

To the Seimas of the Republic of Lithuania

# OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

27 March 2024 No. BPE-2

Vilnius

## **IT IS EXPECTED THAT THIS YEAR THE AVERAGE WAGE WILL EXCEED THE PURCHASING POWER IT HAD BEFORE THE INFLATION SPIKE**

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 2024–2027 published by the Ministry of Finance (hereinafter – MoF) on 18<sup>th</sup> of March. The opinion is based on the Constitutional Law on the Implementation of the Fiscal Treaty.

NAO FI endorses the Economic Development Scenario for 2024–2027 published in March. It is consistent with the specified assumptions and is based on relevant statistical data. The views of the NAO FI and the MoF on economic outlook of Lithuania are similar.

### **Key messages of the opinion:**

- **Following the assessment, the NAO FI endorses the March Economic Development Scenario for 2024–2027 of the Ministry of Finance.**
- **With international institutions revising downwards the European Union's economic growth projections for 2024, Lithuania's main export market's development is expected to remain sluggish.**
- **With the labour market remaining stable, household consumption and investment will be the main drivers of a moderate recovery in 2024. With growing external demand, exports are likely to lead to faster GDP expansion in 2025.**
- **Lower energy prices are dragging down inflation, which, together with continued strong wage growth, will allow purchasing power to exceed its 2021 level in 2024.**
- **Risks to Lithuania's continued economic growth are mainly related to the geopolitical situation and international trade.**
- **The faster wage bill growth may allow personal income tax revenues to offset possible lower receipts from corporate income and value-added taxes.**

## ASSESSMENT AND ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

**Using a variety of analytical methods<sup>1</sup>, the NAO FI carried out an assessment of the Economic Development Scenario for 2024–2027 published in March.** The NAO FI analysed the macroeconomic environment and assumptions used, compared the EDS projections with those of the NAO FI and other institutions, used the endorsement range method and expert judgement.

**The assumptions used in the 2024 March EDS are reasonable.** The assumptions used by the NAO FI and the MoF reflect the dynamics of the macroeconomic situation in the world's major economies: against a backdrop of geopolitical tensions, the continued resilience of US households in the face of high prices is evident, while tight financing conditions and weak domestic and external demand are leading to a weaker-than-anticipated in autumn growth outlook for the euro area (EA). Both institutions assume that international trade partners will recover moderately in 2024, but the pace of recovery is projected to be slower than expected at the time of the December EDS. The assumptions used by the NAO FI and the MoF regarding the decline in oil prices and the stability of the euro against the US dollar are similar. A more detailed description of the macroeconomic environment and projection assumptions is provided in Part 1 of the opinion.

**There are no significant differences in the projections of the main macroeconomic indicators for the period 2024–2027 between the MoF and the NAO FI.** The NAO FI and the MoF project that real GDP will grow moderately in 2024 and accelerate to around 3% in 2025–2027. The moderate recovery will be driven mainly by household consumption, which will benefit from the strengthening purchasing power of the population, and by investment. With imports growing faster than exports, the impact of net exports is projected to be negative. Real exports will contribute to faster economic growth in the medium term as external demand grows. Both institutions forecast a stable labour market situation over the period 2024–2027, with wage growth, high employment, and low unemployment.

As energy prices stabilise, the NAO FI and the MoF project inflation to reach around 2% in the medium term. In 2024, GDP growth at current prices is projected to be slower than in 2023. Between 2025 and 2027, it is projected to grow annually at a rate above 5%. It is noted that there may be differences between the estimates of the NAO FI and the Ministry of Finance. The projections of the NAO FI are presented in Annex 1 and those of the MoF 2024 March EDS in Annex 2.

The NAO FI forecasts are used as a benchmark for the endorsement range method. On this basis, the NAO FI has produced uncertainty graphs for the following EDS indicators<sup>2</sup> for the period 2024–2026: changes in GDP at current and constant prices, real household consumption expenditure, average monthly gross earnings and in the number of employed persons (Annex 3). The projections for these indicators, with the exception of the change in the average monthly gross earnings (AWE) in 2025, fall within the 40% confidence interval. This represents the central range of the probability intervals, which is 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 average monthly gross earnings in 2025 falls within the 60 % range. This means that the projection for 2025 is further away from the central range of the uncertainty graph and has a probability of occurrence below the 40% range. In preparing the AWE growth projections for 2025–2027, the NAO FI has relied on past wage trends, which reflect the usual increases in the minimum wage

<sup>1</sup> 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](https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf).

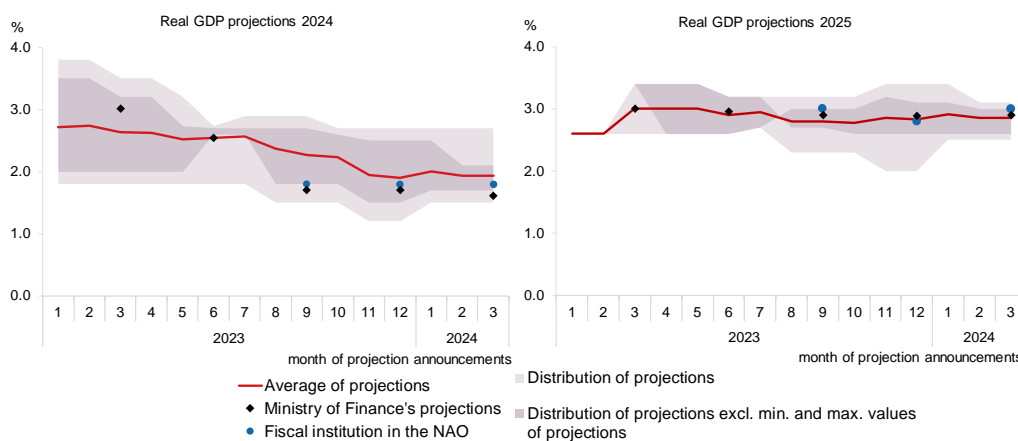
<sup>2</sup> These key indicators are the most important for the NAO FI when deciding on the approval of the EDS, but other projections of the indicators of the EDS are also analysed to ensure consistency between the projections of the scenario indicators.

and public sector salaries. Note that the endorsement ranges are based on historical errors and therefore may not necessarily fully reflect future uncertainty. The NAO FI considers the MoF's projection of a 5% average earnings growth in 2025 to be very cautious but feasible, given the slowdown in inflation and wage growth in the private sector, the uncertainty about the increase in salary appropriations to state and municipal budgets over the medium term.

**In line with the approach used in the NAO FI's assessment of potential GDP to test the consistency of medium-term projections, the EDS projection of real GDP in 2027 is considered plausible.** According to the NAO FI's assessment, potential GDP<sup>3</sup> is expected to increase on average by around 3% annually between 2024 and 2027 (Annex 1). The Ministry of Finance projects real GDP growth at 2.9% in 2027. This is close to the NAO FI's estimate of potential GDP growth of 2.7% in 2027.

