VALSTYBĖS KONTROLĖ
BUDGET POLICY MONITORING

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

28 December 2022 No BPE-10

Vilnius

PERSISTENT RISKS CALL FOR A MORE CAUTIOUS ASSESSMENT OF ECONOMIC DEVELOPMENT, HOWEVER, THE VOLUME OF THE GROSS DOMESTIC PRODUCT IS EXPECTED TO BE HIGHER IN 2023 THAN PROJECTED IN AUTUMN

The National Audit Office, implementing its functions of budget policy monitoring institution (hereinafter – Fiscal Institution in the NAO), submits to the Seimas its opinion on The Economic Development Scenario (EDS) for 2022–2025 published by the Ministry of Finance in December.

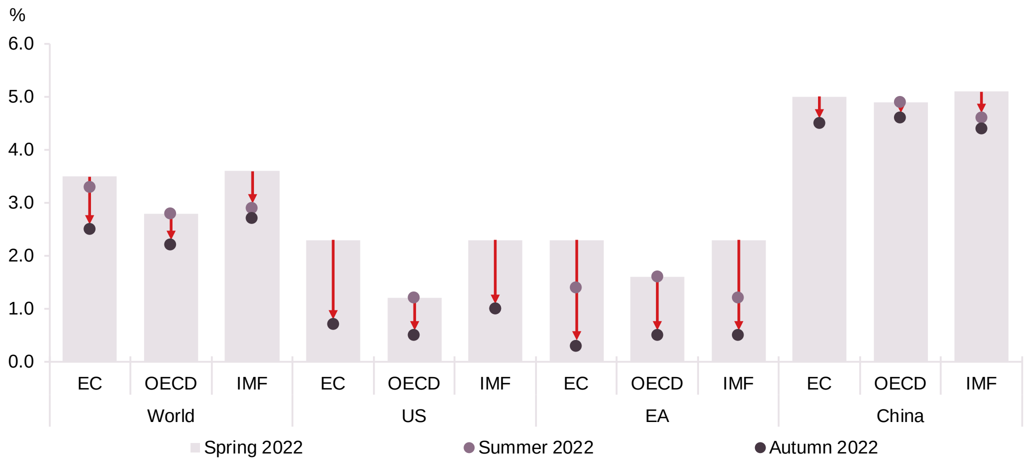
With the ongoing war in Ukraine and the energy crisis, uncertainty about economic development remains high. The most recent Gross Domestic Product results were better than expected, however, the remaining risks encourage a cautious assessment of economic development in 2023. The level of global economic activity is particularly important for the highly open Lithuanian economy. In EDS of December it is projected that investment and household consumption will support Lithuania's GDP growth in the face of a slowdown in the main export partner economies, which will be negatively affected by persisting high inflation. Despite the sluggish economic growth, the level of GDP in 2023 will be higher than projected in autumn, leading to a better collection of the State budget revenue than expected by the Fiscal Institution in the NAO in October when assessing the draft budget.

1. **Concerns regarding the global slowdown prompt a revision of the key assumptions of the December EDS for 2022–2025.**
2. **Weak external demand and more sluggish domestic consumption are likely to lead to slower real GDP growth in 2023.**
3. **The level of GDP is expected to be higher than forecasted in September leading to a positive impact on general government revenue in 2023.**
4. **Increased immigration and labour force activity accelerate the potential GDP growth in 2022–2025 projected by the Fiscal Institution in the NAO.**
5. **The December EDS for 2022–2025 is endorsed, however, the risks due to the geopolitical situation and energy prices are not decreasing.**

1. CONCERNS REGARDING THE GLOBAL SLOWDOWN PROMPT A REVISION OF THE KEY ASSUMPTIONS OF THE DECEMBER EDS FOR 2022–2025

International institutions expect major global economies, including the ones in the euro area, to grow at a slower rate in 2023 than projected in the summer. In 2022, the global economy was more resilient than expected, but the risk of recession has shifted to 2023. Continued geopolitical tensions and the risk of prolonged high inflation, which is expected to lead to further interest rate hikes, lower consumer and investor expectations for 2023. This leads to a downward revision of the growth prospects for the world's major economies in 2023 (Figure 1). Based on the data of November, Business activity indicators such as the Purchasing Managers' Index (PMI) is marking a contraction in the sectors of industry and services (Figure 1 of Annex 1).

Figure 1. The GDP projections of international institutions on the world's major economies for 2023 are revised downwards



Source: European Commission, Organisation for Economic Cooperation and Development, International Monetary Fund

- **Inflation, which already started to decrease but still remains high, and the resulting tightening of monetary policy negatively affects the perspectives of the US economy for 2023.** Russia's war in Ukraine and supply chains fractured after the pandemic contributed to the rise in prices in the United States. Due to the reduced supply of gas from Russia to the EU, the export of liquified natural gas from the US has significantly increased and it is one of the factors, which allowed prices to increase in the country as well. The rapid increase in households' disposable income after COVID-19 also contributed to inflation. The applied monetary policy could negatively affect the economy in 2023 and push it into a recession. Since the US creates more than a fifth of the global GDP, it would worsen the growth perspective of the global economy.

- **China's economic growth in 2023 is clouded by the COVID-19 pandemic management policy.** Although China is easing the restrictions relating to the management of the COVID-19 pandemic, it reduces production. The persisting unfavourable situation in the real estate market has a negative effect on the country's economic development. The slower growth of the global economy will pose problems for Chinese export. Challenges related to adapting to the circumstances persist. Growing industry activity would increase the global demand for raw materials, such as metals and gas, which would contribute to the increase in their prices if the supply disruptions are not resolved and the supply is not restored. It would have a negative effect on the growth of the global economy.

