NATIONAL AUDIT
OFFICE OF LITHUANIA

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

11 July 2022 No. BPE–6

Vilnius

Under the conditions of exceptional uncertainty[1], the Economic Development Scenario (EDS) prepared by the Ministry of Finance of the Republic of Lithuania results from the identified assumptions and is based on the available statistical data. The Fiscal Institution, whose functions are implemented by the National Audit Office of Lithuania (hereinafter referred to as Fiscal Institution in the NAO), endorses[2] the Economic Development Scenario for 2022–2025 published by the Ministry of Finance on 30 June 2022, as it is suitable for the preparation of the budgets attributable to the general government.

The increased uncertainty due to the war in Ukraine remains and raises the risk that the Scenario may not materialise due to the change in internal and external conditions that have a significant effect on the 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 the Economic Development Scenario to the Seimas.

Macroeconomic environment and risk factors

As the geopolitical situation remains difficult, Lithuanian and global economic perspectives are obscure. The outcome of Russia's war on Ukraine remains uncertain. The imposition of new sanctions by the EU against Russia and Belarus[3] and countermeasures that may be potentially used by these countries might lead to more rapid growth in the prices of energy resources and raw materials. The prolonged risk of supply chain disruption persists, driven by China's measures to manage the COVID-19

[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-the-definition-of-exceptional.

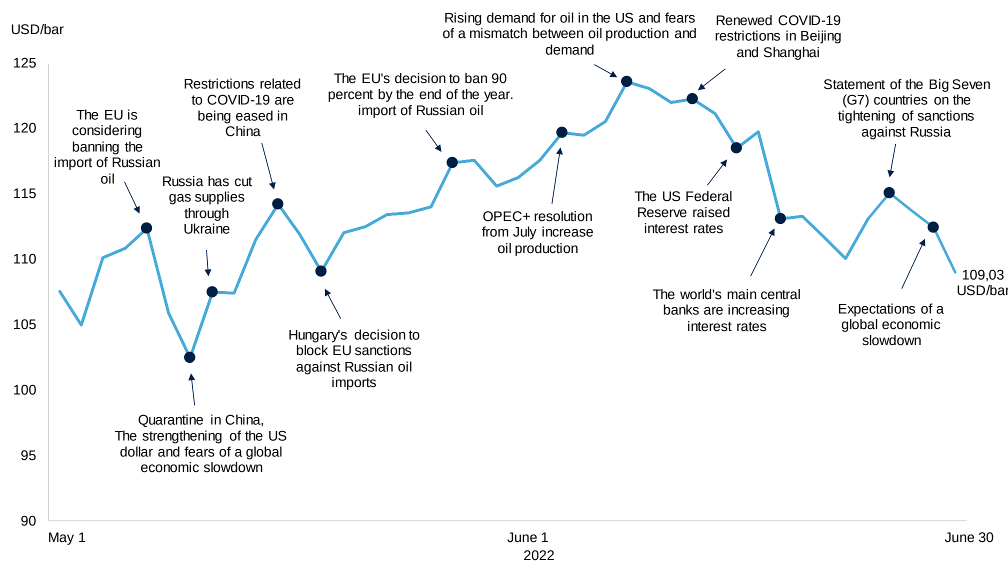
[2] Decision on the endorsement is based on the data available until June 10.

[3] On 31 May 2022, members of the EU agreed on a sixth package of sanctions against Russia, containing the seaborne import ban of Russian oil. The additional package of sanctions also includes the removal of the largest Russian commercial bank from the SWIFT system, an international system of transactions between banks.

pandemic. This affects the industry of the main trading partner of Lithuania, Germany[4], which is highly dependent on the components produced in China. The uncertainty of the economic situation, a rise in prices and interest rates are reflected in the worsening of the expectiaions of the business and consumers of the euro area (EA)[5]. Besides that, challenges related to the further management of the pandemic remain. These risks may pose challenges to the economic development of both Lithuania and the country's main trade partners [6].

Prices of energy resources remain high. Over the last two months, the price of oil did not change significantly and remained similar to March.[7] This was affected by the still-existing imbalance between oil production and its demand in the market and the adoption of the sixth package of sanctions by the EU against Russia regarding the ban on all Russian seaborne oil. On the other hand, changes in the monetary policy of the main world's central banks and expectations about the global economic slowdown contributed to a reduction in the prices of oil at the end of June (Figure 1). Based on futures, Brent's oil price is expected to reach USD 106.8 and USD 93.8 per barrel in 2022 and 2023, respectively[8]. For comparison: oil price on average was USD 70.7 per barrel in 2021.

