VALSTYBĖS KONTROLĖ
BUDGET MONITORING

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

2 July 2024 No. BPE–4

Vilnius

Q1 2024 RESULTS HAVE LED TO AN UPWARD REVISION OF THIS YEAR'S GDP PROJECTIONS, BUT UNCERTAINTY ABOUT THE MACROECONOMIC SITUATION REMAINS

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 (EDS) for 2024–2027 published by the Ministry of Finance (MoF) on 20 June. The opinion is based on the Constitutional Law on the Implementation of the Fiscal Treaty.

The NAO FI endorses the Economic Development Scenario for 2024–2027, published in June. 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 June Economic Development Scenario for 2024–2027 of the Ministry of Finance.**
- **Uncertainty about Lithuania's future economic growth is mainly related to the geopolitical situation and international trade.**
- **Due to the faster-than-expected growth of household consumption and exports in Q1 2024, the NAO FI is revising upwards the projection for real GDP growth this year to 2%. With external demand picking up, exports are likely to lead to faster GDP expansion in 2025.**
- **Lower energy prices are leading to a slowdown in inflation, which, together with continued strong wage growth, will further strengthen people's purchasing power and boost private consumption in 2024.**
- **The labour market remains resilient to the challenges: although the unemployment rate has risen, the number of employed persons and wages are projected to be higher in 2024–2025 than in March 2024.**

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 2024–2027 published in June. The NAO FI analysed the macroeconomic environment and the EDS assumptions, compared the scenario projections with those of the NAO FI and other institutions, used the endorsement range method and expert judgement.

The assumptions used in the June 2024 EDS are reasonable. Most international institutions are slightly increasing the 2024 GDP growth projection for the euro area (EA). Both the NAO FI and the MoF rely on the assumption that international trading partners will grow faster in the medium term than in 2024. The assumptions used by the NAO FI and the MoF include a higher oil price than in March 2024. A more detailed description of the macroeconomic environment and the assumptions behind the projections can be found 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. In light of the Q1 2024 results and updated assumptions, the NAO FI and the Ministry of Finance are increasing the 2024 real GDP projections. GDP expansion this year will be driven mainly by stronger household consumption, which will benefit from the strengthening purchasing power of the population, and by investment. Both institutions project the country's economy to expand faster in 2025–2027 than in 2024, boosted by real exports, which will be positively influenced by recovering external demand. Both institutions project wage and employment growth in 2024 to be stronger than expected in March and the labour market situation to be stable between 2025 and 2027.

The NAO FI and the MoF project inflation to be below 2% in 2024. This year, GDP growth at current prices is projected to be slower than in 2023. Between 2025 and 2027, it is projected to grow at an annual rate of more than 5%. A more detailed description of the projections of the NAO FI is provided in Part 2 of the Opinion. 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 June 2024 EDS in Annex 2.

The NAO FI forecasts are used as a *benchmark* using the *endorsement range* method. On this basis, the NAO FI has produced uncertainty graphs for the following EDS indicators[2] for the period 2024–2026: changes in GDP at current and constant prices, real household consumption expenditure, average monthly gross earnings (AWE) and number of employed persons (Annex 3). The projections for these indicators, except for the changes in the number of employed persons in 2024 and the changes in the 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 projections for 2024 number of employed persons and changes in average monthly gross earnings in 2025 fall within the 60% range. This means that the projections for these indicators are further away from the central range of the uncertainty graph and have probabilities of occurrence below the 40% range. It should be noted that the endorsement ranges are based

[1] The evaluation and endorsement process and the methods used by NAO FI 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 endorsement 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.

on historical errors and therefore may not necessarily be fully representative of future uncertainty.