**Compared to real GDP projections by other institutions, the projection for 2024 published in 2024 March EDS is prudent and remains close to the average for 2025.** The MoF's projection of real GDP in 2024 is below the average of the other institutions' projections, which is why, in the assessment of the NAO FI, it can be considered as a prudent projection (Figure 1). Most of the institutions publishing macroeconomic forecasts for Lithuania updated them by the beginning of March 2024, before the second estimate of gross domestic product for 2023 (Annex 4) was published. Both the NAO FI and the MoF project real GDP expansion in 2025 close to the average of the other institutions.

**Figure 1.** The projections for real GDP in 2024 published in the EDS of the Ministry of Finance and the NAO FI remain prudent, while in 2025 they are close to the average of the projections of other institutions



The distribution of projections includes 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, SEB AB.

The date of the projections published by the above-mentioned institutions varies. Each institution may use different fiscal, financial or other indicators, including the exchange rate between the euro and the US dollar, oil, gas, or other commodity prices, to make assumptions in its macroeconomic projections. These projections are not directly comparable with each other.

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

**The NAO FI endorses the Economic Development Scenario 2024–2027 published by the Ministry of Finance in March 2024.** According to the Council of the European Union Directive<sup>4</sup>, budgetary planning must be based on the most likely or on a more prudent macrofiscal scenario. In view of the remaining uncertainties and taking into account the results of the above-mentioned methods, the NAO FI endorses the Economic Development Scenario 2024–2027 published in March 2024.

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

<sup>4</sup> 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:EN:PDF>.

The Ministry of Finance submitted the draft EDS to the institutions (with a copy to the NAO FI) on 5 March 2024 and the revised draft to the NAO FI on 12 March 2024. More details on the process of coordination are provided in Annex 5. The NAO FI carried out the assessment of the draft EDS on the basis of the above methods. On 14 March 2024, the representatives of the MoF responded in writing to the questions submitted by the NAO FI to the MoF on the revision of the projections of government consumption expenditure, assumptions on the modelling of labour market indicators. On 14 March 2024, the NAO FI informed the MoF that it had no reason not to endorse the draft EDS.

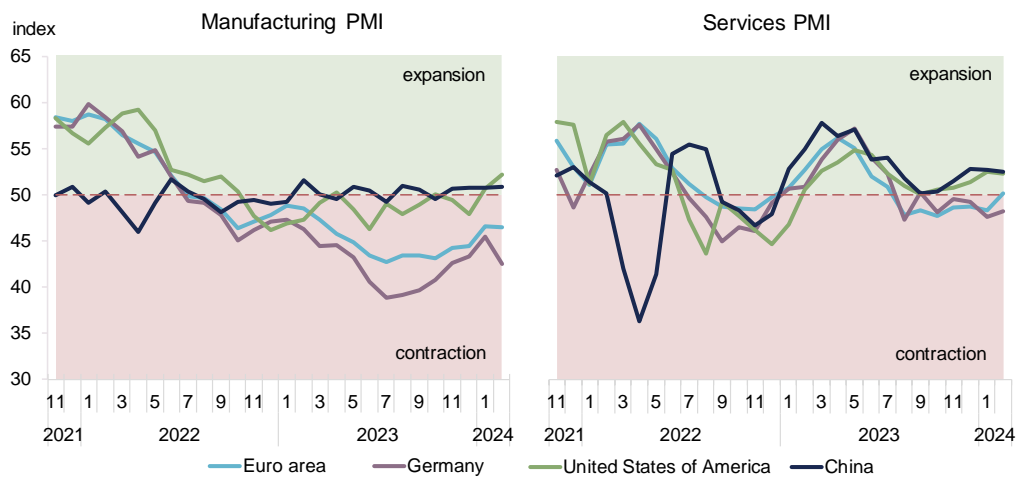
## 1. ANALYSIS OF THE MACROECONOMIC ENVIRONMENT, EDS ASSUMPTIONS AND RISKS TO LITHUANIAN ECONOMIC DEVELOPMENT

**Persistently weak domestic and external demand in the euro area leads to a more sluggish recovery of Lithuania's main export partners in 2024.** The strong growth of the US economy in 2023 was supported by high inflation-resilient domestic consumption and a strong labour market. In light of these results, international institutions are projecting better-than-expected US growth in 2024, with unchanged forecasts for 2025. The favourable performance of the US economy is also reflected in the European Commission's February 2024 update of its projections for world (excl. EU) growth, which are used by the MoF in its March EDS (Annex 2, Table 2). However, international institutions project sub-5% growth for China between 2024 and 2025. This is due to weak domestic demand, difficulties in the real estate sector, poor consumer and investor expectations and deflation. China's weak domestic demand is also having a negative impact on the EA's international trade.

The EA's sluggish growth (0.5% in 2023) was driven by weak external demand, tight financing conditions constraining household consumption, private investment, and EA economic activity. The service sector in the EA is showing signs of recovery, but the industrial situation remains unfavourable (Figure 2). This is particularly evident in Germany, Lithuania's main export partner, where economic activity has been affected by problems in the industrial sector and tightening fiscal policy. This leads to a downward revision of EU growth forecasts for 2024. This revision is also reflected in the assumptions of the MoF's March EDS.

In their projections, the NAO FI and the MoF assume a slower expansion of Lithuania's main export partners in 2024 than projected in December 2023. The continued sluggish demand from the main export partners poses a challenge to further growth of the Lithuanian economy.

**Figure 2.** EA business activity in the industrial sector remains weak, service sector shows signs of recovery



PMI – Purchasing Managers' Index

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

**In the assessment of the NAO FI, the assumptions used by the MoF for the March EDS are based on relevant statistical data and are reasonable.** With the US economy showing resilience, the EDS foresees a stable exchange rate of the euro against the US dollar, but weaker than at the end of last year. This trend is also reflected in the futures contracts (Annex 6). The EDS foresees a lower oil price in the period 2024–2027 than was expected in the December EDS. Futures contracts also show a price decline in the medium term. In preparing its forecasts, the NAO FI used the EC's assumptions for world (excl. EU) growth and EU

economies (Annex 1, Table 2). The NAO FI and the MoF foresee similar trends for Lithuania's main export partners. In light of this information, the assumptions used by the MoF for the March EDS are reasonable.

**The main risks to the country's macroeconomic development remain linked to the geopolitical situation and the economic development of international trading partners.** The ongoing war in Ukraine, the conflicts in the Middle East and the increasingly visible effects of climate change could negatively affect supply chains. This would put pressure on prices and negatively affect global economic development. The return to fiscal discipline in the EU and high interest rates could limit the ability of governments to stimulate their economies, which would negatively affect Lithuania's external demand. However, slowing inflation provides the conditions for a less restrictive monetary policy, which could stimulate demand. Faster expansion of public investment could also contribute to economic growth.

## 2. NAO FI ECONOMIC DEVELOPMENT FORECAST

**The moderate economic recovery in 2024 is likely to be driven mainly by growth in household consumption expenditure and investment. With the recovery in external demand, real GDP is projected to expand faster in the medium term.** After a sluggish Q3 2023, the country's real GDP in Q4 2023 was 0.1% lower than a year earlier. While investment and household consumption grew, the expansion was held back by a further contraction in exports, affected by the weak situation of foreign trading partners and declining re-exports. The performance of industry, transport and trade companies contributed to the sluggish development of the economy in the second half of last year. The country's real GDP in 2023 was 0.3% lower than in 2022 and was prevented from shrinking significantly by a strong investment expansion.