Figure 1. Brent's oil price fluctuations in May–June 2022



Source: www.barchart.com. The chart uses the data of 30 June 2022

The situation remains difficult in the gas market as well. At the beginning of June, the price of natural gas was more than three times higher compared to the same period a year ago. In addition, the current unilateral suspension or reduction of gas supply to the countries of Western Europe[9] by Russia forces them to seek alternative energy resources,

[4] The Germany ZEW Economic Sentiment Index remains negative in June of 2022 and is –28.0 (–34.3 in May). The index measures the expectations of analysts for the economic outlook over the next 6 months and ranges from –100 (negative outlook) to 100 (positive outlook).

[5] Based on the data regarding opinions of businesses and consumers of the euro area, expectations of consumers lowered significantly since March. Lowering business expectations are also observed in the sectors of industry, construction, and trade.

[6] In January–April of 2022, the main export partners of goods of Lithuanian origin are Germany (10.1%), Poland (9.7%), the US (8.9%), Latvia (7.2%), the Netherlands (6.3%), and Sweden (6.0%).

[7] On average, Brent's oil price in March was USD 111.7 per barrel.

[8] Based on 04/07/2022 data. Internet access: www.barchart.com.

[9] In June of 2022, Russian Gas Company *Gazprom* announced the 60% reduction of gas via the *Nord Stream* pipeline and its supply to the Netherlands, Austria, Italy, France, and other countries of the EU. Because of this, Austria, the Netherlands, and Germany decided to increase the generation of electricity by using coal.

such as coal or nuclear energy, as well as other suppliers of natural gas.[10] This situation stimulates changes in the European sector of energy, as the part of the energy generated from renewable resources should become increasingly greater.

Prices fluctuated in global markets of raw materials, such as grain, metals, and wood. In the last few months, prices of metals and wood decreased in anticipation that the demand will fall. High prices of grain are influenced by Russia's block on the export of Ukraine's grain harvest from last year. If this situation is prolonged, a worldwide deficit of grain may be anticipated, which will probably increase the prices of food products.

The European Central Bank (ECB) joins other central banks by raising the interest rates. The ECB announced changes in monetary policy that are implemented since July, which include an increase in base interest rates by 0.25 percentage points and the end of the asset purchase programme designed to manage the COVID-19 pandemic[11]. This will have a negative effect on household consumption expenditure and business investment decisions both in Lithuania and the euro area. Acknowledging the updated medium-term perspectives of inflation, it is projected to increase the rates gradually in the second half of 2022 as well. Taking into account the faster-than-expected inflation growth risk, economic growth, and a low unemployment rate, from July 2022, the US Central Bank increases the interest rates by 0.75 percentage points to a range of 1.5–1.75%. Seeking to control rapidly rising inflation, central banks of the United Kingdom, Sweden, Poland and other countries also raise the base interest rates[12].

Internal risk factors are still related to inflation and the sensitivity of certain economic activities to market changes. High inflation may slow down the growth of consumption and investment. The rise in earnings, prices of energy resources, and other costs of production will further increase the prices of goods and services. Sectors of construction, manufacturing, and transport services will be affected negatively by a rise in prices of raw materials and costs of transportation. In addition, due to the increased need for financing negotiated projects, the risk related to the under-spending of EU support funds and other disruptions of procurement procedures persists. Possibilities in the diversification of the market related to Lithuanian grain, renewable energy sources, and production of defence-related products are also observed. Moreover, Ukrainian people that are fleeing the war may reduce the tension in the labour market but the impact remains uncertain.

Pressure for additional discretionary measures is likely, as the tension related to high prices of energy persists. Taking into account the negative balance of risks, decisions must be made very carefully. According to the European Commission's assessment of the 2022 Stability Programme of Lithuania[13], in 2022, Lithuania does not sufficiently keep under control the growth of current expenditure financed by national funds. The EC recommends more targeted support

[10] Energy companies from France, Italy, and the US joined the Qatar project, seeking to expand the production of natural gas from the largest natural gas field. In order to diversify the market, the EU signed a tripartite agreement on the supply of gas with Israel and Egypt.

[11] The ECB plans a new tool related to the asset purchase in the EA countries that are more indebted and suffer from higher interest rates, which is intended to combat fragmentation when the same monetary policy has a different effect on different countries of the EA.

[12] In June 2022, the CB of the United Kingdom raised the base interest rate by 0.25 percentage points to 1.25%, the CBs of Sweden, Norway, and Switzerland by 0.5% to 0.75%, 1.25% and –0.25%, respectively; the CB of Poland by 0.75% to 6%, the CB of Czech Republic by 1.25% to 7%, and the CB of Hungary by 1.85% to 7.75%.