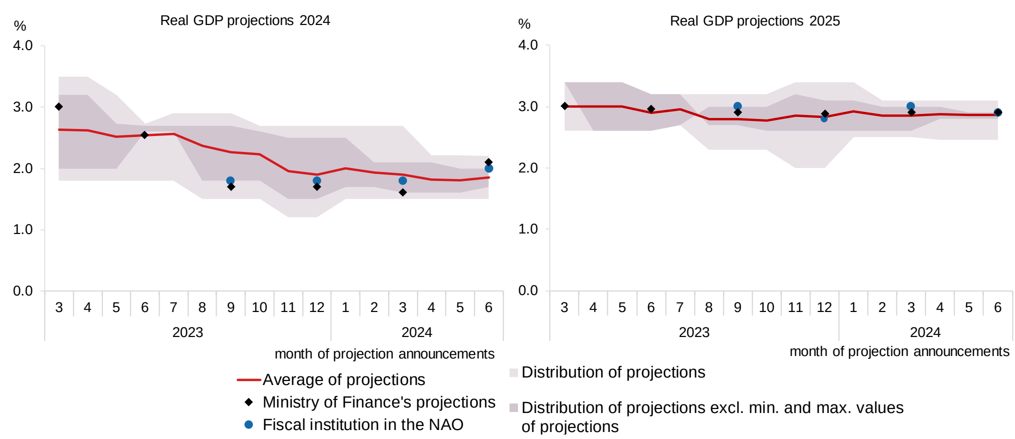
Given the fluctuations in employment in recent years, influenced by changes in migration trends, the Ministry of Finance's projected change in employment in 2024 is feasible. In view of the continuing uncertainty about future migration flows, the NAO FI projects a lower employment rate in 2024, but accepts that there are factors that could lead to a higher increase in this indicator.

In projecting a moderate increase in the AWE for the period 2025–2027, the NAO FI took into account the calculations submitted to the Tripartite Council on the increase of the minimum monthly wage and also the usual growth of public sector salaries. Compared to the March EDS, in June the MoF revised the 2025 wage projection upwards to 6.4%. The NAO FI welcomes this revision, but considers the projection too cautious. However, it is feasible given the slowdown in inflation and wage growth in the private sector and the uncertainty about salary increases in the public sector.

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[3] is expected to increase on average by around 2.9% 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 2.6% potential GDP growth estimated by the NAO FI for 2027.

The June 2024 EDS projections of real GDP for the period 2024–2025 are close to the average of other institutions' projections (Figure 1). The average of other institutions is 1.9% in 2024 and 2.9% in 2025. It should be noted that most of the institutions publishing macroeconomic forecasts for Lithuania updated them by the beginning of June 2024, before the second estimate of gross domestic product for Q1 2024 was published (Annex 4).

Figure 1. The Ministry of Finance's real GDP projections for 2024–2025, published in the June 2024 EDS, are close to the average of other institutions' projections



The institutions involved in the distribution of the projections are 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 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.

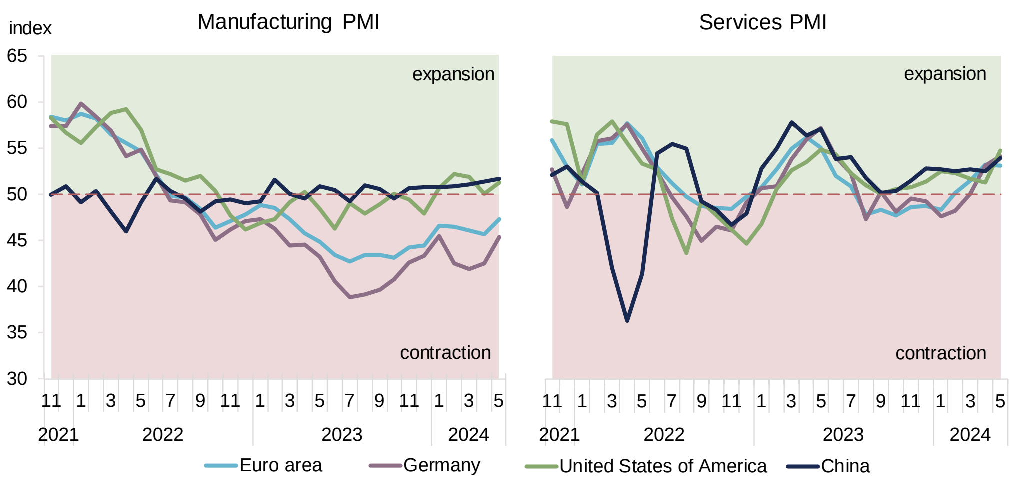
The NAO FI endorses the Economic Development Scenario 2024–2027 published by the Ministry of Finance in June 2024. According to the Council of the European Union Directive[4], budgetary planning must be based on the most likely or on a more prudent macroeconomic fiscal scenario. In view of the remaining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

