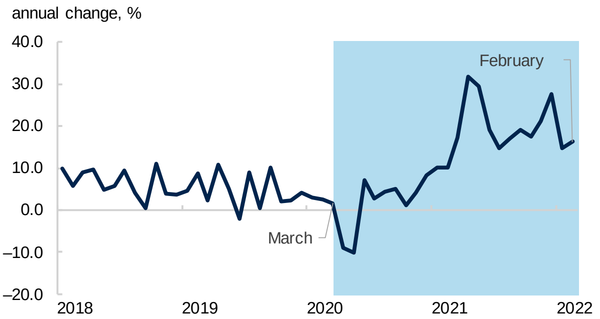
ANNEXES

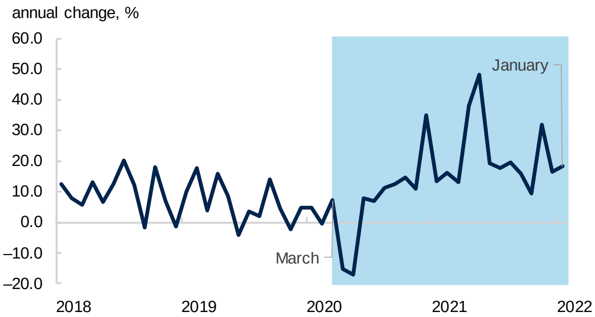
Opinion
On the Endorsement of the
Economic Development Scenario
Annex 1

Developments in the Lithuanian economy during the period of exceptional circumstances

1. The chemical and wood industries were the main contributors to **industrial production**[1] in February.

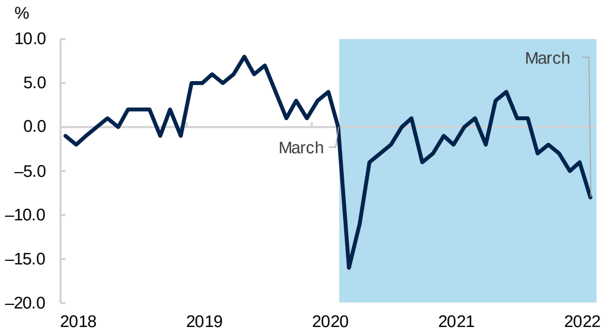
2. The results of the chemical industry, the production of miscellaneous manufactured articles and plastics led to an increase in **exports of goods of Lithuanian-origin**[2] in January.

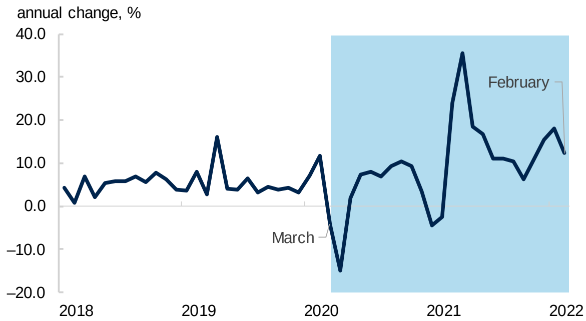




3. Following the war started in Ukraine, **consumer expectations** of March 2022 significantly deteriorated.

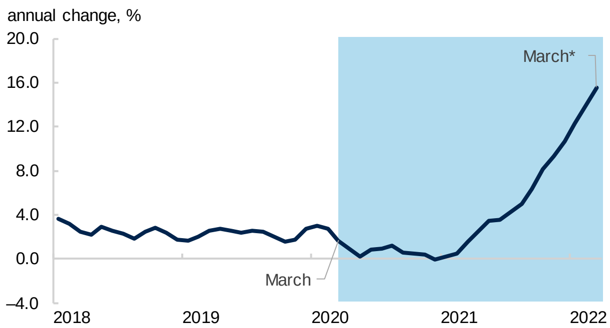
4. The main contributor to the increase in **retail turnover**[3] in February was non-food trade.

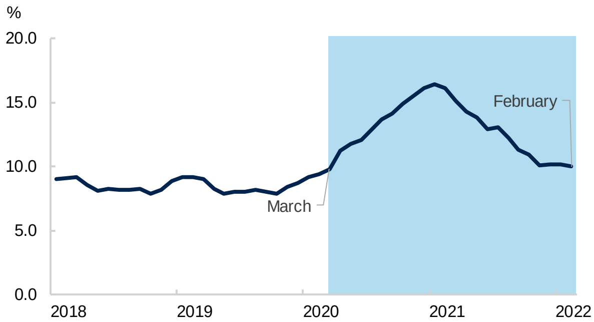




5. The main drivers of **inflation** are increases in the prices of heat, fuel, food, gas and electricity.

6. **Registered unemployment** stabilises.