[13] The European Council recommendation on the 2022 National Reform Programme of Lithuania and delivering a Council opinion on the 2022 Stability Programme of Lithuania. Internet access: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022DC0617.

in the future. The International Monetary Fund[14] also notes that support should be provided for the most vulnerable groups due to the persisting high prices of energy. The uncertainty related to the revenue collection of the general government also persists. It is influenced by the previously mentioned risk factors on the country's economic development and pressure to extend tax incentives or establish new ones. According to the researches [15], the reduction of certain tax rates related to VAT or excise duties leads to additional benefits for companies, while the final consumer often does not get the full benefits. Horizontal measures are expensive and not sufficiently grounded from an economic point of view; moreover, as mentioned[16] by the Fiscal Institution in the NAO before, the introduction of these measures (such as compensations of gas and electricity costs) reduces incentives to consume resources rationally and stimulates domestic demand, which leads to more rapid growth in prices. This is also noted by the European Fiscal Board, which emphasises that the conventional stimulus of domestic demand complicate the task of the ECB to keep the inflation in check by increasing the interest rates [17]. The European Commission recommends seeking for neutral fiscal policy in 2023.

If new measures increasing the deficit of the general government sector and not being compensated from additional sources of revenue were to be adopted, public debt would grow. The cost of general government debt management will increase as interest rates are currently on a rise. Also, cheap issues of government securities may have to be replaced with more expensive ones when refinancing general government debt.

The development of Lithuania's economy in the medium term

The Economic Development Scenario for 2022–2025, published by the Ministry of Finance on 30 June 2022, is endorsed, because the projections (Table 1) of changes in GDP at constant and current prices, household consumption expenditure, average earnings and employment do not contradict the expert assement of the National Audit Office implementing the functions of the fiscal institution.

The growth of the economic development in Lithuania was rapid in Q1 2022, but it is projected that the second half of the year will be less favourable for the development of the country's economy. It is projected that during the whole medium-term the growth of the real GDP will be driven by strong domestic demand. Compared with the same period a year ago, the country's real GDP increased by 4.8% in Q1 2022.[18] Household consumption expenditure and investment had the biggest positive effect on the growth of the economy. All activities contributed to the growth of the gross value added but mainly manufacturing, the results of which were significantly influenced by wood and chemical industries, manufacturing of furniture and metal products. It is notable that the strong performance in Q1 2022 was also influenced by the low comparative base effect: the economy of the country was no longer constrained by tight quarantine restrictions that were in place during the same period a year earlier. Because of the increased uncertainty due to the war in Ukraine, in March–May 2022, the annual growth in industrial

---

[14] Mission of International Monetary Fund. Internet access: https://www.imf.org/en/News/Articles/2022/06/07/republic-of-lithuania-staff-concluding-statement-of-2022-article-iv-mission.

[15] Estimating VAT Pass Through. Internet access: https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Estimating-VAT-Pass-Through-43322. Consumption Tax Policies in OECD Countries. Internet access: https://files.taxfoundation.org/20210225102600/Consumption-Tax-Policies-in-OECD-Countries1.pdf.

[16] 05/05/2022 Opinion No. BPE-3 of Fiscal Institution in the NAO. Internet access: https://www.valstybeskontrole.lt/LT/Product/24080/isvada-del-strukturinio-postumio-uzduoties-nustatomos-valstybes-biudzeto-ir-savi.

[17] Assessment of the fiscal stance appropriate for the euro area in 2023. Internet access: https://ec.europa.eu/info/system/files/efb_assessment_of_euro_area_fiscal_stance.pdf.

[18] Based on Lithuanian Department of Statistics revision of national accounts. Previously, the estimate of this indicator was 4.6%.

production (excluding refined petroleum products) remained double-digit and was 22.8%, 10.9%, and 18.0%, respectively (Annex 1).

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

Indicator, %	2021	2022P	2023P	2024P	2025P
Key macroeconomic indicators, rate of change					
GDP at constant prices	5.0	1.6 (1.6)	2.1 (2.5)	3.0 (3.0)	3.0 (3.0)
Household consumption expenditure	7.4	2.5 (2.1)	3.2 (3.4)	3.4 (3.4)	3.4 (3.4)
Gross fixed capital formation	7.0	3.2 (2.7)	4.8 (4.8)	5.4 (5.4)	5.4 (5.4)
Exports of goods and services	15.9	−2.5 (−6.0)	2.8 (3.3)	3.7 (3.7)	3.7 (3.7)
Imports of goods and services	18.7	−1.2 (−6.0)	4.0 (4.1)	4.1 (4.1)	4.1 (4.1)
GDP at current prices	11.9	15.3 (8.9)	8.2 (5.6)	5.0 (5.0)	5.0 (5.0)
Price indicators, rate of change					
GDP deflator	6.5	13.5 (7.1)	6.0 (3.0)	2.0 (2.0)	2.0 (2.0)
Harmonised index of consumer prices (average annual)	4.6	15.8 (9.8)	6.0 (3.0)	2.0 (2.0)	2.0 (2.0)
Labour market indicators					
Change in average gross monthly earnings	10.6	13.2 (8.8)	8.4 (5.2)	5.0 (5.0)	5.0 (5.0)
Unemployment rate (according to the Labour Force Survey methodology)	7.1	7.0 (7.3)	7.0 (6.9)	6.7 (6.6)	6.4 (6.3)
Change in the number of employed persons (according to the Labour Force Survey methodology))	0.8	0.7 (−0.2)	0.0 (0.1)	−0.2 (−0.3)	−0.4 (−0.4)