- **The GDP growth of the European Union in Q1–Q3 2022 was greater than international institutions projected, but the risks for 2023 did not decrease.** A tense geopolitical situation leads to persisting uncertainty. Sanctions imposed on the petroleum products imported from Russia, which will enter into force on 5 February 2023, will have a negative impact on their supply to the EU, hence a need to search for alternative resources arises. It will have an effect on economic development, as nearly 60% of diesel and gas oil were imported from Russia, and this type of fuel is very important for the agricultural and transport sectors in the EU. Gas prices reached its highest level of 2022 at the end of August when it averaged to EUR 345/MWh, whereas the lowest level since June was reached in October-November (average price accounted for around EUR 120/MWh). Fluctuations in the gas market point that price risks persist. Their high level would lead to the production restrictions of the energy-intensive industries (metallurgy, chemistry, etc.) This factor would hold back the growth of the EA economy, especially in Germany, Lithuania's main export partner, where industry creates a large share of the country's GDP. Monetary policy tightening by the European Central Bank (ECB) due to the high inflation and risks due to the disruptions in the supply chains also pose challenges for the perspectives of 2023.

Against the backdrop of the global economic slowdown, assumptions of the Economic Development Scenario of December for 2023 are revised downwards (Table 1). In the autumn, the European Commission (EC) updated the assumptions on which the Ministry of Finance relies when publishing its economic forecasts in the EDS. The EC estimates that the exchange rate of the euro vis-à-vis the US dollar will weaken due to the base interest rates increased by the US central bank in 2022–2025. On the other hand, the November 2022 futures indicate the opposite direction, i.e., an increase in the euro vis-à-vis the US dollar (Annex 1 Table 1), which would lead to a cheaper than expected import of energy resources into the EU. The global economic slowdown foreseen in 2023 and the reduction in the imbalance of oil supply and demand are among the main factors leading to the reduction of oil price assumption in 2023–2025. Brent's oil futures also indicate a similar trend. On the other hand, the Organisation for Economic Cooperation and Development (OECD) maintain the assumption of a shortage of oil in the market in 2023–2024, hence it projects that the oil price will remain higher than forecasted by the EC. Following the European Commission's downward revision of the assumptions, the assumptions for growth of the world, the EU, and Lithuania's main export markets in 2023 are reduced in the EDS of December. According to the most pessimistic scenarios of the EC and the ECB on the gas supply, the EA economy could contract in 2023.

Table 1. The Ministry of Finance's assumptions for the Economic Development Scenario of December 2022

Indicator	2021	2022P	2023P	2024P	2025P
USD/EUR exchange rate*	1.18	1.04 (1.06) ▼	0.98 (1.05) ▼	0.98 (1.05) ▼	0.98 (1.05) ▼
Global (excl. EU) GDP growth, %*	6.0	3.1 (3.0) ▲	2.9 (3.3) ▼	3.4 (3.3) ▲	3.4 (3.3) ▲
European Union's GDP growth, %*	5.4	3.3 (2.7) ▲	0.3 (1.5) ▼	1.6 (1.5) ▲	1.6 (1.5) ▲
Growth of the main Lithuania's export markets, %	5.3	2.5 (1.9) ▲	0.0 (1.0) ▼	1.5 (1.0) ▲	1.5 (1.0) ▲
Oil prices (Brent, USD/barrel)*	70.7	101.8 (108.2) ▼	85.0 (95.6) ▼	78.0 (95.6) ▼	78.0 (95.6) ▼

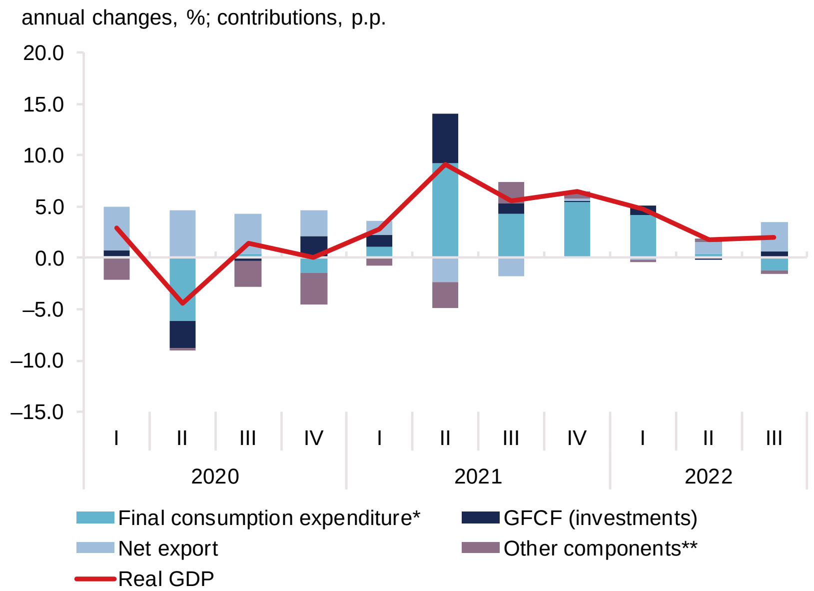
▼ – negative review ▲ – positive review

*Technical assumption made public by the EC on 11 November 2022.
The EDS assumptions of September 2022 are presented in brackets.
Source: Ministry of Finance