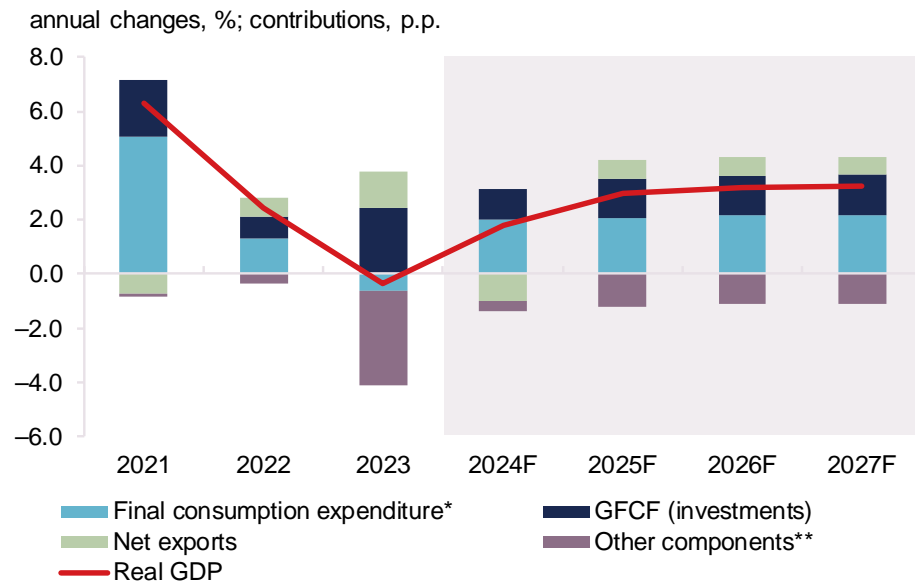
In January 2024, real retail turnover (excluding fuels) continued to grow. The start of the year also shows positive signs in industry. Its output (excluding petroleum products) was 2.9% higher than a year earlier<sup>5</sup>. The increase in output is likely to have been driven by a reduction in the level of inventories. Industrial expectations improved in January-February, but the sector is still very cautious about the demand for its output. With foreign demand remaining sluggish, it would be difficult to expect vigorous economic growth at the start of the year. The NAO FI projects 1.8% real GDP growth in 2024 (Figure 3). **Given stronger-than-expected domestic demand but slower than expected export growth, the NAO FI's GDP growth forecast for 2024 remains unchanged from the one published in January.** The moderate recovery will be driven mainly by household consumption, which will benefit from the strengthening purchasing power of the population, and by investment. With imports growing faster than exports, net exports are expected to have a negative impact. Moderate real GDP growth in 2024 may also be affected by a smaller-than-normal carry-over effect<sup>6</sup>. With the recovery of export markets, this indicator is projected to accelerate to 3% and reach 3.2% in 2026–2027.

---

<sup>5</sup> Based on 26/02/2024 data.

<sup>6</sup> After a sluggish Q4 2023, the carry-over effect in 2024 amounts to 0.5% p.p. This compares with an average of 1.3% p.p. over the period 2010–2023. For more information on the carry-over effect, see Box A of the March 28, 2023 NAO FI Opinion on the endorsement of the Economic Development Scenario No BPE-1. Available online: <https://www.valstybeskontrole.lt/EN/Product/24157/opinion-on-the-endorsement-of-the-economic-development-scenario>.

**Figure 3.** NAO FI projects that household consumption and investment will be the main drivers of a moderate economic recovery in 2024



\* excluding NPISH, \*\* NPISH, changes in inventories, acquisitions less disposals/transfers  
 F – forecast

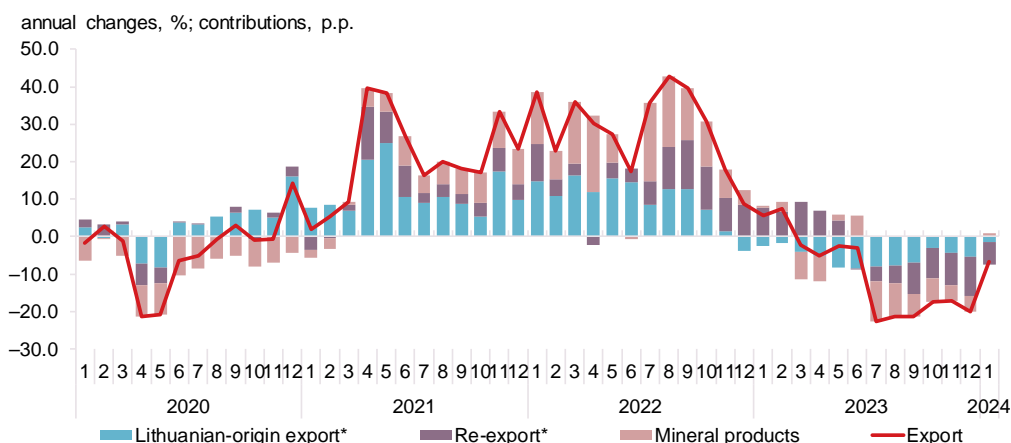
Source: State Data Agency, National Audit Office implementing the functions of a fiscal institution

Looking at the drivers of real GDP change in 2023, there is a significant increase in the impact of inventories on the change in this indicator. While gross fixed capital formation and net exports boosted GDP, contraction in final consumption expenditure reduced it by 0.6% p.p. and inventories by 3.5% p.p. (Figure 3). The second estimate of real GDP for 2023, published on 1 March 2024, is preliminary and may be subject to larger than usual revisions in the future, not only for GDP itself but also for its components, given the increased impact of inventories. This would lead to corresponding revisions in the MoF's EDS and the NAO FI's projections.

**Real exports of goods and services are projected to recover moderately in 2024. As external demand picks up, this indicator will foster faster economic expansion in 2025–2027.** In Q4 2023, real exports and imports fell by 6.1% and 10.9% year-on-year, respectively. Exports of services continued to grow, while exports of goods contracted. Excluding the impact of mineral products, the value of re-exports (at current prices) fell by more than a fifth over the year. This is likely to have been influenced not only by the high base but also by the stricter sanctions controls that have come into force<sup>7</sup>. However, the annual contraction in the value of goods exports in January 2024 was the smallest since July last year (Figure 4). The change in the value of Lithuanian origin exports was positively influenced by growing cereal exports and industrial production. However, re-exports continued to decline at a double-digit pace. It should be noted that falling export prices contributed to these developments.