*The Ministry of Finance's March 2022 projections for the Economic Development Scenario 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

It is likely that the persisting uncertainty, as well as the high prices of raw materials and energy resources, will form less favourable conditions for the growth of the Lithuanian economy in the second half of 2022. The comparative base effect that had a positive impact on annual economic growth in Q1 2022, will go in the opposite direction. In the EDS of June, it is projected that Lithuania's real GDP will increase by 1.6%. Lithuania's international trade is expected to be affected the most; nonetheless, household consumption expenditure and investment will support the growth of the country's economy. It is projected that the real GDP will increase up to 2.1% in 2023.

The pressure of inflation will slow down the growth of domestic consumption in 2022.

Compared to Q1 2021, household consumption expenditure increased by 7.6% in Q1 2022. Less than a year ago restricted domestic demand development[19] and rapid growth in average gross monthly earnings contributed to this. During the first four months of 2022, retail turnover (excluding fuels) increased by 8.5% compared to the corresponding period of 2021. However, turnover decreased by 1.0% in May. This was influenced by the decrease in food products trade (−5.2%). The consumer confidence indicator remains deteriorated since the beginning of the year but the expectations of the population were less pessimistic in June than at the beginning of the COVID-19 pandemic. High inflation will

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

undermine consumers' purchasing power, while the future changes in the monetary policy, contributing to the increase of interest rates, will restrict the growth of domestic consumption. However, the growth in earnings along with measures to increase old-age pensions, other social benefits, and non-taxable income, foreseen by the Government,[20] will contribute to the growth of the household disposable income. This along with the declining household saving rate and population savings accumulated during the pandemic will create conditions for the growth of domestic consumption in 2022 and its more rapid growth in 2023 when the inflation will fall (Table 1).

In Q1 2022, the situation in the labour market remained tense. In Q1 2022, the number of employed persons increased by 2.1% compared to the corresponding period a year earlier, while the unemployment rate declined to 6.3% and returned to its 2019 level. Average gross monthly earnings increased by 14.1%. These changes were partly influenced by the continuing shortage of labour force, which is shown by a record high of job vacancies[21]. Moreover the data of *Sodra*, published in April, about the number of persons that are fully insured with all types of social securitydoes not show a decrease in the number of employees or a slowdown of the growth of earnings.

The unemployment rate in 2022, compared to 2021, is likely to decline moderately, while the number of employed persons will grow. It is expected that this indicator will exceed the 2019 level but various risk factors, especially in the sectors of transport and construction, may slow down the employment growth in 2023. Due to the rapid growth of average gross monthly earnings at the beginning of the year, persisting shortage of labour force and increase in the minimum monthly and public employees' earnings, it is likely the average gross monthly earnings growth rate will remain double-digit in 2022. Expectations for higher earnings, which are influenced by rising inflation, will also contribute to it. Due to the tension in the labour market, the average gross monthly earnings growth will remain close to a double-digit number.

The persisting uncertainty may limit investment in the country; however, a positive impact of public sector implemented projects is expected. Gross fixed capital formation (GFCF) grew by 5.4% in Q1 2022 compared to Q1 2021, mainly because of productivity-oriented investments in other machinery, equipment, and weapon systems (contribution of 3.6 p.p.). The level of industrial production capacity utilisation is close to the pre-pandemic level and amounted to 77.9% in June, which shows a further need to develop investment projects in this sector. Uncertainty about the geopolitical situation and its influence on perspectives of demand along with the rise in prices of raw materials, shortage of equipment and materials may affect the growth of gross fixed capital formation negatively. Issues mostly arise in sectors of transport, construction, and industry. However, business expectations were less affected in June than during the period of the COVID-19 pandemic. GFCF growth should be supported by public sector investment, which will benefit from the funds of the EU's Multiannual Financial Framework and the Recovery and Resilience Facility. While utilising these financial flows to promote a green economy and digital transition, the country's economic resilience and potential growth would be increased as well.

[20] The amendment of the budget Law for 2022, which includes mitigation measures of inflation consequences, was approved on 17 May 2022. Internet access: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/3d978f53d74911ecb1b39d276e924a5d.

[21] In Q1 2022, the number of job vacancies was 26,916, which is the highest number since 2008when the collection of the data has started.