2. WEAK EXTERNAL DEMAND AND MORE SLUGGISH DOMESTIC CONSUMPTION ARE LIKELY TO LEAD TO SLOWER REAL GDP GROWTH IN 2023

Better than expected results in Q3 prompts a significant upward revision of real GDP projections for 2022. After a strong economic development at the beginning of 2022, the development of the country's economy reached 2.0% compared to the corresponding quarter a year ago. During this period, Latvia's and Estonia's GDP contracted by 0.6% and 2.4% respectively. The development of Lithuania's economy in Q3 was driven by net export, which was stimulated by real export of goods that increased by more than 20% during the year (Figure 2). Excluding mineral products, the value of export of goods of Lithuanian origin increased by double-digit rates, while re-export increased by almost one-third. Favourable development of investment also contributed to the real GDP growth. The fall in real household consumption expenditure, which was affected by high inflation and lower consumer expectations, had a negative impact. As in September, in the EDS of December it is foreseen that the conditions for the country's economic growth will be less favourable in Q4 of this year than it was observed in Q3. Better than expected export performance in Q3 leads to an increase in real GDP growth projections to 2.4% in 2022.

Figure 2. Annual real GDP growth was driven by net export in Q3 2022

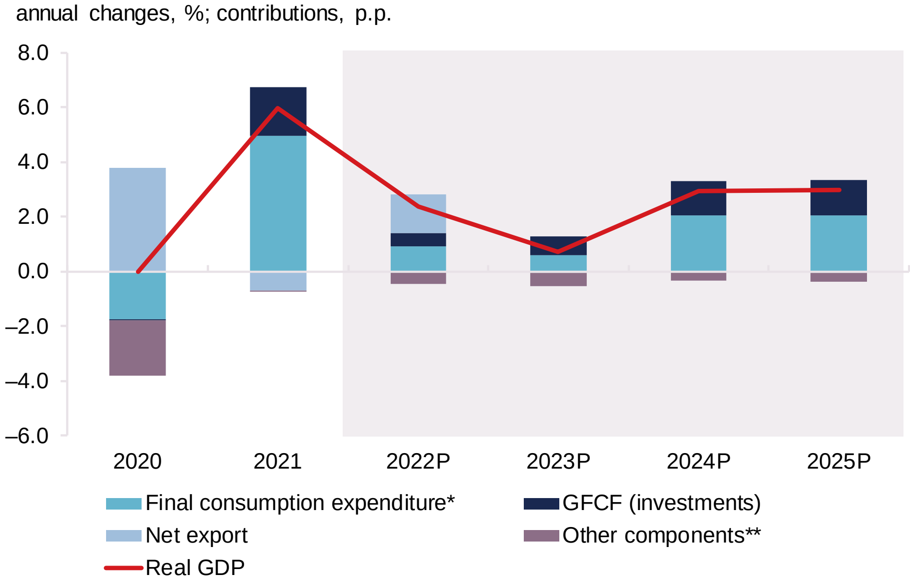


* excluding NPISH, ** NPISH, changes in inventories, acquisitions less disposals of valuables

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

Domestic consumption and investment are projected to make the largest positive impact on real GDP growth in 2023. The EDS of December projections on real GDP growth are reduced to 0.7% in 2023. Investments and household consumption expenditure, whose growth will be negatively affected by the projected significant rise in prices and the cautious sentiment of consumers, are likely to support the development of this indicator (Figure 3). Based on the assumptions adopted in the scenario, the growth of Lithuania's main export markets is not expected in 2023 and the net export impact on the GDP is expected to be neutral. Challenges in industrial sectors sensitive to energy prices persist, but export performance in 2023 will be positively affected by the 2022 grain harvest, which was better by one tenth than in the previous year. In the scenario, there is a projected moderate growth of real exports and imports of goods and services in 2023, driven by domestic consumption and investments (Annex 2). With external demand picking up in 2024–2025, a more rapid growth rate of these indicators and real GDP is likely.

Figure 3. In the EDS of December 2022, the domestic consumption and investments will support the real GDP growth in 2023–2025



* excluding NPISH, ** NPISH, changes in inventories, acquisitions less disposals of valuables

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

Lower business expectations and weak external demand may lead to a slower development of investments in the country, but a positive impact is expected from the EU funds in 2023. According to a November survey of business managers, the share of companies, whose activity is constrained by insufficient demand and financial difficulties, has increased. Less favourable development of exporting sector will have a negative effect on the gross fixed capital formation (investments) in 2023. Rising interest rates are also likely to contribute to lower investments of companies. On the other hand, the energy crisis continues to encourage investment in a more effective use of energy and infrastructure. The increase in prices in the construction sector in 2022 and prolonged public procurement procedures have shifted the implementation of a part of general government investments to 2023. This, along with a more effective implementation of the Multiannual Financial Framework of the EU funds and the Recovery and Resilience Facility, could support the more rapid growth of investments in 2023.

Inflationary pressure will limit the growth of real household consumption expenditure in 2023. The prolonged increase in prices of goods and services, lower population expectations and the growing contraction in the volume of retail sales have encouraged the downward revision of household consumption expenditure projections for 2023 (Annex 2). Changes in the monetary policy, contributing to the increase of interest rates, may also burden the consumption capacity of some households. However, measures, related to the raise of personal incomes and energy price mitigation, included in the 2023 budget, will have a positive impact on households' disposable income level. The consumer confidence index remains below the multi-annual average, however, these adopted measures likely contributed to more positive population expectations for economic development in November (Annex 3). This along with likely declining saving rate and population savings accumulated during the pandemic would support the growth of domestic consumption.