<sup>7</sup> Press release of the Customs Department under the Ministry of Finance 03/07/2023. Available online: [https://lrmuitine.lt/web/guest/naujienos/aktualijos/aktualija?p\\_p\\_id=EXT\\_WPLISTALLNEWS&p\\_p\\_lifecycle=0&\\_EXT\\_WPLISTALLNEWS\\_obj\\_id=090004d2801b3f53](https://lrmuitine.lt/web/guest/naujienos/aktualijos/aktualija?p_p_id=EXT_WPLISTALLNEWS&p_p_lifecycle=0&_EXT_WPLISTALLNEWS_obj_id=090004d2801b3f53).

**Figure 4.** The annual contraction in the value of goods exports in January 2024 (at current prices) was due to a further decline in re-exports



\* excluding mineral products

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

The projected slower growth in Lithuania's main export markets, than expected in December, leads to a more cautious assessment of the recovery of the country's real exports in 2024. The NAO FI projects that, after a contraction in 2023, real exports and imports of goods and services will recover moderately in 2024, rising by 2.8% and 4.3%, respectively. The international environment remains sluggish, which is likely to weigh on exports of Lithuanian origin goods. The above-mentioned stricter sanctions controls may further reduce the volume of re-exports in 2024. Strong domestic demand may lead to imports growing faster than exports. For the rest of the medium term, real exports and imports are expected to accelerate in line with the strengthening of external and domestic demand (Annex 1, Table 1).

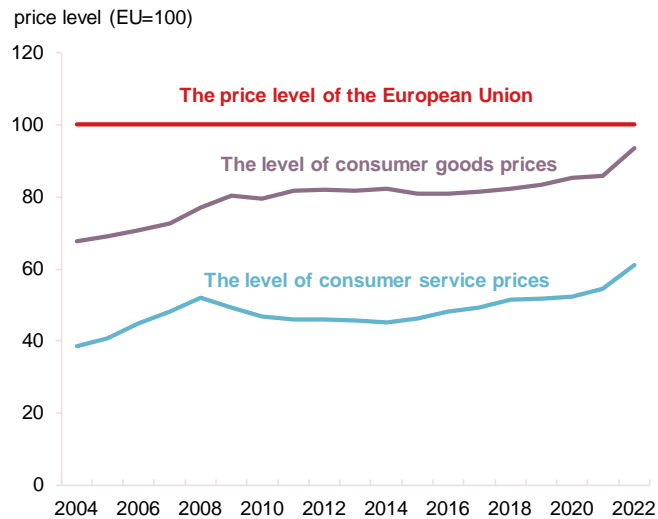
**Following strong investment growth in 2023, a slower expansion is expected between 2024 and 2027.** In 2023, real gross fixed capital formation (investment) grew at an annual rate of 10.6 %. In 2023, the main increase in investment spending was in construction (in particular an increase in civil engineering construction) and in productivity-enhancing machinery and equipment. According to a survey of industrial managers<sup>8</sup>, 42% of the industrial enterprises surveyed expect an increase in investment in 2024, compared to 30% in 2023. The data on tangible investment in Q4 2023 show a continuing positive trend, not only in the private sector but also in the public sector. The Q4 2023 investment developments have a positive carry-over effect: the inertia of the expansion from 2023 could be around 5% p.p. This leads to an upward revision of the investment projections for 2024. Taking into account the above factors, as well as the high base effect, the risks to the housing segment due to the reduced number of permits, and the expected EU support flows, the NAO FI projects that gross fixed capital formation growth could reach 4.5% in 2024. The projected increase over the medium term is 5.5% per year.

**The decline in energy prices is projected to lead to a slowdown in inflation in 2024, with inflation reaching around 2.3% in the medium term.** The annual growth rate of the Harmonised Index of Consumer Prices (HICP) has been below 2% since December 2023. This is due to a fall in electricity, heat energy and fuel prices and a suspension of the rise in food prices. Energy is projected to be the main driver of the fall in inflation this year. Higher inflation is also not expected due to the high base effect, with the change in the HICP at

<sup>8</sup> Statistical survey on industrial investment by the State Data Agency. Based on 30/11/2023.

8.7% in 2023. In the medium term, HICP growth is expected to pick up slightly, driven by the rapid increase in services prices in Lithuania, which still remain below the EU average (Figure 5). Falling oil prices are projected to allow export prices to rise more than import prices, a dynamic that will accelerate GDP deflator growth more than consumer price growth. Following the downward revision of the GDP deflator forecast to 2.6% by the NAO FI, GDP at current prices is projected to grow by 4.4% in 2024 and even faster in 2025–2027.

**Figure 5.** Consumer prices in Lithuania remain below the EU average in purchasing power parity terms



Source: Eurostat

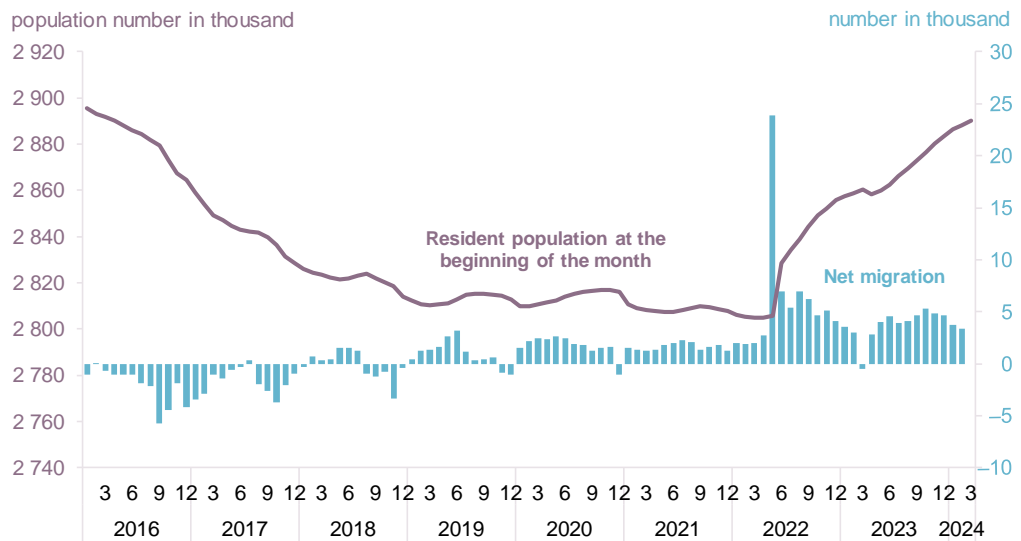
**The labour market situation is projected to remain stable between 2024 and 2027.** This is due to the continued resilience of the labour market in 2023 in the face of a stagnant economy, positive employer expectations for 2024 and a growing population. In 2023, the labour market was characterised by a low unemployment rate of 6.8%, a 12.6% rise in average wages and a record high number of employed persons. According to the Employment Service<sup>9</sup>, employers' expectations remain good: they are willing to retain or create jobs in response to staff shortages and to raise wages, perhaps only slightly less than in 2023. However, the decline in job vacancies at the end of 2023 and the beginning of 2024 indicates that companies' capacity to create new jobs is limited.