The results of Lithuania's international trade were strong in Q1 2022, but due to unfavourable external factors, real exports and imports may decrease in 2022. Growth in real exports and imports of goods and services in Q1 2022 amounted to 19.8% and 21.9%, respectively. During the mentioned period, the rapid growth in export value (23.0%) of goods of Lithuanian-origin[22] was influenced by the export of chemical, furniture, plastic, and wood products. During the war in Ukraine, in March–April 2022, this indicator continued to grow at double-digit rates. According to preliminary data, the growth of service exports value was also rapid in the given period and exceeded 20%. However, over the year, this indicator fell by 5.5% in April due to a decrease in re-exports[22] into Russia and Belarus. In January–April 2022, strong domestic demand contributed to the rapid growth of imports of goods[22] and services, which amounted to 21.4% and 46.6%, respectively. It should be noted that the rise in prices of exports and imports also contributed to the growth of these international trade indicators.

At the end of Q1 2022, changes in the structure of the Lithuanian export of goods are observed. Compared to February, the the share of export of goods into Russia and Belarus decreased by more than one-third in March but export to the EU significantly increased[23]. While endorsing the EDS of March, the Fiscal Institution in the NAO stressed that the success of the redistribution of import markets of raw materials and energy resources will contribute to the country's economic development. As the electricity imports from Russia has been ceased since May, Lithuania no longer imports energy resources (oil, gas, and electricity) from this country.

The tense geopolitical situation in Europe, high prices of raw materials and energy resources will slow down the growth of Lithuania's main export markets. Good results in Q1 2022 and favourable Lithuania's international trading indicators in March–April allow revising projections on real exports and imports of goods and services upwards (Table 1). However, the second half of 2022 may be less favourable for international trade; therefore, a decline in these indicators is projected in 2022. Projected slower growth in household consumption and investment than in 2021 will affect the import volumes. In anticipation of a more stable geopolitical situation in 2023 and the redistribution of raw material import markets, real exports and imports are expected to grow (Table 1).

As the prices of energy resources and food have increased more than it was anticipated, the forecast of inflation for 2022 was increased by 6 percentage points. In May, a change in the Harmonised Index of Consumer Prices (HICP) was 18.5% comparing it to the same period a year earlier. Food and non-alcoholic beverages (5.1 p.p.), housing, water, electricity, gas, and other fuel (4.7 p.p.), as well as transport (3.7 p.p.) components contributed to this estimate. Recently, these shares of expenditures influenced 70% of the growth of the index. As the prices of oil, gas, fertilisers, and wheat remain high in global markets, a high estimate of inflation will be driven by high energy and food prices. It is worth noting that Lithuania's core inflation[24], which is more related to domestic consumption, was the highest among the countries of the euro area and amounted to 9.9% when, in May, the prices of services increased by 11.9% compared to the same period a year ago (Figure 2). In the second half of the year, the growth rate of HICP will become

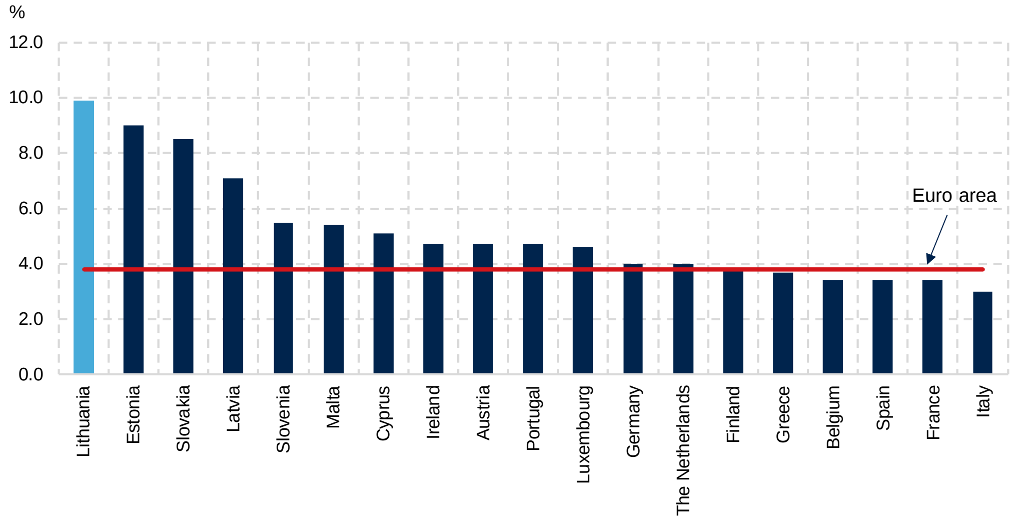
[22] Excluding mineral products.

[23] In February 2022, exports of goods into Russia amounted to 10.2% from total exports of goods. In March, this indicator fell to 5.7%. Exports of goods into Belarus decreased from 2.5% to 1.6%, while into the EU it increased from 61.6% to 67.8%, respectively.