[1] except refined petroleum products / [2] except mineral products / [3] except the sale of automotive fuels

* advance estimate of March 2022 inflation

Source: Statistics Lithuania, Employment Service, calculations by the National Audit Office implementing the functions of the fiscal institution

Trends in 2018–2022 revenue collection

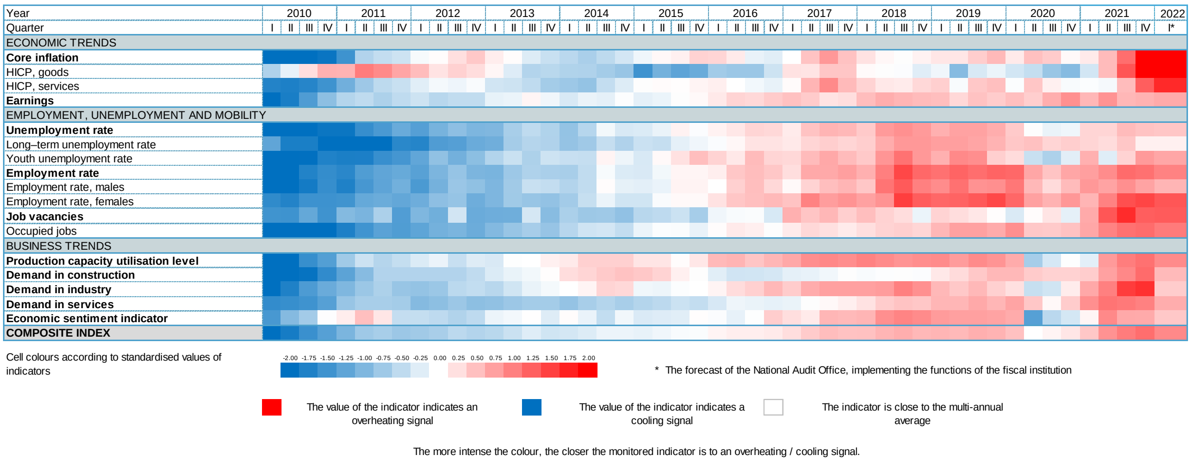
Trends in 2018–2022 revenue collection

Source: Form 1–VP Statement of Taxes and Other Contributions to Budgets, calculations by the National Audit Office implementing the functions of the fiscal institution

Opinion
On the Endorsement of the
Economic Development Scenario
Annex 3

The Heatmap of Lithuania's Economy

The Heatmap of Lithuania's economy



Source: Eurostat, Statistics Lithuania, calculations by the National Audit Office implementing the functions of the fiscal institution

The monitoring of macroeconomic imbalances[21] indicates that, against a backdrop of accelerating core inflation, the temperature of the Lithuanian economy in Q1 2022 is likely to remain above the 2021 level. This is reflected in most of the indicators analysed [22]. Taking into account seasonality and the fact that the registered unemployment rate has remained around 10% over the last four months [23], the unemployment rate is likely to rise in Q1 2022, while the employment rate (in the 20-64 age group) is expected to decline. According to data from *Sodra*, average monthly income grew by 13.7% in January, compared to the same period in 2021, as a result, average gross monthly wage growth is expected to continue in the Q1 of 2022. The rise in oil and other energy prices, as well as in commodity prices, in recent months, has led to rapid increases in the prices of goods and services. Price growth is projected to pick up in Q1 2022, with net inflation above its multi-year average.

[21] The methodology for drawing up the map and the description of the indicators are set out in the National Audit Office's Opinion No BP–5 "On the Approval of the Economic Development Scenario" of 20 September 2018. The map shows the deviations from the long-term average. The construction demand indicator in March 2022 has been recalculated using the results of a survey of business leaders on the period of time (in months) of orders held by construction companies, using a moving average. The indicator has been recalculated in the light of the current economic situation, where survey results indicating demand as one of the factors limiting the activity of construction companies may provide a subjective assessment of business trends in construction.

[22] Some of the statistical indicators used in the map for Q1 2022 are provisional. Net inflation, the January-February change in the HICP indices of goods and services compared with the corresponding period of the previous year and equated to Q1. Unemployment and employment rates, job vacancies, and jobs occupied in Q1 are estimated using econometric models, taking into account data available from Statistics Lithuania, the Employment Service and *Sodra* (State Social Insurance Fund).

[23] According to the Employment Service, registered unemployment in November, December 2021 and January, February 2022 were 10.1%, 10.2%, 10.2% and 10% respectively.