Positive net migration contributed to an increased labour force in 2023. Taking this into account and given the growth of the permanent population<sup>10</sup> in Lithuania in January–March 2024 (Figure 6), the NAO FI projects that the labour force in 2024 will be larger than in 2023, and will decline moderately thereafter, based on the assumption of an ageing population. This leads to a projected increase in the number of employment persons in 2024 and a decline in the medium term (Annex 1, Table 1). There remains a positive risk that favourable migration processes or higher labour force participation rates would contribute to a larger labour force and hence to a higher number of employed persons.

<sup>9</sup> Employment Service, Employers' experiences and expectations. Employer survey report. January 2024.

<sup>10</sup> Based on data about the resident population at the beginning of the month on 1 March 2024.

**Figure 6.** Despite the negative impact of the natural change in population, positive net migration has led to an increase in the population, which is the largest since 2016



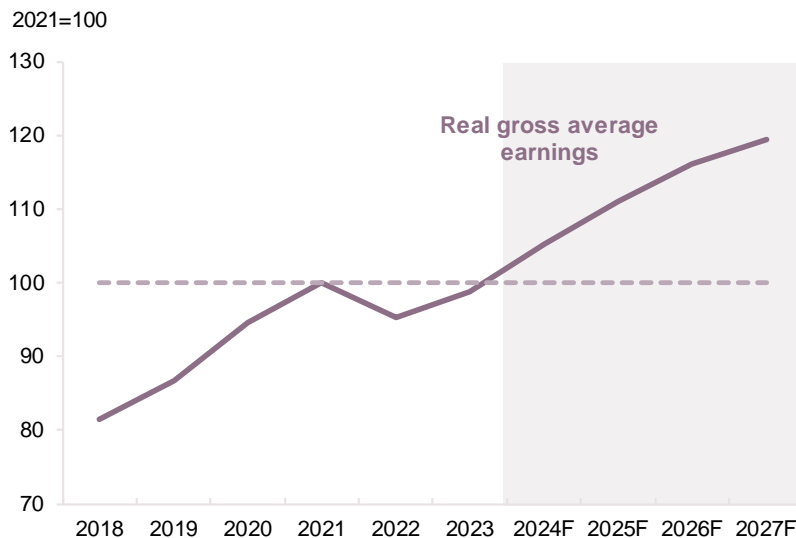
Source: State Data Agency

The NAO FI projects that the average monthly gross earnings will grow by 8.7% in 2024, taking into account the decisions to increase the minimum monthly wage and the salaries of public sector employees. The projection of a more moderate deceleration of AWE growth than in the EDS for the period 2025–2027 is based on past wage trends, which reflect the usual increases in the minimum monthly wage and public sector salaries.

**Favourable consumer confidence, a significant slowdown in inflation and a stable labour market lead to a projected recovery in household consumption from 2024.** In 2023, real household consumption expenditure fell by 1.1% year-on-year. The evolution of the indicator has been mixed over the year, with private consumption contracting in Q1–Q3 compared to the same period a year earlier, while it was already growing in Q4<sup>11</sup>. Data from the February 2024 Consumer Sentiment Survey show that people's expectations are at a historically high level: the Consumer Confidence Indicator is above the multi-year average and reached its highest level in 2.5 years in January and remained at the same level in February. With the labour market remaining resilient, the annual change in earnings is projected to significantly outpace price growth in 2024. Real earnings will be above the level before the inflation spike in 2022 (Figure 7).

<sup>11</sup> In Q4 2023, real household consumption expenditure after adjusting for the seasonal and working day effects grew by 2.1% q-o-q, which is 3 times higher than the quarterly average growth over the 2015–2022 period.

**Figure 7.** In 2024, real wages will rise above their level in 2021



F – forecast

Taking into account changes to payroll taxation effective from 1 January 2019.

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

The measures to increase personal income provided for in the Law on Approval of Financial Indicators of the State Budget and Municipal Budgets for 2024 will also have a positive impact on people's disposable income. The development of household consumption expenditure in Q4 2023 leads to a positive carry-over effect of 1% p.p. in 2024. This supports the upward revision of the projections for 2024. All this, together with a base effect, will allow private consumption to recover in 2024, growing by 3.3% according to the NAO FI's estimate, and, with labour market trends remaining favourable, on average, by 3.5% annually in the medium term. On the other hand, higher-than-expected changes in the household saving rate<sup>12</sup> could have a significant impact on the dynamics of private consumption.

### 3. THE IMPACT OF REVISED MACROECONOMIC DEVELOPMENT ON BUDGETARY REVENUE

**Higher personal income tax revenues would offset the potential lower receipts of corporate income and value-added taxes due to faster wage bill growth between 2024 and 2026.** The tax bases of the main taxes have been revised downwards when comparing the March 2024 and September 2023 EDS, which formed the basis for the draft law on the approval of the financial indicators for the state budget and municipal budgets for 2024 (Table 1). The projection of final consumption expenditure at current prices, which is used for forecasting the collection of value-added tax revenue, has been revised downwards in the period 2024–2026. Although GDP growth in 2024–2026 at current prices, which is used to calculate corporate income tax revenue, is projected to be higher than in September, GDP growth in 2023 was slower than expected. However, the faster-than-expected growth in the number of employed persons and in average wages has led to an upward revision of the wage bill projections related to personal income tax (PIT). According to the NAO FI's assessment, this revision would result in higher revenues from PIT offsetting the potential lower receipts from corporate income and value-added taxes.

<sup>12</sup> As the EC points out in its 2024 February 15 Economic Outlook, the faster recovery of consumption in the EA has been held back by higher levels of saving. Potential reasons for the increase in saving include: geopolitical uncertainty has increased precautionary savings among some households, rising interest rates have increased the opportunity cost of consumption, and households have needed to rebuild financial buffers that have been eroded by inflation.

**Table 1.** Macroeconomic indicators relevant for revenue projections have been revised in the March 2024 EDS compared to the September 2023 EDS

Macroeconomic indicators	2023	2024F	2025F	2026F
<b>Change, %</b>				
Wage bill	14.3 (12.8) ▲	9.1 (6.8) ▲	4.9 (4.9)	4.6 (4.7) ▼
GDP at current prices	6.9 (8.6) ▼	5.0 (4.7) ▲	5.2 (5.4) ▼	5.2 (5.3) ▼
Final consumption expenditure at current prices	8.6 (11.0) ▼	6.5 (6.0) ▲	5.6 (5.4) ▲	5.2 (5.3) ▼
<b>Billion EUR</b>				
Wage bill	28.02 (27.68) ▲	30.60 (29.57) ▲	32.10 (31.01) ▲	33.59 (32.48) ▲
GDP at current prices	72.05 (72.54) ▼	75.65 (75.94) ▼	79.57 (80.01) ▼	83.70 (84.22) ▼
Final consumption expenditure at current prices	55.02 (55.81) ▼	58.60 (59.14) ▼	61.85 (62.36) ▼	65.06 (65.68) ▼

Macroeconomic indicators in parentheses are based on the EDS of 11 September 2023.