[24] Core inflation is calculated by subtracting the impact of food, alcohol, tobacco, and energy product prices from the overall inflation.

lower due to the high comparative base; therefore, it is projected that the annual average HICP change in 2022 will be 15.8% and will get lower during 2023–2025 (Table 1).

Figure 2. Core inflation in the countries of the euro area in May 2022



Source: Eurostat

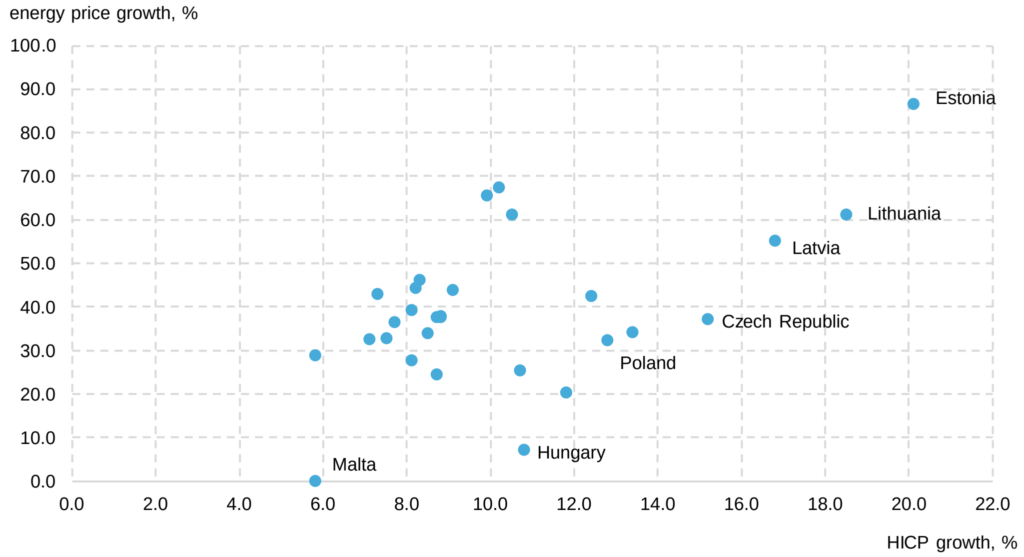
While projecting a more rapid increase of HICP, projections of the growth of the general price level in 2022–2023 are also adjusted upwards. As the HICP grows, household consumption expenditure deflator grows as well. The extremely rapid growth of imports deflator, which will be driven by the global soar in prices of energy and raw materials, is projected. Growth of export, GFCF and general government consumption expenditure deflators is expected to be faster than in 2021. The Ministry of Finance projects that the growth of the GDP deflator will reach 13.5% in 2022 but it may slow down to 6.0% in 2023.

Price affecting measures reduces the comparability of inflation indicators among the countries of the European Union. In April 2022, the HICP growth in Estonia became more rapid than in Lithuania. In March, some of the inflation mitigation measures were terminated in Estonia and, thus, contributed to this[25]. According to the data of expert group *Bruegel*[26], price affecting measures are applied by nearly all countries of the European Union (except for Luxembourg, Greece, and Denmark). In countries, such as Malta or Hungary, which apply the price freeze, the rise in prices of energy components is small when compared to countries that selected the support of smaller scale or that does not have such a direct impact on the index (Figure 3).

[25] Statistics Estonia press release. Internet access: https://www.stat.ee/en/node/258571.

[26] Internet access: https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/.

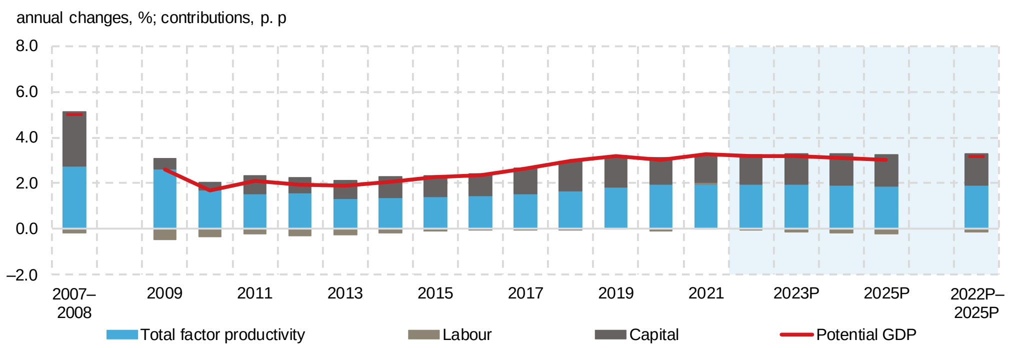
Figure 3. Growth of HICP and energy components annual prices in the European Union in May 2022.