On June 4 2024, the Ministry of Finance submitted a draft EDS to the institutions for coordination (copy to the NAO FI) and on June 14 2024, a revised draft was submitted to the NAO FI. 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 10 June 2024, the MoF responded in writing to the questions raised by the NAO FI on the revision of the general government consumption expenditure deflator and the assumptions made in projecting the number of employed persons. On 14 June 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

A sluggish recovery of Lithuania's export partners could pose challenges to Lithuania's economic growth in 2024. In the May 2024 update of the European Commission's projections, which were used by both the NAO FI for its forecasts and the MoF for the June EDS, global (ex-EU) growth in 2024 was revised from 3.3% to 3.5%. Inflation in the US, although declining in recent months but still above 3%, is the reason for the continued tight monetary policy. China's growth prospects are improving, but challenges remain with domestic consumption and the country's real estate sector. In the euro area, growth remains sluggish. The Purchasing Managers' Index shows that manufacturing in the EA, especially in Germany, remains in contraction (Figure 2). If demand from major export partners remains sluggish, this could pose challenges to Lithuania's future growth. With inflation approaching the 2% target, the European Central Bank (ECB) has cut interest rates[5]. This should contribute to higher EA economic activity.

Figure 2. EA business activity in the industrial sector remains in contraction, while the service sector is growing



PMI - Purchasing Managers' Index

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

[4] 29 April 2024 Council Directive 2024/1265/EU on requirements for budgetary frameworks of the Member States, Article 4(1) Available online: https://eur-lex.europa.eu/legal-content/LT/TXT/HTML/?uri=OJ:L_202401265.

[5] 06/06/2024 ECB cuts interest rates by 0.25 p.p. Available online: https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.mp240606~2148ecdb3c.en.html.

According to the assessment of the NAO FI, the assumptions used by the MoF in the June EDS are based on relevant statistical data and are reasonable. The EDS foresees a stable exchange rate of the euro against the US dollar, but weaker than last year. Most institutions show a stable exchange rate between the euro and the US dollar, with futures suggesting a strengthening of the euro against the US dollar over the medium term (Annex 6). The EDS projects a higher oil price between 2024 and 2027 than expected in the March EDS. Futures also suggest that the oil price will rise in 2024 but fall over the rest of the medium term. The NAO FI and the MoF foresee similar trends in the development of Lithuania's main export markets. In light of this information, the assumptions used by the MoF in the June EDS are reasonable.

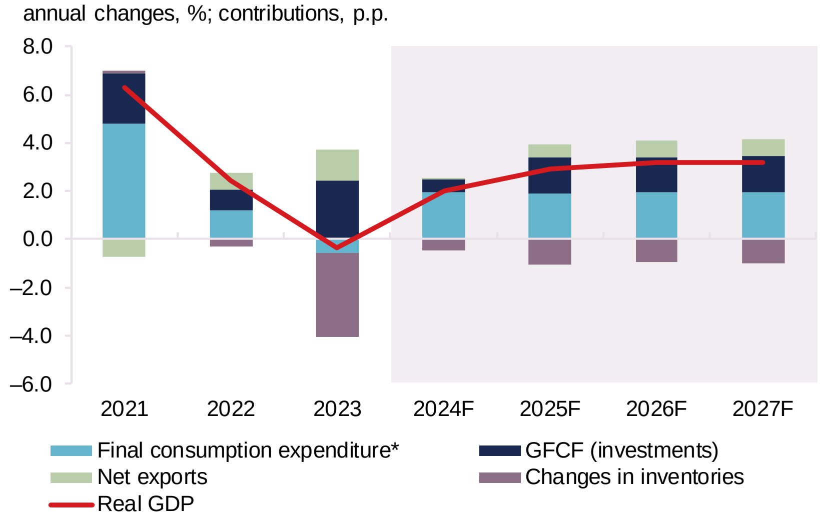
The main risks to the country's macroeconomic development remain related to the geopolitical situation and international trade. The war in Ukraine and the conflicts in the Middle East pose risks to international trade and global economic development. The increasingly evident impact of climate change could have negative effects on supply chains and inflation. A return to fiscal discipline could limit the ability of governments to stimulate their economies, which could also reduce demand for Lithuanian exports. However, a more favourable labour market situation, a faster expansion of public investment and less restrictive monetary policy could lead to more vigorous growth of the Lithuanian economy.