In 2023, inflation is projected to moderate, however, the price increase is projected to remain significant. Harmonised Index of Consumer Prices (HICP) growth projection was revised upwards by 3.4 p. p. in 2023. This is influenced by more rapid growth in prices in the second half of 2022, and it will have an impact in 2023[1] as well. Slowing economic development, easing of tension in supply chains, and improving situation in energy markets will influence the slowdown of inflation. A more rapid price increase also led to an upward revision of development of household consumption, general government, investments, export and import deflators. This leads to an increase in GDP deflator growth projection.

The continuing competition over the employees will have a positive effect on the labour market indicators in Lithuania and the whole EU. Number of employed persons in 2023 is projected to be higher than it was forecasted in September, due to the record labour force growth in 2022. The labour force was complemented by not only Ukrainians that arrived in the country, but also an increased share of working women, and individuals that are over 55 years old. The number of job vacancies remains higher than it was before the pandemic, around 22.8%[2] of the employers claim that their activity is limited by the staff shortages. However, the projected slowdown of country's economic growth in 2023 is likely to lead to an increase of unemployment rate. Since 2018, the average monthly gross earnings have been growing by double-digit rates. In 2023, the growth is expected to remain close to a double-digit number. Despite more sluggish country's economic development in the coming years, decisions on the increase in the minimum monthly wage and public sector earnings will support wage growth. Growing employee expectations on the inflation and persisting staff shortages will also contribute to the growth.

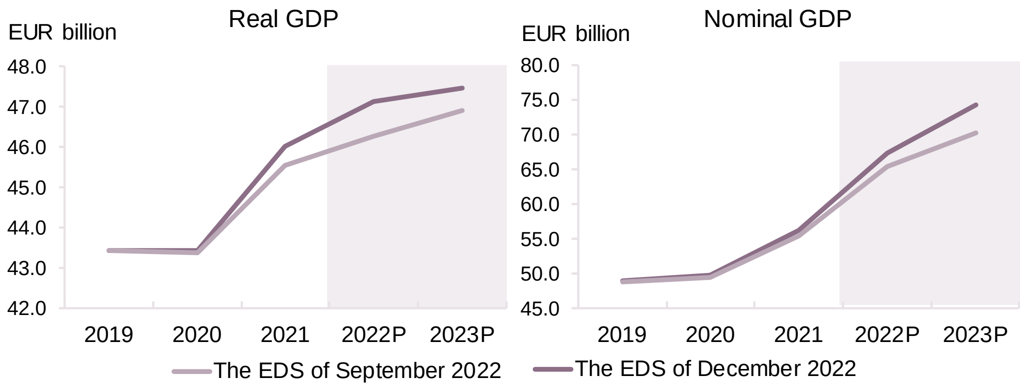
3. THE LEVEL OF GDP IS EXPECTED TO BE HIGHER THAN FORECASTED IN SEPTEMBER LEADING TO A POSITIVE IMPACT ON GENERAL GOVERNMENT REVENUE IN 2023.

Despite weaker economic growth in 2023, the economic level is expected to be higher than it was projected in September. The better-than-expected performance of Q3 leads to an increase in real GDP growth projection for 2022 in scenario of December compared to the EDS of September, and the comparative base, increased also because of that reason, and along with the persisting risks, this influences the reduction of the projection for 2023 (Annex 2). However, the real GDP level in 2023 is projected to be higher-than-expected in the EDS of September (Figure 4). This was also influenced by the revision of national accounts of 3 October 2022, which led to an increase in the real GDP by EUR 0.5 billion in 2021. Accordingly, in foreseeing a more rapid growth in the general price level, the nominal GDP level is higher than in the EDS of September.

[1] If the price level would remain the same as in November 2022, the growth of HICP would reach 6.6% in 2023.

[2] Based on Statistics Lithuania, 24% of services, 32% of construction, 18% of industrial and 17% of trade companies are constrained by staff shortages.

Figure 4. Real and nominal GDP level for 2022–2023 is increased in the updated projections as well



Source: Statistics Lithuania, Ministry of Finance

Higher projected tax bases will have a positive impact on the general government revenue in 2023. In the context of a great rise in electricity and gas prices, support measures for the population and businesses are foreseen in the State budget for 2023. Almost EUR 1 billion each is spent on gas and electricity prices subsidisation and an increase in population revenue. These fiscal decisions contribute to better projected economic indicators in the EDS of December. The EDS of September was the basis for the preparation of the budget for 2023. The upward revision of the main tax bases projections in the EDS of December means that the revenue from the four major taxes (personal income, value added, profit and excise duties) could be around EUR 300 million higher in 2023 than it was projected by the Fiscal Institution in the NAO in October when assessing the draft budget for 2023. Currently, the forecasts are subject to extreme uncertainty, hence the persisting risks of the economic slowdown could negatively affect the collection of budget revenue.

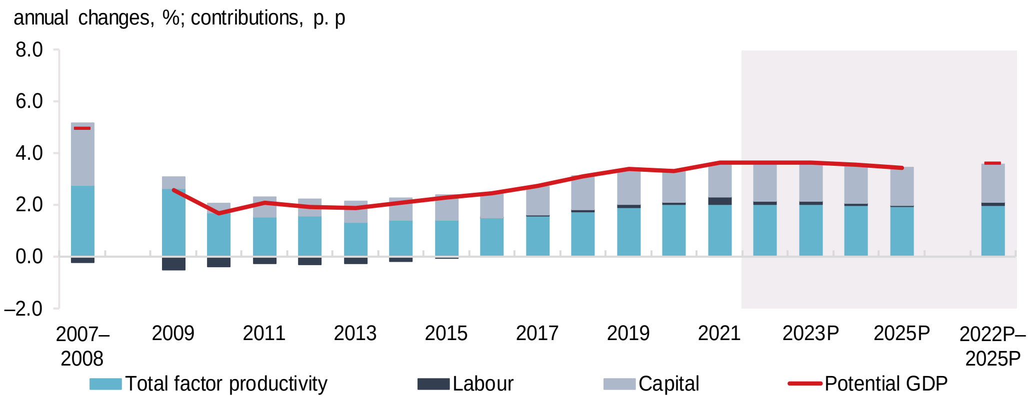
4. INCREASED IMMIGRATION AND LABOUR FORCE ACTIVITY ACCELERATE THE POTENTIAL GDP GROWTH IN 2022–2025 PROJECTED BY THE FISCAL INSTITUTION IN THE NAO.

