VALSTYBĖS KONTROLĖ
BUDGET MONITORING

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

4 January 2024 No. BPE–1

Vilnius

FURTHER GROWTH OF THE LITHUANIAN ECONOMY WILL DEPEND ON EXTERNAL DEMAND AND THE PACE OF RECOVERY OF DOMESTIC CONSUMPTION

The National Audit Office implementing the function of a fiscal institution (hereinafter – NAO FI) submits to the Seimas its opinion on the Economic Development Scenario (hereinafter – EDS) for 2023–2026 published by the Ministry of Finance (hereinafter – MoF) on 29th of December. The opinion is based on the Constitutional Law on the Implementation of the Fiscal Treaty.

The Economic Development Scenario is consistent with the specified assumptions and is based on relevant statistical data. The view of the NAO FI on economic outlook of Lithuania is similar to that of the Ministry of Finance. The NAO FI approves the Economic Development Scenario for 2023–2026 published in December.

Key messages of the opinion:

- **Following the assessment, the NAO FI endorses the December Economic Development Scenario for 2023–2026 of the Ministry of Finance.**
- **With geopolitical tensions continuing unabated and interest rates remaining high, the main export markets of Lithuania are expected to grow in 2024 but at a slower pace than anticipated in September.**
- **The country's economy is likely to have avoided a significant contraction in 2023, thanks to the rapid expansion of investment.**
- **With the labour market remaining stable, domestic demand and rising exports will support a moderate recovery in 2024.**
- **Risks to Lithuania's continued growth are mainly related to the pace of recovery in external demand and domestic consumption.**

ASSESMENT AND ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

Using a variety of analytical methods[1], the NAO FI carried out an assessment of the Economic Development Scenario for 2023–2026 published in December. The NAO FI analysed the macroeconomic environment and assumptions, compared the EDS projections with those of the NAO FI and other institutions, used the endorsement range method and expert judgement. The assessment was carried out using publicly available data and information published till 1 December 2023 (unless specified otherwise).

The assumptions used in the EDS published in December 2023 are based on the most recent European Commission forecasts and are reasonable. The assumptions of the NAO FI and the MoF reflect the prevailing unfavourable macroeconomic environment due to geopolitical tensions, high interest rates and uncertainty about the development of the major global economies. Both institutions assume that international trading partners will recover moderately in 2024, but that their economic development in the medium term will remain slower than before the outbreak of the war in Ukraine. The assumptions of the NAO FI and the MoF on the oil price and the exchange rate of the Euro against the US dollar are close. For a broader description of the macroeconomic environment of the NAO FI and projection assumptions, see Section 1 of Opinion.

There are no significant differences in the projections of the main macroeconomic indicators for the period 2023–2026 between the MoF and the NAO FI. The NAO FI and the MoF project a contraction in real GDP in 2023. In 2023, the country's economy will avoid a significant contraction because of a rapid investment expansion. Both the NAO FI and the MoF have revised downwards household consumption in 2023, projecting a contraction of the aforementioned indicator. On the other hand, the NAO FI projects a more moderate growth in private consumption in Q4 2023 as compared to Q3, after adjusting for seasonality and working days. Both institutions project real GDP developments in the period 2024–2026 in a similar way: real GDP growth will be moderate in 2024 (below 2%) and accelerate in 2025. Economic growth in this period will be supported by household consumption, investment and rising exports. With the strengthening of the purchasing power of the population, a recovery in household consumption expenditure is expected in 2024 and further growth in 2025–2026. Both institutions forecast a stable labour market situation in 2023–2026, with wage growth, a high employment rate and a low unemployment rate. As energy prices stabilise, the NAO FI and the MoF project inflation to move towards 2% in the medium term, with a corresponding slowdown in GDP growth at current prices in 2024, before accelerating again in 2025–2026. For a broader description of the projections of the NAO FI, see Section 2 of the Opinion. It is noted that there may and can be differences between the estimates of the NAO FI and the MoF. The projections of the NAO FI are presented in Annex 1 and those of the MoF 2023 December EDS are presented in Annex.

The forecasts of the NAO FI are used as a benchmark for the endorsement range method. On this basis, the NAO FI has produced projection uncertainty graphs for the following indicators of the EDS[2]: the GDP at current and constant prices, the real household consumption expenditure, average monthly gross earnings and changes in the number of employed persons (Annex 3). The above-mentioned indicators of the EDS published in December 2023 fall within the endorsement range, which is constructed as an 80% confidence interval. It should be noted that the probability of these indicators being realised is not the same in this

[1] The evaluation and endorsement process and the methods used are defined in the Description of Evaluation and Endorsement of the EDS of the NAO FI, updated on 19 September 2023. Available online: https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf.

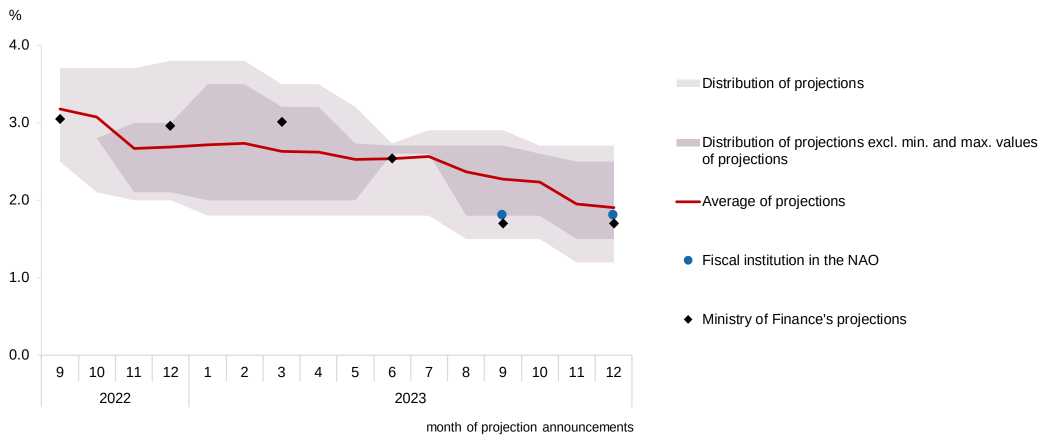
[2] These key indicators are the most important for the NAO FI when deciding on the approval of the EDS, but other projections of the indicators of the EDS are also analysed to ensure consistency between the projections of the scenario indicators.