Source: Eurostat

The National Audit Office, implementing the functions of the fiscal institution, projects potential GDP[27] to increase on average by around 3.1% annually during 2022-2025 (Figure 4). Excluding the change factors, total factor productivity contributes around 1.9 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 contribution of the labour factor is negative at –0.1 p.p. The output gap is expected to be 0.3% of potential GDP in 2022 while, in 2023, –0.8% of potential GDP. The updated Heatmap of the Lithuanian Economy shows that the temperature of the economy is likely to remain high in Q2 2022 (Annex 2).

Figure 4. Potential GDP growth and its contributions



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

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 and issued an opinion on the Economic Development Scenario for 2022–2025 prepared by the Ministry of Finance of the Republic of Lithuania and published on 30 June 2022. Pursuant to provisions of Paragraph 7(3) of Article 8 of the Law on National Audit

[27] The assessment methods are further detailed 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.

Office of the Republic of Lithuania, the National Audit Office hereby submits its opinion to the Seimas of the Republic of Lithuania.

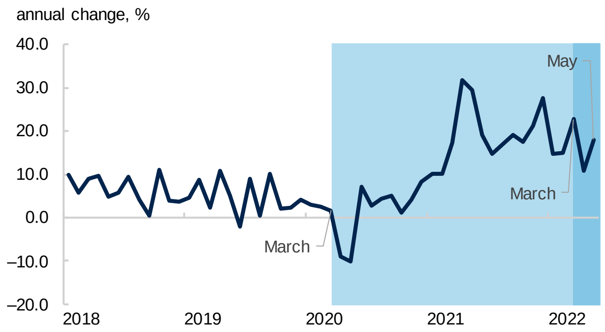
Principal Economist of the Budget Policy Monitoring Department,
Deputy Head of Department Jaroslav Mečkovski

ANNEXES

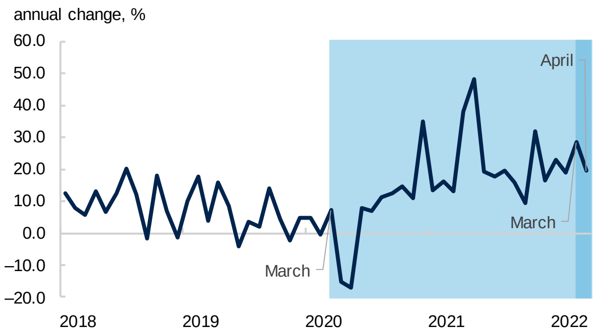
Opinion
On the Endorsement of the
Economic Development Scenario
Annex 1

Developments in the Lithuanian economy during a period of exceptional circumstances

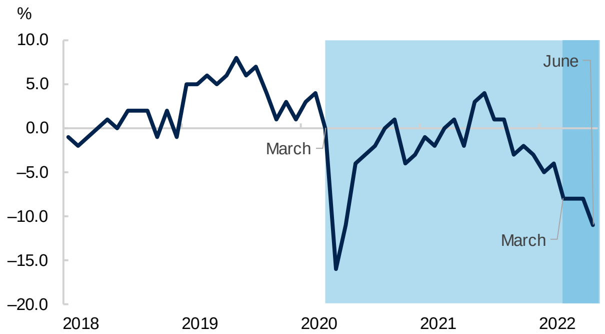
① Wood products and the production of furniture were the main contributors to **industrial production** in May[1].



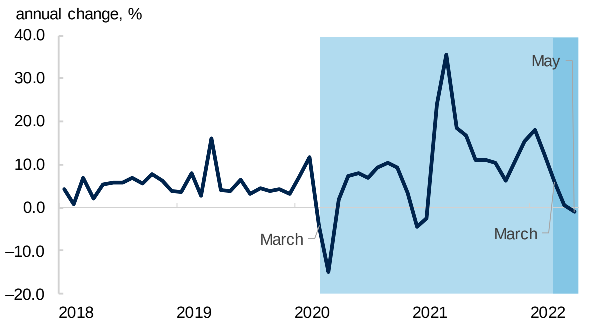
② During the war in Ukraine, **exports of goods of Lithuanian origin**[2] continue to grow by double-digit rates in April. This is influenced by the rise in export prices.



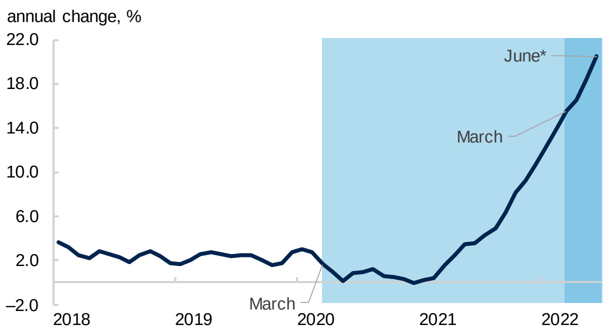
③ **Consumer expectations** significantly deteriorated in June 2022.