2. NAO FI ECONOMIC DEVELOPMENT FORECAST

The stronger-than-expected economic expansion in March has led to an upward revision of the projection for real GDP growth in Q1 2024. The country's economy is expected to grow faster in 2025 than this year on the back of a recovery in external demand. Real GDP grew by 2.9% in Q1 2024 compared with the same period a year ago. The main drivers of economic growth were household consumption expenditure and exports of goods and services. This quarter, industry contributed to annual growth in real gross value added after more than a year's hiatus. Excluding petroleum products, manufacturing production, boosted by the recovery of the chemical industry, was 1.5% higher than a year ago. Industrial expectations have improved, but firms in this sector are cautious about demand for their products. On the back of rising consumption, retail sales (excluding fuels) increased by 3.8% y-o-y in Q1 2023. Both industry and retail trade continued to grow in April.

Taking into account the better-than-expected data for 2024 Q1, the NAO FI raises this year's real GDP growth projection to 2%. In 2024, the expansion of the domestic economy is projected to be driven mainly by household consumption, which is expected to benefit from the strengthening purchasing power of the population (Figure 3). Investment is also likely to contribute to economic growth, but at a slower pace than projected in March. Net exports are not expected to have a significant impact on GDP this year. As export markets recover, real GDP growth is projected to accelerate to close to 3% in 2025 and 3.2% in 2026–2027.

Figure 3. In 2024, the NAO FI projects that household consumption will be the main driver of economic growth as the purchasing power of the population strengthens

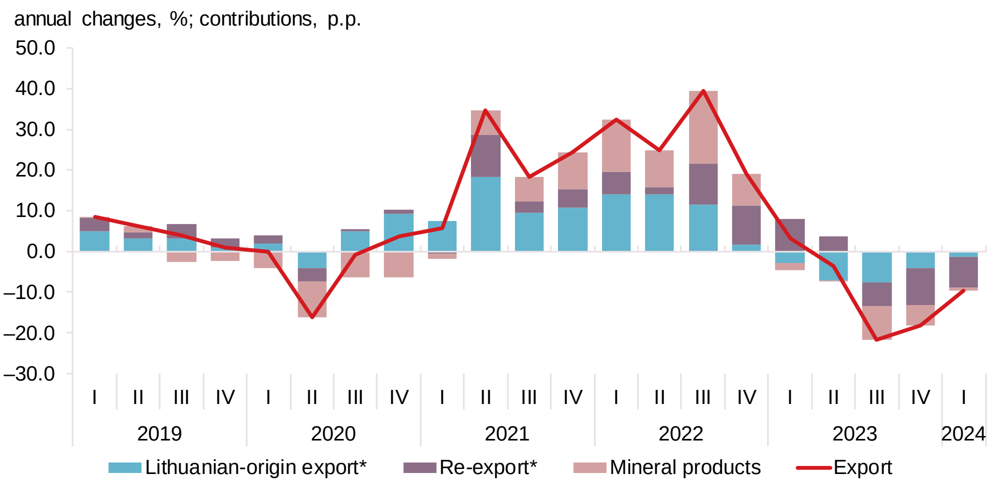


F - forecast

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

Real exports and imports are projected to increase this year. As Lithuania's international trade markets recover, export growth is likely to accelerate in 2025–2027. In Q1 2024, real exports were 0.6% higher than a year ago, while imports continued to contract. Exports were boosted by a still double-digit growth of trade in services, while the contraction in exports of goods slowed. Considering this change at current prices, the contraction was driven by a further decline in re-exports (Figure 4). 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[6]. Exports of Lithuanian origin were mostly driven by trade in cereals, food and chemicals, but furniture exports remained sluggish. It should be noted that falling export prices have contributed to the change in exports.