range. The projections for changes in 2023–2025 for all indicators, except for the household consumption expenditure in 2023, fall within the 40% endorsement range. This represents the central range of the probability intervals, which is the closest to the reference point (mode) for the projections of the NAO FI. It should be noted that the projection of the change in the real household consumption expenditure in 2023 falls within the 80% range. This means that the projection for 2023 is further away from the central range of the uncertainty graph and has a probability of occurrence that is smaller than in the 40% range. The NAO FI notes that the endorsement ranges are based on historical errors and, therefore, may not necessarily be a complete representation of future uncertainty. Given the favourable consumer sentiment, the resumption of growth in retail sales (excluding fuel) in October, and annual wage growth above inflation, the projection of a stronger recovery in household consumption expenditure in Q4 2023 projected by the MoF is plausible.

According to the method used by the NAO FI to assess the potential GDP to test the consistency of the medium-term projections, the EDS projection of real GDP in 2026 is plausible. According to the assessment of the NAO FI, the potential GDP[3] is expected to increase by around 3.2% on average annually between 2023 and 2026 (Annex 1). The Ministry of Finance projects the real GDP growth at 2.9% in 2026. This is close to the 3.0% potential GDP growth estimated by the NAO FI for 2026.

Compared with the real GDP projections of other institutions, the real GDP projection for 2024 of the 2023 December EDS remains cautious. The real GDP projection for 2024 is below the average of the other institutions' projections and is considered cautious by the NAO FI (Figure 1). This figure also shows the real GDP projection for 2024 provided by the NAO FI, which is also considered cautious according to this criterion. It should be noted that most of the institutions publishing macroeconomic forecasts for Lithuania updated them by the end of November 2023, before the favourable national accounts data for Q3 2023 was published (Annex 4).

Figure 1. The real GDP projection for 2024 in the EDS published by the Ministry of Finance in December 2023 remains cautious



The distribution of projections include projections from the following institutions: the European Commission (EC), the International Monetary Fund (IMF), the Organisation for Economic Co-Operation and Development (OECD), the Bank of Lithuania, Swedbank AB and SEB AB.

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

[3] The potential GDP estimate uses the latest EDS projections published by the Ministry of Finance. It should be noted that due to differences in estimation assumptions and model specifications, the estimates of the potential GDP and output gap of the NAO FI and the MoF may differ.

The Economic Development Scenario for 2023–2026 published in December is endorsed by the NAO FI. According to the Directive of the Council of the European Union[4], budgetary planning must be based on the most likely or more prudent macroeconomic fiscal scenario. In view of the remaining uncertainties and taking into account the results of the above-mentioned approaches, the NAO FI endorses the Economic Development Scenario for 2023–2026 published in December.

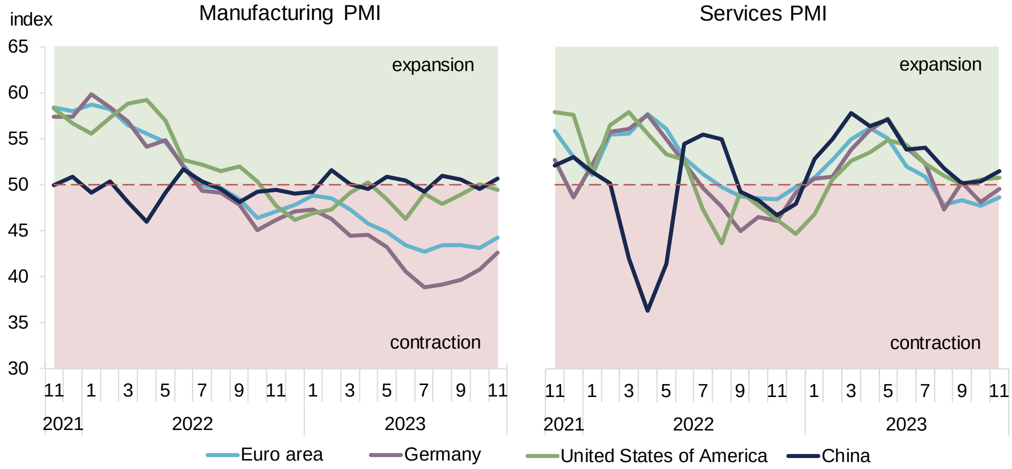
The Ministry of Finance submitted the draft EDS to the NAO FI for initial coordination on 6 December 2023. More detailed information on the process of coordination is provided in Annex 5. The NAO FI carried out an assessment of the draft EDS on the basis of the above methods. At the meeting of the institutions on 8 December 2023, the representatives of the MoF answered questions on the evolution of GDP and its components, assumptions on the modelling of the labour market indicators, which were raised in the letter of the NAO FI on the EDS projections. The NAO FI has shared its assumptions used in the modelling of the economic development, as well as the perceived risks that could affect the fulfilment of the scenario. The Economic Development Scenario published by the MoF has not been changed as compared with the initial draft EDS received by the NAO FI.

[4] 8 November 2011 Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ 2011 L 306, p. 45), Article 4(1). Available online: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:LT:PDF.