F – forecast

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

*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 2024–2027 prepared by the Ministry of Finance of the Republic of Lithuania and published on 18 March 2024. 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.*

Head of the Budget Monitoring Department

Jurga Rukšėnaitė

## ANNEXES

Opinion  
"On the Endorsement of the  
Economic Development Scenario"  
Annex 1

## FISCAL INSTITUTION'S MACROECONOMIC FORECAST FOR 2024–2027 AND MAIN ASSUMPTIONS

Table 1. Macroeconomic projections of the NAO FI for 2024–2027

Indicator	2023	2024F	2025F	2026F	2027F
<b>Key macroeconomic indicators</b>					
GDP at constant prices	-0.3	1.8 (1.8)	3.0 (2.8) ▲	3.2 (3.1) ▲	3.2
GDP at constant prices, EUR million	47 142.0	47 991.3 (48 107.5) ▼	49 431.4 (49 454.6) ▼	50 999.6 (50 987.7) ▲	52 645.5
Change in GDP at current prices, %	6.9	4.4 (4.5) ▼	5.4 (5.5) ▼	5.6 (5.8) ▼	5.7
GDP at current prices, EUR million	72 047.8	75 252.8 (75 251.5) ▲	79 293.8 (79 369.9) ▼	83 772.7 (83 957.9) ▼	88 551.8
Change in labour productivity, %.	-1.7	1.6 (2.1) ▼	3.0 (2.8) ▲	3.4 (3.3) ▲	3.5
<b>Components of GDP at constant prices, rate of change, %</b>					
Household consumption expenditure	-1.1	3.3 (3.0) ▲	3.4 (3.2) ▲	3.5 (3.2) ▲	3.5
General government consumption expenditure	0.3	0.2 (0.2)	0.1 (0.1)	0.1 (0.1)	0.1
Gross fixed capital formation	10.6	4.5 (3.1) ▲	5.5 (5.5)	5.5 (5.5)	5.5
Exports of goods and services	-4.8	2.8 (3.5) ▼	5.3 (5.0) ▲	5.5 (5.2) ▲	5.5
Imports of goods and services	-6.6	4.3 (4.5) ▼	5.0 (5.2) ▼	5.3 (5.3)	5.3
<b>Price indicators, rate of change, %</b>					
GDP deflator	7.3	2.6 (2.7) ▼	2.3 (2.6) ▼	2.4 (2.6) ▼	2.4
Household consumption expenditure deflator	8.6	2.0 (2.4) ▼	2.1 (2.3) ▼	2.3 (2.3)	2.3
Government consumption expenditure deflator	12.8	9.7 (12.4) ▼	5.2 (3.9) ▲	4.2 (3.9) ▲	4.2
Gross fixed capital formation deflator	5.1	2.1 (2.9) ▼	2.3 (2.1) ▲	2.1 (2.1)	2.1
Export (goods and services) deflator	-0.2	0.9 (0.7) ▲	1.8 (1.7) ▲	1.5 (1.4) ▲	1.4
Import (goods and services) deflator	-5.8	0.2 (0.3) ▼	1.7 (1.5) ▲	1.3 (1.3)	1.3
Harmonised index of consumer prices (annual average)	8.7	2.0 (2.4) ▼	2.2 (2.3) ▼	2.3 (2.3)	2.3
<b>Labour market indicators</b>					
Number of employed persons (according to the Labour Force Survey methodology), thousand	1 441.1	1 444.4 (1 429.8) ▲	1 444.0 (1 429.9) ▲	1 440.2 (1 426.7) ▲	1 436.9
Change in the number employed persons, %	1.4	0.2 (-0.3) ▲	0.0 (0.0)	-0.3 (-0.2) ▼	-0.2
Unemployment rate (according to the Labour Force Survey methodology), %	6.8	7.2 (6.9) ▲	6.9 (6.6) ▲	6.9 (6.6) ▲	6.7
Average monthly gross earnings, EUR	2 014.0	2 189.3 (2 186.0) ▲	2 362.4 (2 343.0) ▲	2 525.6 (2 493.0) ▲	2 659.0
Change in average monthly gross earnings, %	12.6	8.7 (8.5) ▲	7.9 (7.2) ▲	6.9 (6.4) ▲	5.3
Wage bill, million EUR	28 023.9	30 534.0 (30 179.4) ▲	32 937.5 (32 349.0) ▲	35 119.1 (34 340.9) ▲	36 891.9
Change in the wage bill, %	14.2	9.0 (8.2) ▲	7.9 (7.2) ▲	6.6 (6.2) ▲	5.0
<b>Changes in potential GDP and the output gap</b>					
Change in potential GDP, %	3.4	3.3 (3.3)	3.1 (3.2) ▼	2.9 (3.0) ▼	2.7
Output gap (% of potential GDP)	-1.8	-3.4 (-3.3) ▼	-3.6 (-3.6)	-3.7 (-3.8) ▲	-3.6

The projections in parentheses are the January 2024 projections of 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 up to 1 March 2024.

F – forecast

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	2023	2024F	2025F	2026F	2027F
US dollar to euro exchange rate*	1.08	1.09 (1.09)	1.09 (1.11) ▼	1.09 (1.13) ▼	1.09
World (excl. EU) GDP growth, %*	3.5	3.3 (3.2) ▲	3.5 (3.5)	3.5 (3.5)	3.5
European Union GDP growth, %*	0.5	0.9 (1.3) ▼	1.7 (1.7)	1.7 (1.7)	1.7
Growth of Lithuania's main export markets, %**	0.9	1.2 (1.3) ▼	1.8 (1.8)	2.0 (1.9) ▲	2.0
Oil prices (Brent, USD per barrel)***	82.5	78.5 (79.6) ▼	74.7 (76.1) ▼	72.3 (73.3) ▼	70.6

\* Technical assumption made public by the European Commission on 15 February 2024.

\*\* Based on the methodology applied by the NAO FI.

\*\*\* Average of 10 business days futures from 16–29 January 2024, reflecting the period used by the European Commission in its February 2024 projections.

The main assumptions for the January 2024 projections of the NAO FI are shown in parentheses.