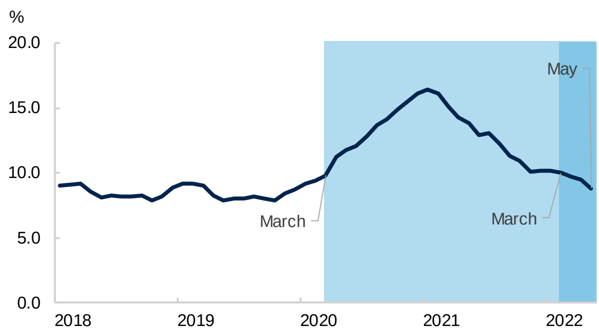
④ The contraction in the trade of food products led to a drop in **retail turnover**[3] in May.



⑤ According to provisional data, annual **inflation** exceeded 20.0% in June.



⑥ In May, **registered unemployment** is already lower than before the pandemic.



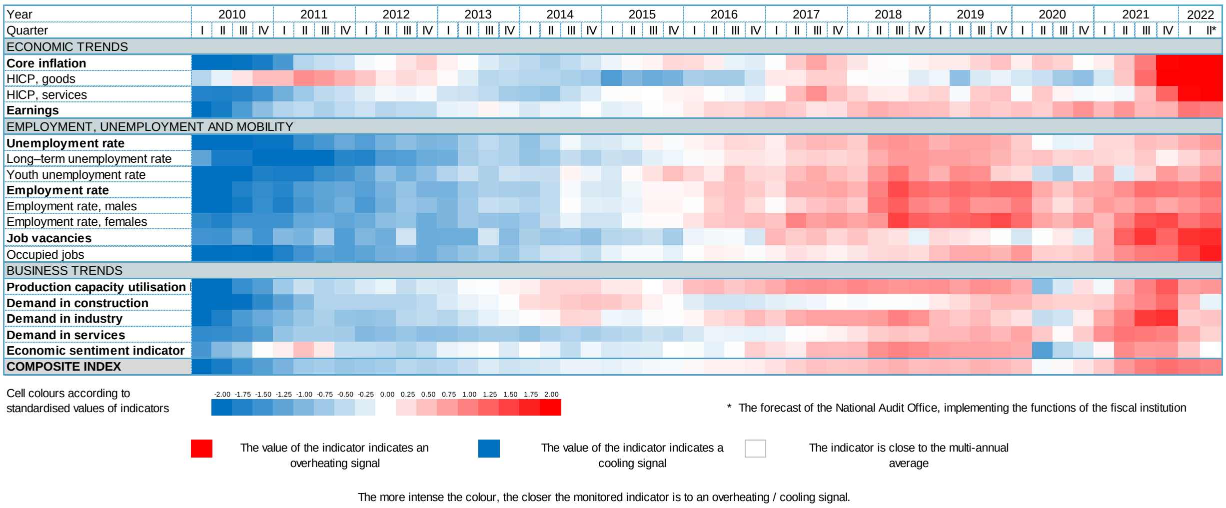
[1] except refined petroleum products / [2] except mineral products / [3] except the sale of automotive fuels
*advance estimate of June 2022 inflation
**Bluish background highlights the period of exceptional circumstances. Russia's war in Ukraine is marked separately by the darker colour.

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

Opinion
On the Endorsement of the
Economic Development Scenario
Annex 2

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[28] indicates that due to the tense situation in the labour market and prevailing high inflation in Q2 2022 the temperature of Lithuania's economy will remain high. This is reflected in most of the indicators analysed[29]. Taking into account the decrease in registered unemployment in recent months[30] and the rising number of job vacancies[31], it is likely that the unemployment rate will fall in Q2 2022. According to data from *Sodra*, average monthly earnings grew by 12.9% in April, compared to the same period in 2021, as a result, average gross monthly earnings growth is expected to continue in the Q2 of 2022. The growth of prices of energy resources and growth of earnings in recent months contribute to the further increase in prices of goods and services.

[28] The methodology for drawing up the map and the description of the indicators are to provide an 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 results, 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.

[29] Some of the statistical indicators used in the map for Q2 2022 are provisional. Net inflation, the April-May change in the HICP indices of goods and services compared with the corresponding period of the previous year and equated to Q2. Unemployment and employment rates, job vacancies and jobs occupied in Q2 are estimated using econometric models, taking into account data available from Statistics Lithuania, the Employment Service and *Sodra* (State Social Insurance Fund).

[30] According to the data of The Employment Service, registered unemployment in March, April, and May of 2022 accounted for 9.7%, 9.5%, and 8.8%, respectively.

[31] According to the data of the Employment Service, at the end of May of 2022, 10.6 thousand of vacant workplaces were registered, i.e. 6.3% more than in the previous month.