1. ANALYSIS OF THE MACROECONOMIC ENVIRONMENT AND THE EDS ASSUMPTIONS

According to the NAO FI, persisting challenges in the euro area due to weak domestic and external demand could affect Lithuania's economic development in 2024. The stronger US economic growth in Q1–Q3 2023 was supported by high inflation-proof domestic consumption and a strong labour market. International institutions are forecasting better-than-expected growth in 2024, China's 2023 growth target of 5% is likely to be met, but weak domestic demand, persisting difficulties in the real estate sector, and weak consumer and investor expectations lead international institutions to project slower growth in 2024 than in 2023. The industrial and service business sectors continue to show expansion, but weak domestic and external demand in China is also weighing on international trade in the euro area (EA). This is particularly acute in Germany, Lithuania's main export partner and the EA's largest trading partner with China. In addition, Germany's industrial sector continues to be negatively affected by high energy prices. The EA's sluggish economic growth in Q1–Q3 2023 is due to weak domestic and external demand, and the persistently weak situation in the manufacturing and service sectors (Figure 2). With inflation stabilising, the European Central Bank (ECB) did not raise its base rate in October, but tight financing conditions constrain private investment and economic activity of the EA. Sluggish demand from main export partners may pose challenges to Lithuania's future economic growth.

Figure 2. Business activity in the manufacturing and service sectors in the EA shows continued contraction



PMI – Purchasing Managers' Index

Source: https://www.pmi.1spglobal.com

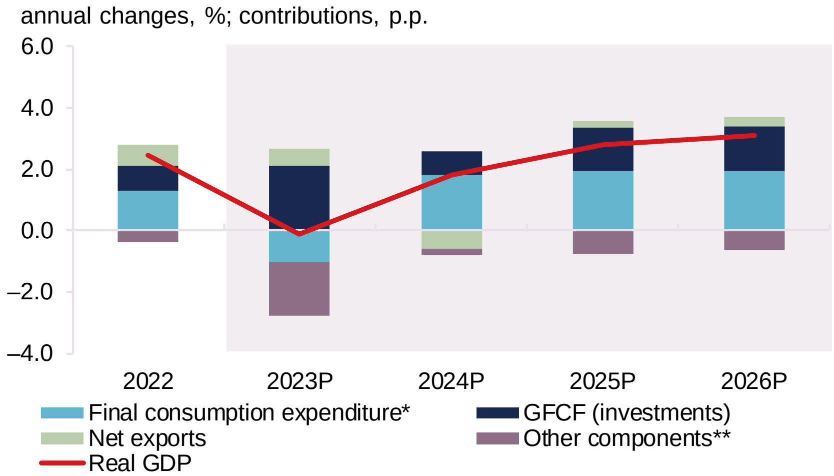
The assumptions used in the December EDS are based on the latest EC forecasts and are justified. The update of the European Commission's economic forecasts in November 2023 implies slower growth in the global and EU economies in 2024 than in the assumptions used in the September EDS prepared by the MoF. The downward revision is driven by the negative impact of tight financing conditions, which may constrain economic activity next year. Meanwhile, the assumptions for world (ex-EU) growth between 2025 and 2026 have been revised upwards (Annex 2, Table 2). The NAO FI and the MoF apply assumptions for a slower expansion of Lithuania's main export partners in 2024 than expected in September. With the US economy showing resilience, the EDS assumes a stable exchange rate of the Euro against the US dollar, while futures contracts point to a strengthening of the Euro (Annex 6). The EDS projects an increase in the oil price in 2024 and a decrease in 2025–2026. However, futures show a decline in the price throughout the medium-term. Given the prevailing uncertainty in the oil and exchange rate markets, the NAO FI considers the differences to be small. In light of this information, the assumptions used by the MoF in the preparation of the EDS are reasonable. The assumptions used by the NAO FI in its forecasts are almost identical to those used in the EDS (Annex 1, Table 2).

2. NAO FI ECONOMIC DEVELOPMENT FORECAST

In order to increase transparency and credibility, the NAO FI have started to make publicly available the macroeconomic forecasts that NAO FI produce together with the opinion on the endorsement of the EDS as of 19 September 2023. This is also one of the elements of the analysis of the NAO FI in the assessment and approval of the EDS. In order to ensure that the NAO FI is able to carry out an independent assessment of the EDS submitted by the Ministry of Finance, the NAO FI prepared own macroeconomic forecasts on 5 December before the draft EDS was submitted by the MoF. The NAO FI's forecast and the assumptions used to produce it are presented in Annex 1. It is noted that there may and can be differences between the estimates of the NAO FI and the Ministry of Finance.

The country's economy is projected to have avoided a significant contraction in 2023, due to the rapid expansion of investment. The moderate recovery in 2024 is likely to be driven by domestic demand and rising exports. In Q3 2023, the country's real GDP was 0.2% higher than a year earlier. Industrial production continued to contract, but the construction, information and communications sectors were the main drivers of the positive change in gross value added. In October this year, retail sales (excluding fuels) and industrial production were already higher than a year earlier. Business expectations in October–November were more favourable than in the corresponding period in 2022. According to the NAO FI, the sluggish external demand would make it difficult to expect particularly strong economic growth in Q4 2023, but based on the October–November data, real GDP may expand faster in Q4 than in Q3 2023. The NAO FI projects a slight contraction in the real GDP in 2023 (Figure 3). This will be due to a fall in household consumption expenditure and negative developments in inventories. With imports falling more than exports, net exports are projected to have a positive impact on the real GDP. However, a strong expansion of investment will prevent a significant contraction of the economy.

Figure 3. The NAO FI projects that after the economic contraction in 2023, investment, household consumption and rising exports will support a moderate recovery of the real GDP in 2024



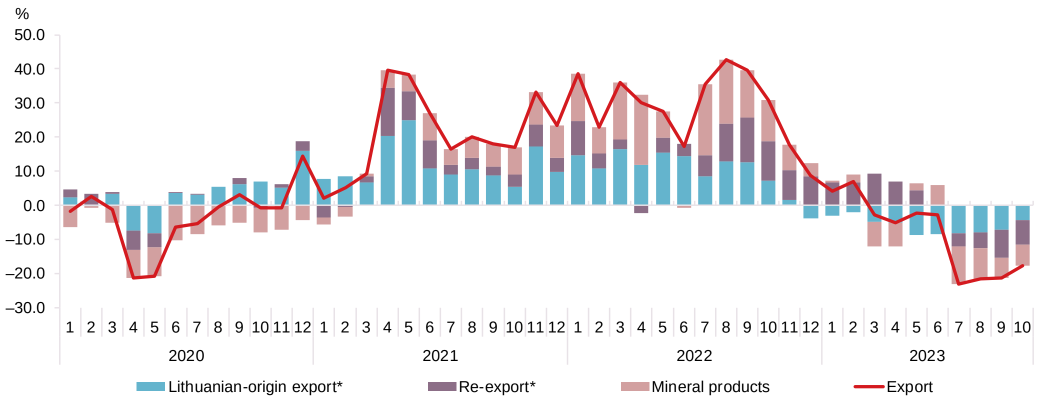
* excluding NPI, ** NPI, changes in inventories, acquisitions less disposals/transfers