Based on the assessment of the Fiscal Institution in the NAO, potential GDP[3] is projected to increase on average by around 3.6% annually in 2022–2025. (Figure 5). Total factor productivity contributes 2.0 p. p. to potential GDP growth. The contribution of capital, which is closely linked to the overall development of investment, is 1.5 p. p., whereas the contribution of the labour factor is 0.1 p. p. It should be noted that the negative labour factor projected in previous assessments has become positive. This was influenced by the increase in the labour force[4] due to favourable migration and an increase in the activity rate of the working-age population. According to the Fiscal Institution in the NAO, the output gap could amount to 0.7% of potential GDP in 2022, and −2.2% of potential GDP in 2023. The updated Heatmap of the Lithuanian Economy shows that the temperature of the economy is likely to remain high in Q4 2022, however, the deterioration in business trends is observed (Annex 4).

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

[4] Projections of the working-age (15–74) population were used in line with EUROPOP2019 baseline scenario updated on 28 September 2022, which takes into account the migration of refugees from Ukraine.

Figure 5. Labour factor, total factor productivity and capital will contribute to the potential Lithuania's GDP growth in 2022–2025



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

5. THE DECEMBER EDS FOR 2022–2025 IS ENDORSED, HOWEVER, THE RISKS DUE TO THE GEOPOLITICAL SITUATION AND ENERGY PRICES ARE NOT DECREASING.

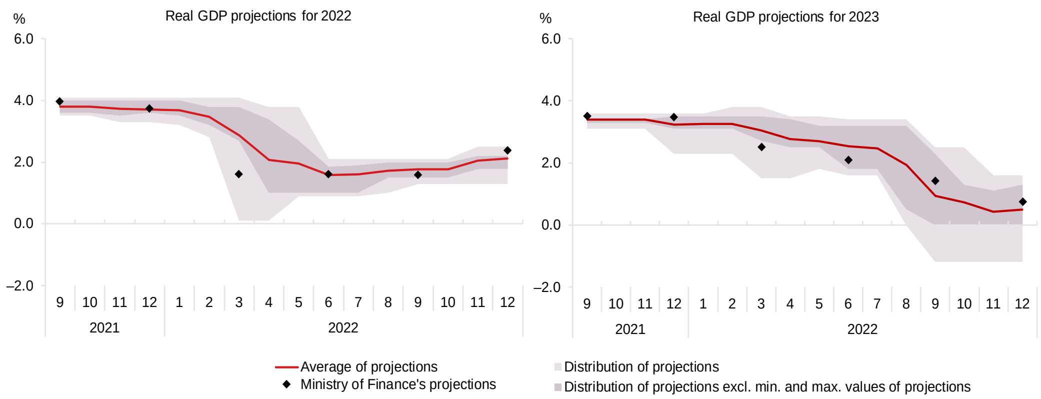
The Fiscal Institution in the NAO endorses[5] the Economic Development Scenario for 2022–2025 published by the Ministry of Finance on 21 December 2022. It complies with identified assumptions, is based on the available statistical data, and the submitted projections do not contradict the expert assessment of the National Audit Office implementing the functions of the fiscal institution.

The Economic Development Scenario for 2022–2025 of the Ministry of Finance is prepared and published in accordance with the legal framework under the identified exceptional circumstances. The Ministry submitted the draft EDS to the Fiscal Institution in the NAO on 6 December 2022 for initial alignment. The assessments of the Fiscal Institution in the NAO and the Ministry for the economic development did not differ significantly. The questions raised by the Fiscal Institution in the NAO were answered, and the main technical assumptions together with risk factors were presented at the meeting of 12 December. The Ministry of Finance published the Economic Development Scenario for 2022–2025 on its website on 21 December 2022.

The remaining uncertainty in 2023 is illustrated by the distribution of projections by institutions publishing Lithuania's GDP projections (Figure 6). The December's real GDP projections for 2022–2023 are in line with the average of the projections of other institutions. In October–December, the other institutions' projections of real GDP for 2023 differ significantly, and their increased distribution indicates that currently the economic outlook is still challenging to foresee. A part of institutions has updated their projections before the revision of national accounts of 3 October 2022 or the announcement of the second estimate of real GDP in Q3 2022 (Annex 5).

[5] Decision on the endorsement is based on the data that was available until 01/12/2022. The Ministry of Finance is obliged to publish an updated EDS at least once a quarter until the exceptional circumstances are cancelled.

Figure 6. Distribution of real GDP projections for 2022–2023 points out the persistent uncertainty



The following institutions have been included in the projection distribution: European Commission, International Monetary Fund (IMF), Organisation for Economic Cooperation and Development, Bank of Lithuania, AB Swedbank, AB SEB, AB Luminor (horizontal axis corresponds to the month of publication of projections).