Figure 4. The annual contraction in the value of goods exports in Q1 2024 (at current prices) was driven by 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

[6] Press release of the Customs Department under the Ministry of Finance of the Republic of Lithuania 03/07/2024. Available online: https://lrmuitine.lt/web/guest/naujienos/aktualijos/aktualija?p_p_id=EXT_WPLISTALLNEWS&p_p_lifecycle=0&_EXT_WPLISTALLNEWS_obj_id=090004d2801b3f53.

The country's real export growth projection in 2024 is revised upwards. This is due to a higher-than-expected in March growth assumption for Lithuania's main export markets in 2024 and a favourable international trade performance in Q1 of this year. The NAO FI projects real exports and imports of goods and services to rise by 3.6% and 3.9% respectively in 2024, following a contraction in 2023. The international environment is showing signs of recovery, but remains subdued. This is likely to have an impact on exports of Lithuanian origin. Re-exports in 2024 may be further reduced by the above-mentioned stricter sanctions controls. Strong domestic demand may lead to imports growing faster than exports. For the rest of the medium term, real exports and imports are projected to accelerate in line with the strengthening of external and domestic demand (Annex 1, Table 1).

After a contraction at the beginning of the year, the projection for investment growth in 2024 is revised downwards, with an acceleration foreseen for the period 2025–2027. In Q1 2024, real gross fixed capital formation (investment) declined by 0.3% year-over-year. The data on tangible fixed assets investment at current prices shows different dynamics between sectors: in Q1 2024, it continued to grow year-on-year in the public sector, but shrank by 9.7% in the private sector. According to the European Commission's April survey of business managers, Lithuania is one of the few EU countries where investment in the industrial and services sectors is expected to increase in 2024 compared to 2023. Given the factual investment developments at the beginning of the year, the high base, as well as the continuation of favourable trends in the public sector through the use of EU funds, the NAO FI projects that real gross fixed capital formation growth could reach 2.2% in 2024. In the medium term, the indicator is projected to accelerate by an average of 5.6% annually.

Consumer price inflation is projected to remain below 2% as a result of the fall in energy commodity prices. The annual growth rate of the Harmonised Index of Consumer Prices (HICP) was 0.9% in May, reflecting a decline in the prices of electricity, gas, heat energy and food. Inflation in services slowed down to 5.9%. Energy is expected to be the main contributor to lower inflation this year. The decline in inflation will be constrained by rising services prices. Inflation could pick up slightly for the rest of the year, driven by a weakening of the base effect. In 2024, the HICP is projected by the NAO FI to grow by 1.6%. In the medium term, it should pick up on the back of a fading of the negative effect of the energy component and a further increase in services prices. The downward revision of the GDP deflator forecast to 2.3% in 2024, but the upward revision of the real GDP growth projection, leaves unchanged the evolution of GDP at current prices projected by the NAO FI. The GDP deflator is projected to grow faster than the consumer price index in the medium term, driven by investment, the general government deflator and faster price growth of exports relative to imports.

Uncertainty about the pace of migration is leading to caution about the better-than-expected employment figures. Compared to the March projections of the NAO FI, the employment projection for 2024 is revised upwards (Annex 1, Table 1). This is due to the better-than-expected performance in Q1 2024: the labour force grew by 3.1% year-over-year, its participation rate remained high and the number of employed persons increased by 2.8%. The resident population at the beginning of the month grew by 1% in the first half of 2024, compared to a year ago. Although there are factors that could lead to a higher employment rate than projected by the NAO FI, uncertainty is encouraging caution for the time being. In the medium term, the NAO FI relies on an ageing population assumption, so the dynamics of the employment rate is in line with the March projections, which foresee a moderate decline in the employment rate.

Labour market tensions persist, but are easing slightly (Figure 5). The increase in the labour force has also led to an increase in the number of unemployed, resulting in an unemployment rate of 8.2% in Q1 2024, the highest since 2020. However, given the persistently high number of job vacancies, the fall in registered unemployment in April and the expectations of business managers for growth in the number of employees, the NAO FI projects that the unemployment rate will be 8.3% in 2024. As the economy grows, the unemployment rate is likely to start declining in the medium term, reaching 6.7% in 2027. Continued labour market tensions allow employees to negotiate wages with employers, but bargaining leverage is weaker than a year ago. This is reflected in the 10.3% annual wage growth in Q1 2024, the slowest since 2021. Wage growth in 2024 is projected at 9.1% by the NAO FI, but there are factors that could lead to higher growth. Wage growth is projected to be moderate between 2025 and 2027 (Annex 1, Table 1). The projections take into account the estimates presented to the Tripartite Council, which foresee an increase in the minimum monthly wage of around 10% in 2025, usual wage growth in the public sector, as well as a slowdown in inflation and wage growth in the private sector.