F – forecast

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

Opinion  
"On the Endorsement of the  
Economic Development Scenario"  
Annex 2

## PROJECTIONS AND KEY ASSUMPTIONS FOR THE ECONOMIC DEVELOPMENT SCENARIO FOR 2024–2027 BY THE MINISTRY OF FINANCE

**Table 1.** Projections for the Economic Development Scenario dated March 2024 by the Ministry of Finance

Indicator, per cent	2023	2024F	2025F	2026F	2027F
<b>Key macroeconomic indicators, change</b>					
GDP at constant prices	-0.3	1.6 (1.7) ▼	2.9 (2.9)	2.9 (2.9)	2.9
Household consumption expenditure	-1.1	3.1 (3.1)	3.4 (3.4)	3.4 (3.4)	3.4
General government consumption expenditure	0.3	0.5 (0.0) ▲	0.1 (0.0) ▲	0.1 (0.0) ▲	0.1
Gross fixed capital formation	10.6	3.5 (3.5)	5.4 (5.4)	5.4 (5.4)	5.4
Exports of goods and services	-4.8	3.5 (4.5) ▼	5.2 (5.2)	5.2 (5.2)	5.2
Imports of goods and services	-6.6	5.2 (5.4) ▼	5.5 (5.8) ▼	5.5 (5.8) ▼	5.5
GDP at current prices	6.9	5.0 (4.5) ▲	5.2 (5.3) ▼	5.2 (5.3) ▼	5.2
<b>Price indices, change</b>					
GDP deflator	7.3	3.3 (2.8) ▲	2.2 (2.4) ▼	2.2 (2.3) ▼	2.2
Harmonised index of consumer prices (annual average)	8.7	1.9 (2.8) ▼	2.2 (2.4) ▼	2.2 (2.3) ▼	2.2
<b>Labour market indicators</b>					
Change in average monthly gross earnings	12.6	8.6 (7.6) ▲	5.0 (5.0)	5.0 (5.0)	5.0
Unemployment rate (according to the Labour Force Survey methodology)	6.8	6.7 (6.6) ▲	6.5 (6.4) ▲	6.4 (6.3) ▲	6.3
Change in the number of employed persons (according to the Labour Force Survey methodology)	1.4	0.5 (0.3) ▲	-0.1 (-0.1)	-0.3 (-0.2) ▼	-0.5

According to the MoF, the date for the inclusion of statistics in the scenario is 1 March 2024 and for other information up to and including 12 March 2024. The projections of the Economic Development Scenario of 29/12/2023 are in parentheses.

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.

F – forecast

Source: Ministry of Finance

**Table 2.** Main assumptions for the March 2024 Economic Development Scenario of the Ministry of Finance

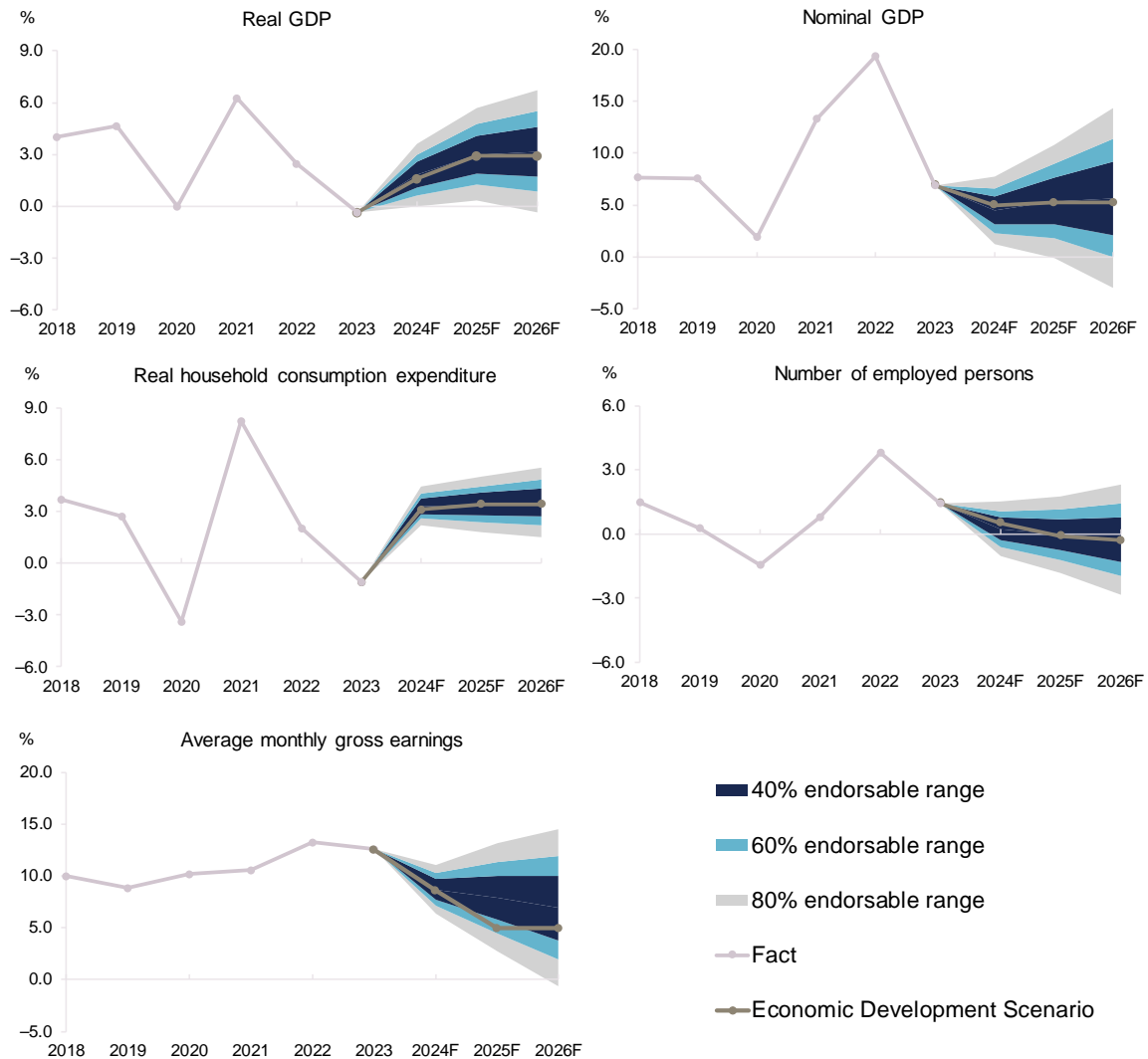
Indicator	2023	2024F	2025F	2026F	2027F
US dollar to euro exchange rate*	1.08	1.09 (1.06) ▲	1.09 (1.06) ▲	1.09 (1.06) ▲	1.09
World (excl. EU) GDP growth, %*	3.5	3.3 (3.2) ▲	3.5 (3.5)	3.5 (3.5)	3.5
European Union GDP growth, %*	0.5	0.9 (1.3) ▼	1.7 (1.7)	1.7 (1.7)	1.7
Growth in main export markets, %	1.7	1.8 (2.1) ▼	2.4 (2.4)	2.4 (2.4)	2.4
Oil prices (Brent, USD per barrel)*	82.5	78.5 (84.5) ▼	74.7 (79.6) ▼	74.7 (79.6) ▼	74.7

\* Technical assumption made public by the European Commission on 15 February 2024. The main assumptions of the EDS 29/12/2023 are shown in parentheses.

F – forecast

Source: Ministry of Finance

**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](https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf).  
 F – forecast

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

Opinion  
 "On the Endorsement of the  
 Economic Development Scenario"  
 Annex 4

### PROJECTIONS OF THE REAL GDP BY OTHER INSTITUTIONS

Institution	Date of publication	2024F	2025F
European Commission	15/02/2024 (15/11/2023)	2.1 (2.5) ▼	3.0 (3.4) ▼
AB Swedbank	25/01/2024 (15/11/2023)	1.8 (1.2) ▲	2.5 (2.0) ▲
AB SEB	23/01/2024 (14/11/2023)	1.5 (1.5)	2.8 (2.8)
Bank of Lithuania*	19/12/2023 (26/09/2023)	1.8 (2.1) ▼	3.1
OECD	29/11/2023 (07/06/2023)	1.7 (2.6) ▼	3.1
IMF	10/10/2023 (18/07/2023**)	2.7 (2.9) ▼	2.6 (2.7) ▼
Average of institutions	–	1.9 (2.1) ▼	2.9 (2.7) ▲
Ministry of Finance	18/03/2024 (29/12/2023)	1.6 (1.7) ▼	2.9 (2.9)
NAO FI	27/03/2024 (04/01/2024)	1.8 (1.8)	3.0 (2.8) ▲

The previous forecasts of the institutions are provided in parentheses.