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

According to the assessment of the Fiscal Institution in the NAO, risk factors, contributing to Lithuania's economic development, remain mainly related to the geopolitical situation and energy prices:

- Higher than projected energy prices may contribute to slower economic growth. In such case, energy-intensive businesses would be forced to restrict their production, and this would affect employment in Lithuania and other countries of the EU. A contraction in external demand would affect Lithuania's export. High energy prices also have a negative impact on the competitiveness of the region.
- Due to the risk of prolonged high inflation, a more rapid tightening of ECB monetary policy would reduce both domestic and external demand. Rising interest rates may have a stronger impact on consumption and investments in the euro area. Also, countries may face increased debt financing costs, and this would affect the possibilities of the public sector to stimulate economies.
- The purchasing power of households may be reduced by prolonged high inflation. The continuing growth of food prices and the difficult situation in energy markets may have a greater than the projected impact on purchasing power, and the household saving rate may grow due to the deteriorating population expectations. These factors would reduce household consumption.
- The implementation of measures financed by the European Union's funds may be slower than it is expected, and this would lead to lower growth in consumption and investments of the public sector.
- A more rapid transition to green energy, alternative energy sources, and structural changes and interventions considered by the EC, addressing high energy prices, can have a positive impact on the economic development of the EU as a whole.
- A stronger euro exchange rate, which would decrease the prices of imported raw materials, and an easing of tension in supply chains would lead to an increase in prices to a lesser extent.

- As war refugees from Ukraine enter the labour market and the activity rate of the population increases, and business show resilience, the number of employed persons could remain stable or grow, which would allow GDP to grow more rapidly.
- With supply chains being redistributed, opportunities arise for Lithuanian export to gain a greater market share. This would allow exporting firms to expand and would lead to a better labour market and production indicators.

The National Audit Office of the Republic of Lithuania, implementing its functions of a budget policy monitoring institution (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 2022–2025 prepared by the Ministry of Finance of the Republic of Lithuania and published on 21 December 2022. Pursuant to Article 7(3) of the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania and Article 8(7)(3) of the Law on National Audit Office, the National Audit Office submits its opinion to the Seimas of the Republic of Lithuania.

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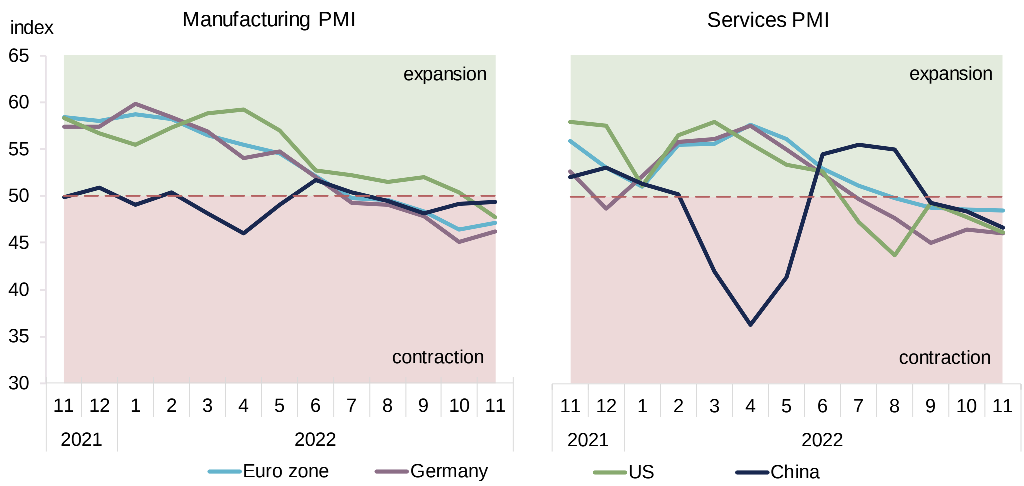
ANNEXES

Opinion
On the Endorsement of the Economic Development Scenario
Annex 1

BUSINESS ACTIVITY IN THE GLOBAL ECONOMY AND COMPARISON OF ASSUMPTIONS OF INTERNATIONAL INSTITUTIONS

Figure 1. Trends of Purchasing Managers' Index of manufacturing and services in 2022 point to the contraction



Source: https://www.pmi.spglobal.com

Table 1. Comparison of international institutions' oil prices and the exchange rate projections

Period	EC (11/11/2022)		OECD (22/11/2022)		Futures (29/11/2022)	
	Oil price	USD/EUR	Oil price	USD/EUR	Oil price	USD/EUR
2022P	101.8	1.04	102.5	1.04	101.0	1.03
2023P	85.0	0.98	95.0	0.98	83.4	1.05
2024P	78.0	0.98	95.0	0.98	78.4	1.07
2025P	78.0	0.98	95.0	0.98	75.5	1.08

The date of data publication is presented in brackets.