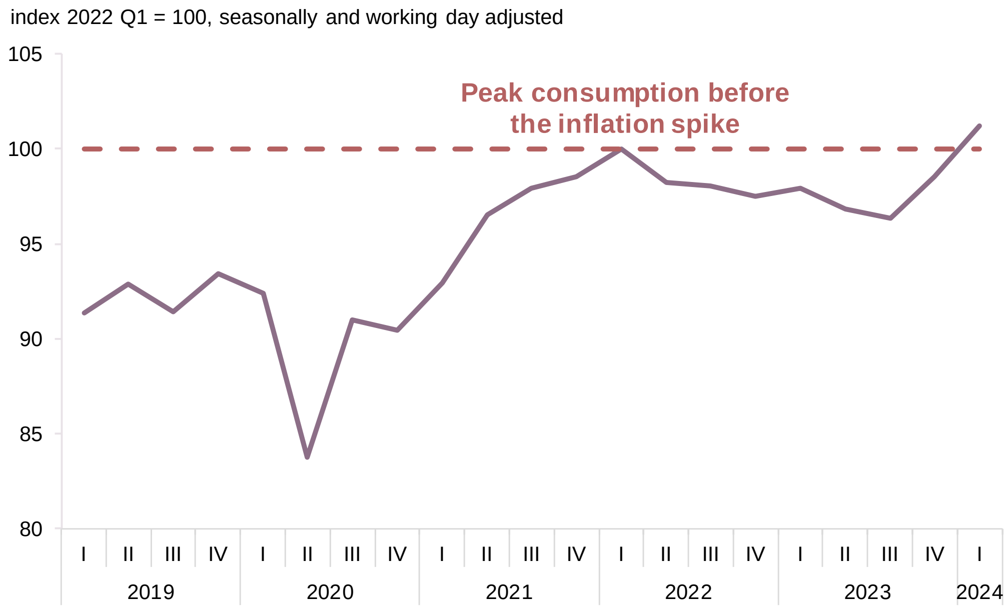
Figure 5. With continuing high job vacancy rates in Q1 2024, the rise in unemployment in Q1 2024 has slightly eased labour market tension

The figure shows data for Q1 of the corresponding year.

Source: State Data Agency

The strengthening purchasing power of the population and the stable labour market situation will lead to projected further growth in private consumption in 2024 and over the medium term. In Q1 2024, real household consumption expenditure grew at an annual rate of 2.5%. In this quarter, after adjusting for the seasonal and working day effects, real private consumption expenditure on goods and services surpassed for the first time the peak level reached in Q1 2022 (Figure 6). It should be noted that consumption growth was also influenced by population growth.

Figure 6. Real household consumption expenditure has recovered and is above its level before the 2022 inflation spike



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

According to the May 2024 Consumer Sentiment Survey, people's expectations are at an all-time high, with the Consumer Confidence Index at its highest level since August 2019 and the assessment of the future financial situation at one of the highest levels since the index was first calculated. Households' disposable income will be positively affected by the measures to raise personal income foreseen in the 2024 State Budget. With the labour market situation remaining favourable, the annual change in wages is projected to be significantly above inflation in 2024. These factors, together with base effect and an increase in the number of employed persons, will allow household consumption expenditure to grow by 3.4% in 2024, according to the NAO FI's estimate. On the other hand, higher-than-expected changes in the household saving rate may lead to a revision of private consumption projections 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 2024–2027 prepared by the Ministry of Finance of the Republic of Lithuania and published on 20 June 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 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