Source: State Data Agency, calculations by the National Audit Office implementing the functions of a fiscal institution

According to the assessment of the NAO FI, foreign demand may remain sluggish in the first half of 2024, which would have a negative impact on the performance of the Lithuanian industry and exports in this period. Accordingly, this leads to a more cautious assessment of Lithuania's economic recovery prospects in 2024. The moderate economic recovery in 2024 (1.8%) is projected to be supported by household consumption, investment and growing exports. The real GDP is projected to expand at a faster pace over the rest of the medium term.

Real exports of goods and services of Lithuania are projected to drive the country's economic expansion between 2024 and 2026 as foreign demand gradually recovers. Exports of services continued to grow, but exports of goods contracted markedly. This was not only due to a drop in exports of Lithuanian origin, but also to a drop in the value of re-exports (at current prices), which is likely to have been influenced by the stricter sanctions controls in force[5] (Figure 4). It should be noted that falling export prices also contributed to these developments. The annual contraction in the value of exports and imports of goods (excluding mineral products) slowed in October. The annual contraction in the value of exports of goods of Lithuanian origin slowed down significantly as industrial production increased. This suggests that the annual contraction of real exports in Q4 may be smaller than that observed in Q3 of this year. The NAO FI projects real exports to fall by around 5% in 2023, with real imports falling more than exports in industry as private consumption falls and inventories rise. Exports of goods of Lithuanian origin in the first half of 2024 are likely to be affected by sluggish external demand and by the grain harvest, which was lower in 2023 than in 2022. Re-exports in 2024 may be further reduced by the above-mentioned tighter sanctions control. For the rest of the medium term, real export and import growth are expected to accelerate as external and domestic demand strengthens.

Figure 4. In October 2023, the annual contraction in the value of goods exports (at current prices) slowed down but remained in double digits



* excluding mineral products

Source: State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution

Purchasing power of the population has been strengthening, however in Q1–Q3 2023, real private consumption still fell and is expected to recover in 2024. In Q1–Q3 2023, real household consumption expenditure declined by 2% on an annual basis. In the context of slowing price growth, the population has remained cautious and did not rush to increase their consumption, either because they increased their savings or were constrained by the rise in interest rates. Only in October 2023, the annual change in retail sales (excluding fuels) was positive for the first time since April 2022 at constant prices, at 1.4%. In view of the weak consumption developments and a possible moderate recovery in Q4 2023 as compared to Q3 2023, adjusted for seasonal and working day effects, the NAO FI projects that household consumption could contract by 1.7% in 2023. The favourable labour market situation, the significant slowdown in inflation and the measures related to increase people's income in the 2024 budget will have a positive impact on household disposable income levels. This, together with a low comparative base, will allow private consumption to recover in 2024 and, according to the NAO FI, to grow by 3.0% and, in the medium term, to increase by 3.2%

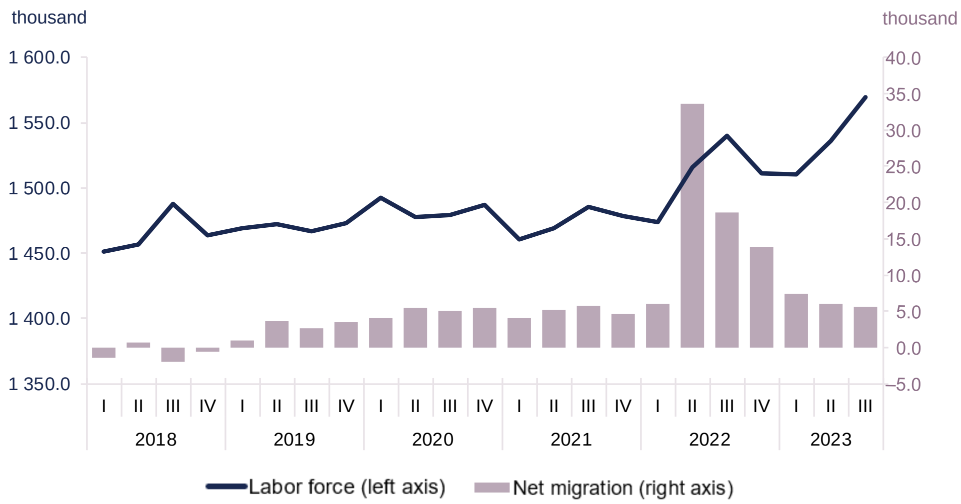
[5] Press release of the Customs Department under the Ministry of Finance of 3 July 2023. Available online: https://lrmuitine.lt/web/guest/naujienos/aktualijos/aktualija?p_p_id=EXT_WPLISTALLNEWS&p_p_lifecycle=0&_EXT_WPLISTALLNEWS_obj_id=090004d2801b3f53.

annually if the favourable tendencies continue. However, higher-than-expected changes in the household savings rate could have a significant impact on consumption dynamics.

Rapid investment growth significantly contributed to overall economic activity in 2023 and is projected to slow down in 2024. Despite less favourable external demand, weak business expectations, low industrial capacity utilisation and rising interest rates, real gross fixed capital formation (investment) grew at a double-digit annual rate in Q1–Q3 2023. In Q3 2023, data on tangible investment show a continued positive trend in the public sector (especially in the construction of civil engineering works). Investment spending in the private sector also grew, but at a slower pace. In this context, and taking into account expected EU structural fund flows, the NAO FI expects that growth in gross fixed capital formation could reach 9.2% in 2023. Due to the possible delayed impact of monetary policy, the high comparative base, and uncertainty in the private sector, the pace of investment growth is expected to slow down in 2024.