Source: European Commission, OECD, www.barchart.com

Opinion
On the Endorsement of the Economic Development Scenario
Annex 2

THE MINISTRY OF FINANCE'S DECEMBER 2022 PROJECTIONS FOR THE ECONOMIC DEVELOPMENT SCENARIO

Indicator, %	2021	2022P	2023P	2024P	2025P
Key macroeconomic indicators, rate of change					
GDP at constant prices	6.0	2.4 (1.6) ▲	0.7 (1.4) ▼	3.0 (3.0)	3.0 (3.0)
Household consumption expenditure	8.1	1.4 (2.5) ▼	0.8 (2.7) ▼	3.4 (3.4)	3.4 (3.4)
General government consumption expenditure	0.9	0.5 (0.6) ▼	0.8 (0.0) ▲	0.0 (0.0)	0.0 (0.0)
Gross fixed capital formation	7.8	2.1 (3.0) ▼	3.0 (4.5) ▼	5.4 (5.4)	5.4 (5.4)
Exports of goods and services	17.0	11.3 (3.0) ▲	0.7 (2.0) ▼	3.7 (3.7)	3.7 (3.7)
Imports of goods and services	19.9	10.6 (3.9) ▲	0.8 (3.1) ▼	4.1 (4.1)	4.1 (4.1)
GDP at current prices	12.9	20.0 (18.0) ▲	10.2 (7.5) ▲	5.3 (5.1) ▲	5.1 (5.1)
Price indicators, rate of change					
GDP deflator	6.5	17.2 (16.2) ▲	9.4 (6.0) ▲	2.3 (2.0) ▲	2.0 (2.0)
Harmonised index of consumer prices (average annual)	4.6	18.9 (17.8) ▲	9.4 (6.0) ▲	2.3 (2.0) ▲	2.0 (2.0)
Labour market indicators					
Change in average gross monthly earnings	10.6	13.0 (12.0) ▲	9.1 (8.1) ▲	5.0 (5.0)	5.0 (5.0)
Unemployment rate (according to the Labour Force Survey methodology)	7.1	5.9 (6.3) ▼	7.0 (6.8) ▲	6.8 (6.7) ▲	6.5 (6.4) ▲
Change in the number of employed persons (according to the Labour Force Survey methodology)	0.8	4.3 (1.0) ▲	−0.7 (0.0) ▼	0.0 (−0.2) ▲	−0.1 (−0.4) ▲

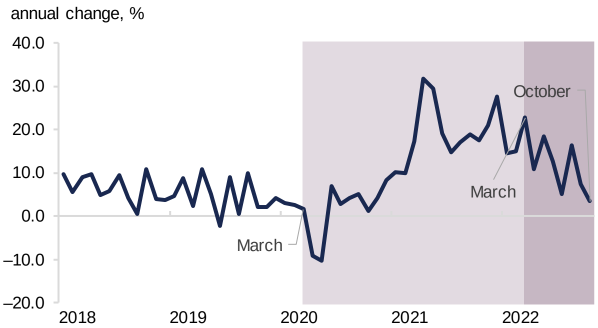
The Ministry of Finance's September 2022 projections for the Economic Development Scenario are presented in the brackets. According to the EDS assessment and endorsement description, the EDS indicators for approval by the Fiscal Institution in the NAO are marked on a purple background.

Source: Ministry of Finance

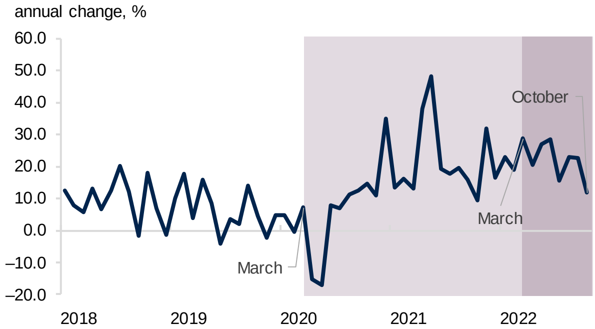
Opinion
On the Endorsement of the Economic
Development Scenario
Annex 3

DEVELOPMENTS IN THE LITHUANIAN ECONOMY DURING A PERIOD OF EXCEPTIONAL CIRCUMSTANCES

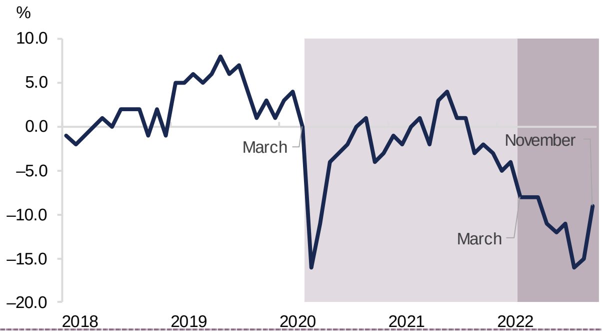
① Declining demand for goods, persistent high energy prices leads to slowing of **industrial output**[1].



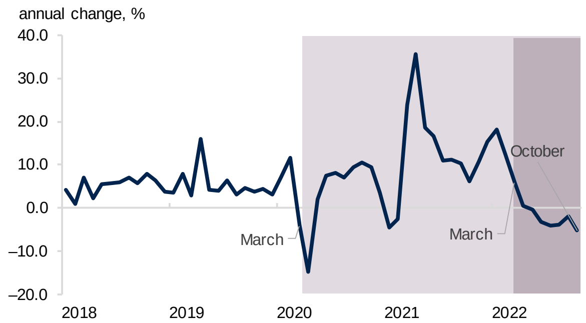
② In October, the value growth of **export of goods of Lithuanian origin**[2] was slower but remained double-digit.



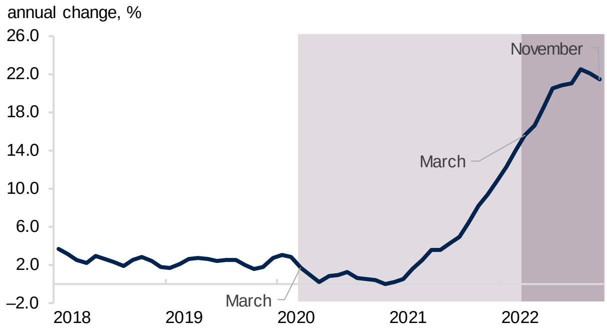
③ Measures foreseen in the budget for 2023 and positive trends in energy prices contribute to improved **consumer expectations.**



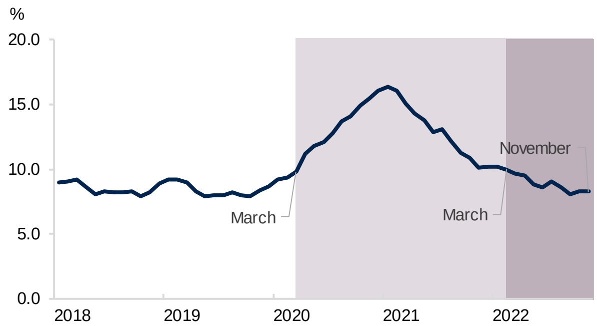
④ The fall in **retail turnover**[3] in October was influenced by a contraction in both food and other goods trade.