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

Indicator	2023	2024F	2025F	2026F	2027F
Key macroeconomic indicators					
GDP at constant prices	–0.3	2.0 (1.8)	2.9 (3.0)	3.2 (3.2)	3.2 (3.2)
GDP at constant prices, EUR million	47145.2	48099.2	49502.3	51 070.0	52 704.3
Change in GDP at current prices, %	6.7	4.4 (4.4)	5.5 (5.4)	5.6 (5.6)	5.7 (5.7)
GDP at current prices, EUR million	71986.2	75 132.0	79 256.8	83 729.2	88 482.3
Change in labour productivity, %.	–1.7	1.3 (1.6)	3.1 (3.0)	3.5 (3.4)	3.4 (3.5)
Components of GDP at constant prices, rate of change, %					
Household consumption expenditure	–1.0	3.4 (3.3)	3.4 (3.4)	3.5 (3.5)	3.5 (3.5)
General government consumption expenditure	0.2	0.2 (0.2)	0.1 (0.1)	0.1 (0.1)	0.1 (0.1)
Gross fixed capital formation	10.6	2.2 (4.5)	5.7 (5.5)	5.5 (5.5)	5.5 (5.5)
Exports of goods and services	–3.3	3.6 (2.8)	5.5 (5.3)	5.5 (5.5)	5.5 (5.5)
Imports of goods and services	–4.9	3.9 (4.3)	5.4 (5.0)	5.3 (5.3)	5.3 (5.3)
Price indicators, rate of change, %					
GDP deflator	7.1	2.3 (2.6)	2.5 (2.3)	2.4 (2.4)	2.4 (2.4)
Household consumption expenditure deflator	8.6	1.6 (2.0)	2.3 (2.1)	2.3 (2.3)	2.3 (2.3)
Government consumption expenditure deflator	12.6	9.3 (9.7)	5.3 (5.2)	4.5 (4.2)	4.4 (4.2)
Gross fixed capital formation deflator	5.1	2.3 (2.1)	2.4 (2.3)	2.1 (2.1)	2.1 (2.1)
Export (goods and services) deflator	–0.2	1.5 (0.9)	0.8 (1.8)	1.6 (1.5)	1.4 (1.4)
Import (goods and services) deflator	–5.6	1.1 (0.2)	0.0 (1.7)	1.3 (1.3)	1.3 (1.3)
Harmonised index of consumer prices (annual average)	8.7	1.6 (2.0)	2.3 (2.2)	2.3 (2.3)	2.3 (2.3)
Labour market indicators					
Number of employed persons (according to the Labour Force Survey methodology), thousand	1441.1	1451.6	1449.0	1444.4	1442.3
Change in the number employed persons, %	1.4	0.7 (0.2)	–0.2 (0.0)	–0.3 (–0.3)	–0.1 (–0.2)
Unemployment rate (according to the Labour Force Survey methodology), %	6.8	7.3 (7.2)	6.9 (6.9)	6.9 (6.9)	6.7 (6.7)
Average monthly gross earnings, EUR	2013.8	2197.4	2383.1	2549.1	2689.9
Change in average monthly gross earnings, %	12.6	9.1 (8.7)	8.4 (7.9)	7.0 (6.9)	5.5 (5.3)
Wage bill, million EUR	27842.2	30 601.8	33 127.8	35 324.2	37 219.7
Change in the wage bill, %	13.4	9.9 (9.0)	8.3 (7.9)	6.6 (6.6)	5.4 (5.0)
Changes in potential GDP and the output gap					
Change in potential GDP, %	3.3	3.2 (3.3)	3.0 (3.1)	2.8 (2.9)	2.6 (2.7)
Output gap (% of potential GDP)	–1.3	–2.4 (–3.4)	–2.6 (–3.6)	–2.6 (–3.7)	–2.3 (–3.6)

The projections in parentheses are the March 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 31 May 2024.
F - forecast
Source: State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution

Main assumptions of the macroeconomic forecasts of the NAO FI

Indicator	2023	2024F	2025F	2026F	2027F
US dollar to euro exchange rate*	1.08	1.07 (1.09) ▼	1.07 (1.09) ▼	1.07 (1.09) ▼	1.07 (1.09) ▼
World (excl. EU) GDP growth, %*	3.6	3.5 (3.3) ▲	3.6 (3.5) ▲	3.6 (3.5) ▲	3.6 (3.5) ▲
European Union GDP growth, %*	0.4	1.0 (0.9) ▲	1.6 (1.7) ▼	1.6 (1.7) ▼	1.6 (1.7) ▼
Growth of Lithuania's main export markets, %**	1.1	1.4 (1.2) ▲	1.8 (1.8)	1.8 (2.0) ▼	1.8 (2.0) ▼
Oil prices (*Brent*, USD per barrel)***	82.5	85.4 (78.5) ▲	80.0 (74.7) ▲	76.2 (72.3) ▲	73.3 (70.6) ▲

* Technical assumption made public by the European Commission on 15 May 2024.
** Based on the methodology applied by the NAO FI.
*** Average of 10 business days futures for 12-25 April 2024, reflecting the period used by the European Commission in its May 2024 projections.