Following a moderate economic contraction, the record high labour market indicators for 2023 suggest that the labour market will remain stable in the projected growth period 2024–2026. The resilience of the labour market in 2023 is reflected in the double-digit growth of average gross earnings in Q3 2023, low unemployment, and a record high number of job vacancies[6] . Positive net migration contributed to an expanded labour force and higher employment in January–October (Figure 5). Given the increase in the labour force, the NAO FI has assumed that this rate will remain elevated, which has a positive impact on the projection of the number of employed persons over the medium term. In the view of the NAO FI, the labour market situation should remain stable between 2024 and 2026. Discretionary decisions to increase the minimum monthly wage and public sector salaries will allow average gross earnings to grow by 8.5% in 2024. However, given the difficulties of the largest activities in terms of the number of employees, an increase in the unemployment rate is possible. According to the estimates of the NAO FI, it could rise to 6.9% in 2024, while the number of employed persons could fall by 0.3%.

Figure 5. Positive net migration has contributed to a larger labour force and a higher number of employed persons



Source: State Data Agency

[6] Based on data from the State Data Agency.

As energy prices stabilise, inflation is expected to return to the 2% target in 2024. After the records of 2022 and the highs of 2023[7], energy prices have started to decline. In the medium term, futures data suggest that energy prices will stabilise. In the context of the oil price plunging, import prices have fallen faster than export prices. Producer prices and purchase prices of agricultural products have also declined. The increase in the GDP deflator was supported by increases in prices of household consumption and GFCF goods and services. The growth of the harmonised index of consumer prices also slowed down sharply to 2.3% in November. More stable energy prices and a high comparative base could lead to a further decline in the HICP and the GDP deflator over the period 2024–2026. However, with the ongoing war in Ukraine and increased price volatility in energy and food markets, the risk of an acceleration of inflation remains. Following the downward revision of the GDP deflator forecast to 2.7% by the NAO FI, the GDP is projected to grow by 4.5% in 2024 at current prices, lower than forecasted in autumn.

3. RISKS TO THE LITHUANIAN ECONOMY IN THE MEDIUM TERM

The main risk factors remain the prevailing geopolitical tensions, the delayed impact of monetary tightening and uncertainty about the evolution of global and main trading partner economies. The development of the Russian war in Ukraine and the conflict in the Middle East may lead to an increase in the cost of energy resources. This could lead to accelerated inflation and negatively affect industry. The war in Ukraine and the intensification of climate change could also lead to an increase in food commodity prices. Tighter monetary policy, which affects household consumption, saving and investment with a lag, may have a larger than expected impact on the global and Lithuanian economies. A return to fiscal discipline and higher borrowing costs in the EU may prevent the government sector from stimulating economies, which would affect Lithuania's international trade and government consumption. Slower global economic developments would contribute to weaker international trade performance. However, rapid investment growth is a reason to expect higher economic activity in the future.

The National Audit Office of the Republic of Lithuania, implementing the functions of the 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 2023–2026 prepared by the Ministry of Finance of the Republic of Lithuania and published on 29 December 2023. In accordance with 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 the National Audit Office, the National Audit Office submits its opinion to the Seimas of the Republic of Lithuania.

Principal Economist of the Budget Monitoring Department,
Deputy Head of Department Rasa Ibelhauptaitė-Duobienė

[7] The energy price index peaked in September 2022 with a 73% year-on-year increase. In January–November 2023, energy prices were already lower on average per year than in 2022, but 53% higher as compared to 2021.

ANNEXES

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FISCAL INSTITUTION’S MACROECONOMIC FORECAST FOR 2023–2026 AND MAIN ASSUMPTIONS

Table 1. Macroeconomic projections of the NAO FI for 2023–2026

Indicator	2022	2023P	2024P	2025P	2026P
Key macroeconomic indicators					
Change in GDP at constant prices, %	2.4	−0.1 (−0.4) ▲	1.8 (1.8)	2.8 (3.0) ▼	3.1 (3.3) ▼
GDP at constant prices, EUR million	47304.2	47256.9	48107.5	49454.6	50987.7
Change in GDP at current prices, %	19.3	6.8 (8.2) ▼	4.5 (4.9) ▼	5.5 (5.7) ▼	5.8 (6.0) ▼
GDP at current prices, EUR million	67399.1	71977.5	75251.5	79369.9	83957.9
Change in labour productivity, %	−1.3	−1.0 (−0.4) ▼	2.1 (1.8) ▲	2.8 (3.0) ▼	3.3 (3.5) ▼
Components of GDP at constant prices, rate of change, %					
Household consumption expenditure	2.0	−1.7 (0.4) ▼	3.0 (3.4) ▼	3.2 (3.2)	3.2 (3.2)
General government consumption expenditure	0.4	0.3 (0.3)	0.2 (0.2)	0.1 (0.1)	0.1 (0.1)
Gross fixed capital formation	3.6	9.2 (7.7) ▲	3.1 (3.0) ▲	5.5 (5.5)	5.5 (5.5)
Exports of goods and services	12.2	−5.2 (−2.8) ▼	3.5 (3.4) ▲	5.0 (5.2) ▼	5.2 (5.1) ▲
Imports of goods and services	12.4	−6.2 (−3.7) ▼	4.5 (4.5)	5.2 (5.4) ▼	5.3 (5.1) ▲
Price indicators, rate of change, %					
GDP deflator	16.5	6.9 (8.6) ▼	2.7 (3.0) ▼	2.6 (2.6)	2.6 (2.6)
Household consumption expenditure deflator	18.6	8.6 (9.3) ▼	2.4 (2.9) ▼	2.3 (2.3)	2.3 (2.3)
Government consumption expenditure deflator	13.5	15.2 (16.5) ▼	12.4 (7.2) ▲	3.9 (4.3) ▼	3.9 (4.4) ▼
Gross fixed capital formation deflator	13.6	5.1 (5.4) ▼	2.9 (2.9)	2.1 (2.1)	2.1 (2.1)
Export (goods and services) deflator	15.4	−0.1 (−1.3) ▲	0.7 (0.7)	1.7 (1.7)	1.4 (1.4)
Import (goods and services) deflator	24.8	−5.1 (−4.7) ▼	0.3 (0.4) ▼	1.5 (1.5)	1.3 (1.3)
Harmonised index of consumer prices (annual average)	18.9	8.7 (9.3) ▼	2.4 (2.8) ▼	2.3 (2.3)	2.3 (2.3)
Labour market indicators					
Number of employed persons (according to the Labour Force Survey methodology), thousand	1420.8	1434.4	1429.8	1429.9	1426.7
Change in the number employed persons, %	3.8	1.0 (0.0) ▲	−0.3 (0.0) ▼	0.0 (0.0)	−0.2 (−0.2)
Unemployment rate (according to the Labour Force Survey methodology), %	5.9	6.7 (6.8) ▼	6.9 (6.7) ▲	6.6 (6.5) ▲	6.6 (6.3) ▲
Average monthly gross earnings, EUR	1789.0	2014.1	2186.0	2343.0	2493.0
Change in average monthly gross earnings, %	13.3	12.6 (12.6)	8.5 (8.5)	7.2 (7.2)	6.4 (6.4)
Annual fund for wages and salaries, million EUR	24542.5	27893.4	30179.4	32349.0	34340.9
Changes in annual fund for wages and salaries, %	16.1	13.7 (12.6) ▲	8.2 (8.5) ▼	7.2 (7.2)	6.2 (6.2)
Changes in potential GDP and the output gap					
Potential GDP	3.4	3.4 (3.4)	3.3 (3.4) ▼	3.2 (3.3) ▼	3.0 (3.2) ▼
Output gap (% of potential GDP)	2.1	−1.7 (−2.5) ▲	−3.3 (−4.1) ▲	−3.6 (−4.6) ▲	−3.8 (−4.9) ▲