⑤ **Inflation** has slowed down in October–November.



⑥ **Unemployment** recorded in November is close to the average level in 2019.



[1] Except refined petroleum products.

[2] Except mineral products.

[3] Except the sale of automotive fuels.

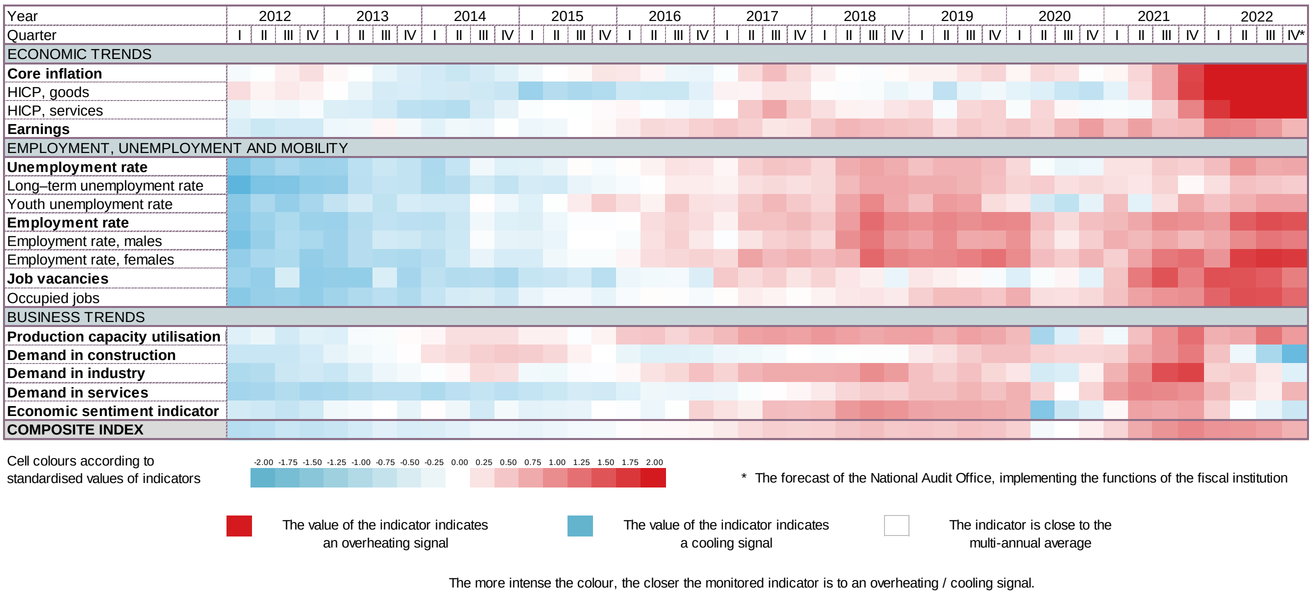
*Purple background highlights the period of exceptional circumstances. Russia's war in Ukraine is marked separately by the darker colour.

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 4

THE HEATMAP OF LITHUANIA'S ECONOMY

The monitoring of macroeconomic imbalances[6] shows that rapid inflation and a favourable labour market situation are contributing to Lithuania's economy remaining at a high temperature in Q4 2022[7], however deteriorating business trends are observed.



Detailed heatmap data may be found on the web page www.valstybeskontrole.lt/LT/BiudzetoStebesena under Makroekonominiai duomenys tab

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

[6] The methodology for drawing up the map and the description of the indicators are set out in the Fiscal Institution's Opinion No BP–5 "On the Endorsement of the Economic Development Scenario" of 20 September 2018. The map shows the deviations from the long-term average. The 05/04/2022 Opinion "On the Endorsement of the Economic Development Scenario" contains a description of the calculation of the construction demand indicator.

[7] Some of the statistical indicators used in the map for Q4 2022 are provisional. Net inflation, the October-November change in the HICP indices of goods and services, compared with the corresponding period of the previous year and equated to Q4. Unemployment and employment rates, job vacancies, and jobs occupied in Q4 are estimated using econometric models, taking into account data available from Lithuanian Department of Statistics, the Employment Service and *Sodra* (State Social Insurance Fund).

Opinion
On the Endorsement of the Economic
Development Scenario
Annex 5

REAL GDP PROJECTIONS OF OTHER INSTITUTIONS

Institution	Date of publication	2022P	2023P
The Bank of Lithuania	19 December 2022	2.5	1.3
OECD	22 November 2022	2.5	1.6
AB SEB	15 November 2022	2.2	0.1
European Commission	11 November 2022	2.5	0.5
AB Swedbank	25 October 2022	2.0	0.0
IMF	11 October 2022	1.8	1.1
AB Luminor	13 September 2022	1.3	−1.2
Average of institutions		2.1	0.8
The Ministry of Finance	21 December 2022	2.4	0.7

Source: the following institutions are included in the projections - EC, IMF, OECD, AB Swedbank, AB SEB, AB Luminor; calculations by the National Audit Office implementing the functions of the fiscal institution