The projections used are updated up to 14 March 2024.

\* After adjusting for seasonality and number of working days.

\*\* The IMF issued a report on economic development, 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.

F – forecast

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

Opinion  
 "On the Endorsement of the  
 Economic Development Scenario"  
 Annex 5

## PROCESS OF EVALUATION OF THE EDS PUBLISHED IN MARCH 2024

1 March	The State Data Agency published its second estimate of GDP for 2023.
4 March	The NAO FI produced its macroeconomic projections for 2024–2027*.
5 March	A meeting between the Bank of Lithuania and the NAO FI was held to discuss Lithuania's economic development.
<b>5 March</b>	<b>The draft EDS was submitted by the MoF to the institutions (with a copy to the NAO FI) for coordination.</b>
7 March	The NAO FI submitted comments and proposals to the MoF on the draft EDS. Together with them, the NAO FI also submitted its macroeconomic forecasts for 2024–2027.
<b>12 March</b>	<b>The revised draft EDS was submitted by the MoF to the NAO FI for coordination.</b>
13 March	The NAO FI asked questions to the FM.
14 March	The MoF replied in writing to the questions asked by the NAO FI.
14 March	The NAO FI informed the MoF that it had no reason not to endorse the draft EDS.
18 March	The March 2024–2027 EDS was made publicly available by the MoF on its website.
27 March	The NAO FI made public on the NAO website its opinion on the endorsement of the EDS 2024–2027 published in March. At the same time, the macroeconomic forecasts of the NAO FI were published.

\* In order to ensure that the NAO FI is able to carry out an independent analysis of the EDS projections provided by the Ministry of Finance, the NAO FI projections are finalised prior to the examination of the draft MoF scenario.

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

**INTERNATIONAL INSTITUTIONS ASSUMPTIONS COMPARISON AND FUTURES CONTRACTS**

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

Period	World Bank (09/01/2024)		IMF (30/01/2024)		EC (15/02/2024)		ECB (07/03/2024)		Futures*	
	oil price	USD/EUR	oil price	USD/EUR	oil price	USD/EUR	oil price	USD/EUR	oil price	USD/EUR
2023	82.5	-	82.5	-	82.5	1.08	82.5	1.08	82.5	1.08
2024F	81.0	-	79.1	-	78.5	1.09	79.7	1.08	78.5	1.08
2025F	78.0	-	75.3	-	74.7	1.09	74.9	1.08	74.7	1.10
2026F	-	-	-	-	-	-	72.2	1.08	72.3	1.12
2027F	-	-	-	-	-	-	-	-	70.6	1.14

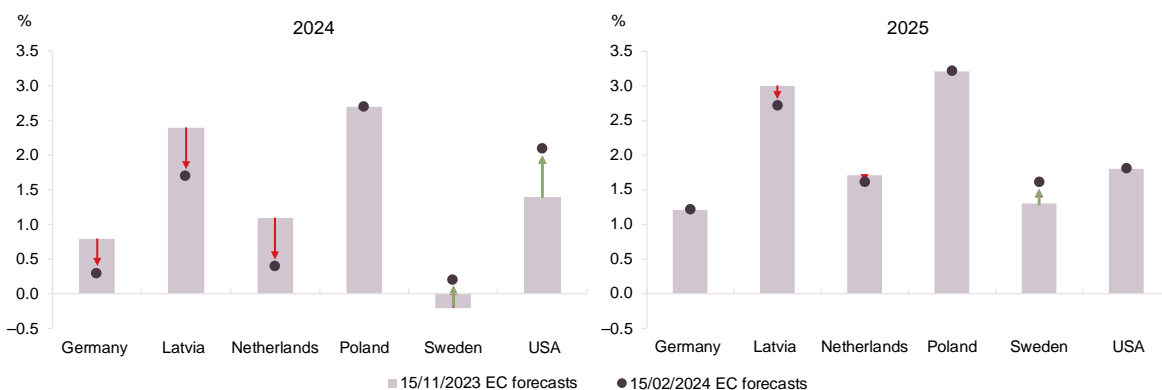
The date of publication is given in parentheses.

\* 10-business day futures average for 16–29 January 2024, reflecting the period used by the European Commission in its February 2024 projections.

F – forecast

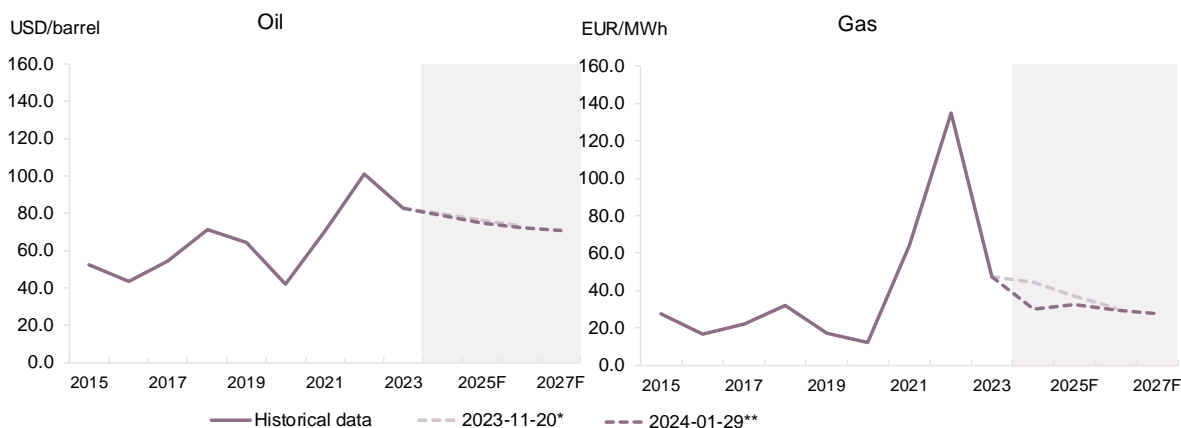
Source: World Bank, International Monetary Fund, European Commission, European Central Bank, <https://www.barchart.com>

**Figure 1.** With domestic demand remaining weak, growth in Lithuania's main export partners will be slower in 2024 than expected in December, with a moderate recovery expected in 2025



Source: European Commission

**Figure 2.** January 2024 "Brent" oil futures show similar prices as expected at the end of 2023, while gas TTF futures show a lower price



\* Average of 10 business days futures from 7–20 November 2023

\*\* Average of 10 business days of futures from 16–29 January 2024, taking into account the period used by the European Commission in its February 2024 projections.

F – forecast

Source: <https://www.barchart.com>