The brackets show the September 2023 projections by the NAO FI.
According to the description of the procedure for EDS Evaluation and Endorsement, the indicators based on which the NAO FI decides on the EDS endorsement are presented in the purple background.

The projections are based on information and data published until 1 December 2023.

Source: State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution

Table 2. Main assumptions of the macroeconomic forecasts of the NAO FI

Indicator	2022	2023P	2024P	2025P	2026P
US dollar to euro exchange rate*	1.05	1.08 (1.09) ▼	1.09 (1.11) ▼	1.11 (1.12) ▼	1.13 (1.14) ▼
World (ex-EU) GDP growth, %**	3.3	3.5 (3.1) ▲	3.2 (3.3) ▼	3.5 (3.3) ▲	3.5 (3.3) ▲
European Union GDP growth, %**	3.4	0.6 (1.0) ▼	1.3 (1.7) ▼	1.7 (1.7)	1.7 (1.7)
Growth of Lithuania's main export markets, %***	1.8	0.9 (1.0) ▼	1.3 (1.6) ▼	1.8 (2.0) ▼	1.9 (1.9)
Oil prices (Brent, USD per barrel)*	100.8	83.1 (84.4) ▼	79.6 (81.2) ▼	76.1 (77.1) ▼	73.3 (73.9) ▼

* Average of 10 business days of futures for the period from 7 November to 20 November 2023.
** Technical assumption made public by the European Commission on 15 November 2023.
*** Based on the methodology used by the NAO FI.

The main assumptions of the September 2023 projections for the NAO FI are shown in parentheses.

Source: National Audit Office, implementing the function of a fiscal institution

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Annex 2

PROJECTIONS AND KEY ASSUMPTIONS FOR THE ECONOMIC DEVELOPMENT SCENARIO FOR 2023–2026 BY THE MINISTRY OF FINANCE

Table 1. Projections for the Economic Development Scenario dated December 2023 by the Ministry of Finance

Indicator, per cent	2022	2023P	2024P	2025P	2026P
Key macroeconomic indicators, change					
GDP at constant prices	2.4	−0.4 (−0.4)	1.7 (1.7)	2.9 (2.9)	2.9 (2.9)
Household consumption expenditure	2.0	−0.8 (0.3) ▼	3.1 (3.1)	3.4 (3.4)	3.4 (3.4)
General government consumption expenditure	0.4	0.4 (0.5) ▼	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)
Gross fixed capital formation	3.6	9.0 (7.5) ▲	3.5 (3.5)	5.4 (5.4)	5.4 (5.4)
Exports of goods and services	12.2	−4.4 (−4.5) ▲	4.5 (4.5)	5.2 (4.5) ▲	5.2 (4.5) ▲
Imports of goods and services	12.4	−4.9 (−6.6) ▲	5.4 (6.0) ▼	5.8 (5.1) ▲	5.8 (5.1) ▲
GDP at current prices	19.3	7.0 (8.6) ▼	4.5 (4.7) ▼	5.3 (5.4) ▼	5.3 (5.3)
Price indices, change					
GDP deflator	16.5	7.4 (9.0) ▼	2.8 (2.9) ▼	2.4 (2.4)	2.3 (2.3)
Harmonised index of consumer prices (annual average)	18.9	8.8 (9.0) ▼	2.8 (2.9) ▼	2.4 (2.4)	2.3 (2.3)
Labour market indicators					
Change in average monthly gross earnings	13.3	12.5 (12.1) ▲	7.6 (6.5) ▲	5.0 (5.0)	5.0 (5.0)
Unemployment rate (according to the Labour Force Survey methodology)	5.9	6.6 (6.9) ▼	6.6 (6.6)	6.4 (6.4)	6.3 (6.3)
Change in the number of employed persons (according to the Labour Force Survey methodology)	3.8	1.0 (0.0) ▲	0.3 (0.3)	−0.1 (−0.1)	−0.2 (−0.2)

The EDS is based on statistical data and other information available up to and including 30 November 2023.
The projections for the economic development scenario of 11 September 2023 are in brackets.

According to the description of the procedure for EDS Evaluation and Endorsement, the indicators based on which the NAO FI decides on the EDS endorsement are presented in the purple background.

Source: Ministry of Finance

Table 2. Main assumptions of the Economic Development Scenario dated December 2023 by the Ministry of Finance

Indicator	2022	2023P	2024P	2025P	2026P
US dollar to euro exchange rate*	1.05	1.08 (1.08)	1.06 (1.09) ▼	1.06 (1.09) ▼	1.06 (1.09) ▼
World (ex-EU) GDP growth, %*	3.3	3.5 (3.1) ▲	3.2 (3.3) ▼	3.5 (3.3) ▲	3.5 (3.3) ▲
European Union GDP growth, %*	3.4	0.6 (1.0) ▼	1.3 (1.7) ▼	1.7 (1.7)	1.7 (1.7)
Growth of Lithuania’s main export markets, %	3.4	1.8 (1.9) ▼	2.1 (2.4) ▼	2.4 (2.4)	2.4 (2.4)
Oil prices (*Brent*, in US dollars per barrel)	100.7	84.1 (82.1) ▲	84.5 (82.0) ▲	79.6 (82.0) ▼	79.6 (82.0) ▼

* Technical assumption made public by the European Commission on 15 November 2023.
The main assumptions of the EDS of 11 September 2023 are shown in brackets.
Source: Ministry of Finance

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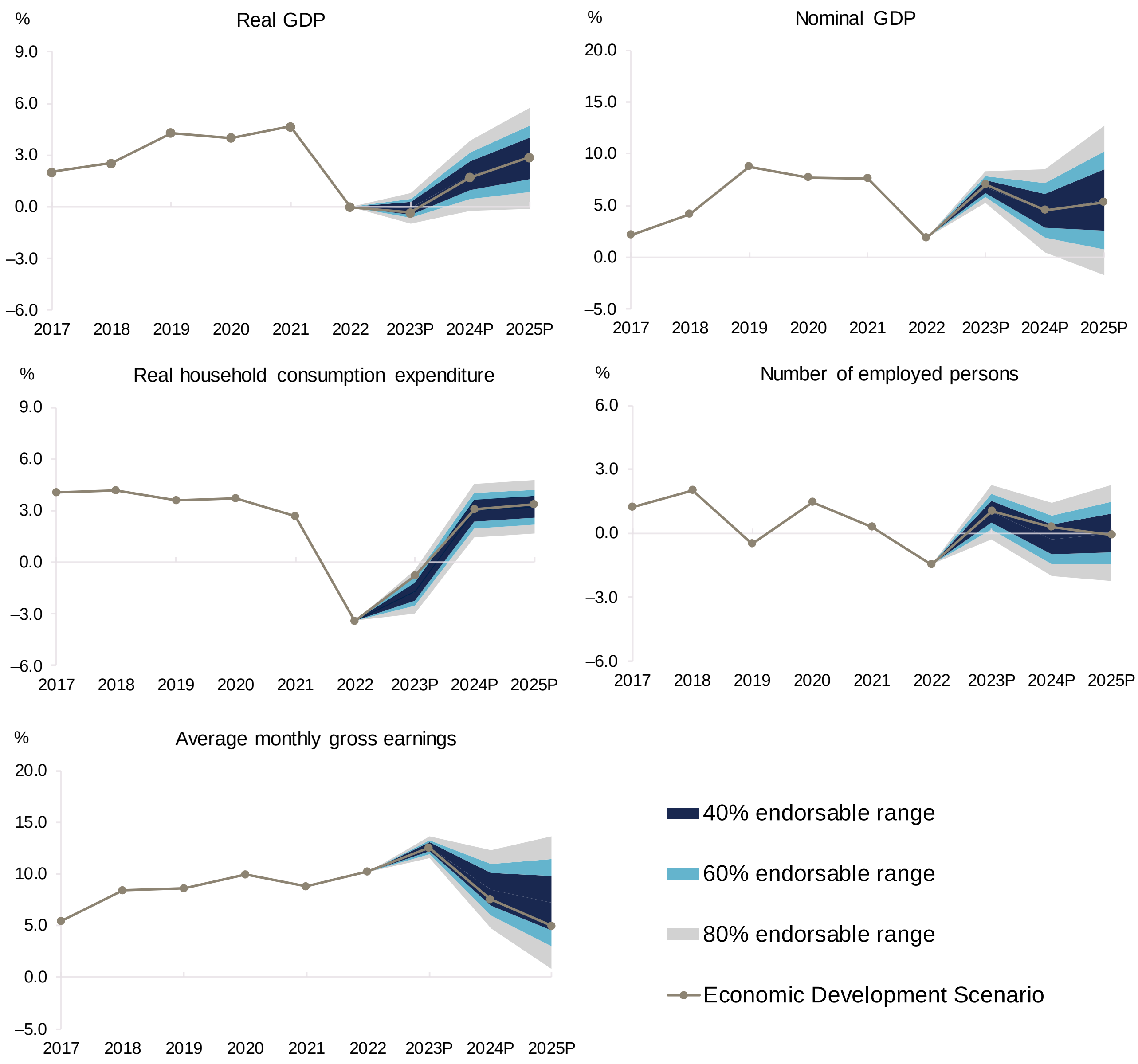
ENDORSEMENT RANGES ESTIMATED BY THE NAO FI



The reference point (mode) of the endorsement ranges are the forecasts produced by the NAO FI.
The methodology for the development of the endorsement ranges is set out in more detail in the description of the procedure for the Assessment and Endorsement of the Economic Development Scenario. Available online:
https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf.

Source: Ministry of Finance, calculations by the National Audit Office, implementing the function of a fiscal institution

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PROJECTIONS OF THE REAL GDP BY OTHER INSTITUTIONS

Institution	Date of publication	2023P	2024P
Bank of Lithuania*	19/12/2023 (26/09/2023)	−0.2 (−0.6) ▲	1.8 (2.1) ▼
OECD	29/11/2023 (07/06/2023)	−0.4 (0.0) ▼	1.7 (2.6) ▼
European Commission	15/11/2023 (15/05/2023)	−0.4 (0.5) ▼	2.5 (2.7) ▼
Swedbank AB	15/11/2023 (23/08/2023)	−0.3 (−0.3)	1.2 (1.5) ▼
SEB AB	14/11/2023 (29/08/2023)	−0.2 (−0.2)	1.5 (1.8) ▼
IMF	10/10/2023 (18/07/2023**)	−0.2 (−1.4) ▲	2.7 (2.9) ▼
Average of institutions		−0.3 (−0.5) ▲	1.9 (2.4) ▼
Ministry of Finance	29/12/2023 (11/09/2023)	−0.4 (−0.4)	1.7 (1.7)
NAO FI	04/01/2024 (19/09/2023)	−0.1 (−0.4) ▲	1.8 (1.8)

The previous forecasts of the institutions are provided in brackets.

* After adjusting for seasonality and number of working days.

** The IMF issued a report on economic developments, policies and prospects in Lithuania on 18 July 2023. The report was approved by the Board of the IMF on 28 August 2023 and made public on 5 September 2023.

Source: Institutional projections: calculations by the European Commission, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the Bank of Lithuania, Swedbank AB, SEB AB, the National Audit Office, implementing the function of a fiscal institution

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PROGRESS OF EVALUATION OF THE EDS PUBLISHED IN DECEMBER 2023

30 November	State Data Agency has published an estimate of the GDP for Q3 2023. Taking into account the newly published statistical data, the NAO FI has updated the macroeconomic projections related to the GDP components.
5 December	The NAO FI has prepared its macroeconomic projections for 2023–2026.
6 December	A meeting between the Bank of Lithuania and the NAO FI was held to discuss Lithuania's economic development.
6 December	The draft EDS was submitted by the MoF to the NAO FI for initial coordination.
7 December	The NAO FI submitted comments to the MoF on the draft ERS. Together with them, the macroeconomic forecasts for 2023-2026 were also provided.
8 December	A meeting between the MoF and the NAO FI took place to answer the questions on the scenario asked by the NAO FI.
11 December	The NAO FI informed the MoF that it had no reasons for not endorsing the EDS.
29 December	The EDS for 2023–2026 published in December has been made publicly available by the MoF on its website.
4 January	The NAO FI has made its opinion on the endorsement of the EDS for 2023–2026 publicly available in December on the website of the NAO FI. At the same time, the macroeconomic forecasts of the NAO FI were published.

Source: National Audit Office, implementing the function of a fiscal institution

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INTERNATIONAL INSTITUTIONS ASSUMPTIONS COMPARISON AND FUTURES CONTRACTS

Table 1. Comparison of projections for the oil price and the USD/EUR exchange rate provided by international institutions

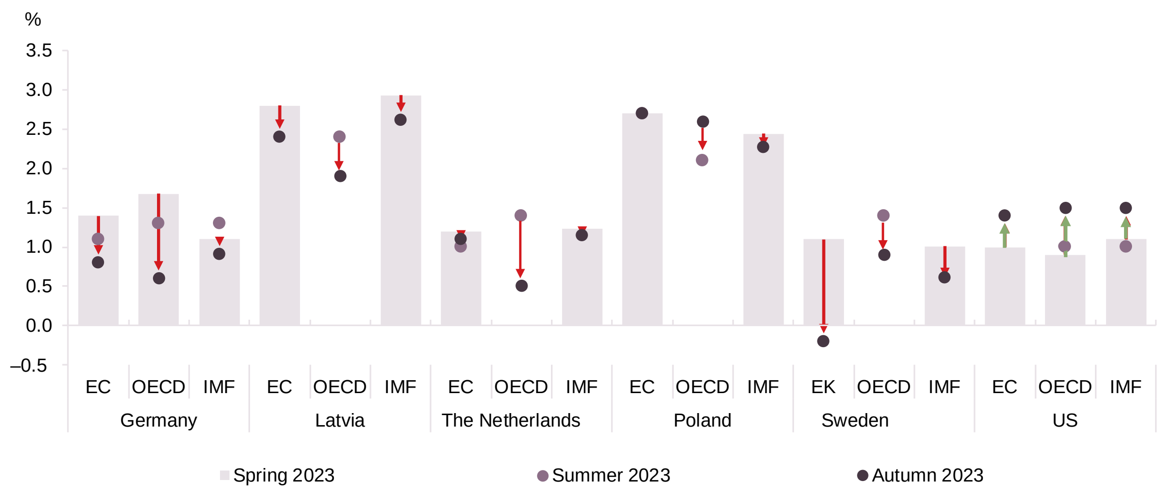
Period	EC (15/11-2023)		OECD (29/11/2023)		ECB (14/12/2023)		IMF (10/10/2023)		Futures contracts (20/11/2023)*	
	Oil price	USD/EUR	Oil price	USD/EUR	Oil price	USD/EUR	Oil price	USD/EUR	Oil price	USD/EUR
2022	100.7	1.05	100.7	1.05	103.7	1.05	100.8	1.05	100.7	1.05
2023P	84.1	1.08	85.0	1.07	84.0	1.08	80.5	1.09	83.1	1.08
2024P	84.5	1.06	85.0	1.07	80.1	1.08	79.9	1.09	79.6	1.09
2025P	79.6	1.06	85.0	1.07	76.5	1.08	79.9	1.09	76.1	1.11
2026P	79.6	1.06	85.0	1.07	73.6	1.08	79.9	1.09	73.3	1.13

The date of publication is given in brackets.

* Average of 10 business days of future transactions for the period from 7 November to 20 November 2023.

Source: the European Commission, the Organisation for Economic Co-operation and Development, the European Central Bank, the International Monetary Fund, https://www.barchart.com

Figure 1. With domestic demand remaining weak, the main export partners of Lithuania will grow more slowly in 2024 than expected in September



Source: European Commission