The main assumptions of the March 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 June 2024 by the Ministry of Finance

Indicator, %	2023	2024F	2025F	2026F	2027F
Key macroeconomic indicators, change					
GDP at constant prices	−0.3	2.1 (1.6) ▲	2.9 (2.9)	2.9 (2.9)	2.9 (2.9)
Household consumption expenditure	−1.0	3.3 (3.1) ▲	3.4 (3.4)	3.4 (3.4)	3.4 (3.4)
General government consumption expenditure	0.2	0.5 (0.5)	0.1 (0.1)	0.1 (0.1)	0.1 (0.1)
Gross fixed capital formation	10.6	3.5 (3.5)	5.4 (5.4)	5.4 (5.4)	5.4 (5.4)
Exports of goods and services	−3.3	2.3 (3.5) ▼	4.1 (5.2) ▼	4.2 (5.2) ▼	4.2 (5.2) ▼
Imports of goods and services	−4.9	2.4 (5.2) ▼	4.9 (5.5) ▼	4.9 (5.5) ▼	4.9 (5.5) ▼
GDP at current prices	6.7	5.0 (5.0)	5.4 (5.2) ▲	5.4 (5.2) ▲	5.4 (5.2) ▲
Price indices, change					
GDP deflator	7.1	2.8 (3.3) ▲	2.5 (2.2) ▲	2.5 (2.2) ▲	2.5 (2.2) ▲
Harmonised index of consumer prices (annual average)	8.7	1.1 (1.9) ▼	2.2 (2.2)	2.2 (2.2)	2.2 (2.2)
Labour market indicators					
Change in average monthly gross earnings	12.6	9.5 (8.6) ▲	6.4 (5.0) ▲	6.4 (5.0) ▲	5.5 (5.0) ▲
Unemployment rate (according to the Labour Force Survey methodology)	6.8	7.2 (6.7) ▲	6.9 (6.5) ▲	6.6 (6.4) ▲	6.3 (6.3)
Change in the number of employed persons (according to the Labour Force Survey methodology)	1.4	1.4 (0.5) ▲	0.2 (−0.1) ▲	−0.1 (−0.3) ▲	−0.3 (−0.5) ▲

According to the MoF, the date for the inclusion of statistics in the scenarios is 31 May 2024 and for other information up to and including 6 June 2024.
The projections for the Economic Development Scenario 18/03/2024 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 June 2024 Economic Development Scenario of the Ministry of Finance

Indicator	2023	2024F	2025F	2026F	2027F
US dollar to euro exchange rate*	1.08	1.07 (1.09) ▼	1.07 (1.09) ▼	1.07 (1.09) ▼	1.07 (1.09) ▼
World (excl. EU) GDP growth, %*	3.6	3.5 (3.3) ▲	3.6 (3.5) ▲	3.6 (3.5)	3.6 (3.5)
European Union GDP growth, %*	0.4	1.0 (0.9) ▲	1.6 (1.7) ▼	1.6 (1.7) ▼	1.6 (1.7) ▼
Growth of Lithuania's main export markets, %**	1.7	1.9 (1.8) ▲	2.3 (2.4) ▼	2.3 (2.4) ▼	2.3 (2.4) ▼
Oil prices (*Brent*, USD per barrel)*	82.5	85.4 (78.5) ▲	80.0 (74.7) ▲	80.0 (74.7) ▲	80.0 (74.7) ▲

* Technical assumption made public by the European Commission on 15 May 2024.
** according to the MoF methodology
The assumptions for the March 2024 EDS are shown in parentheses.
F - forecast
Source: Ministry of Finance

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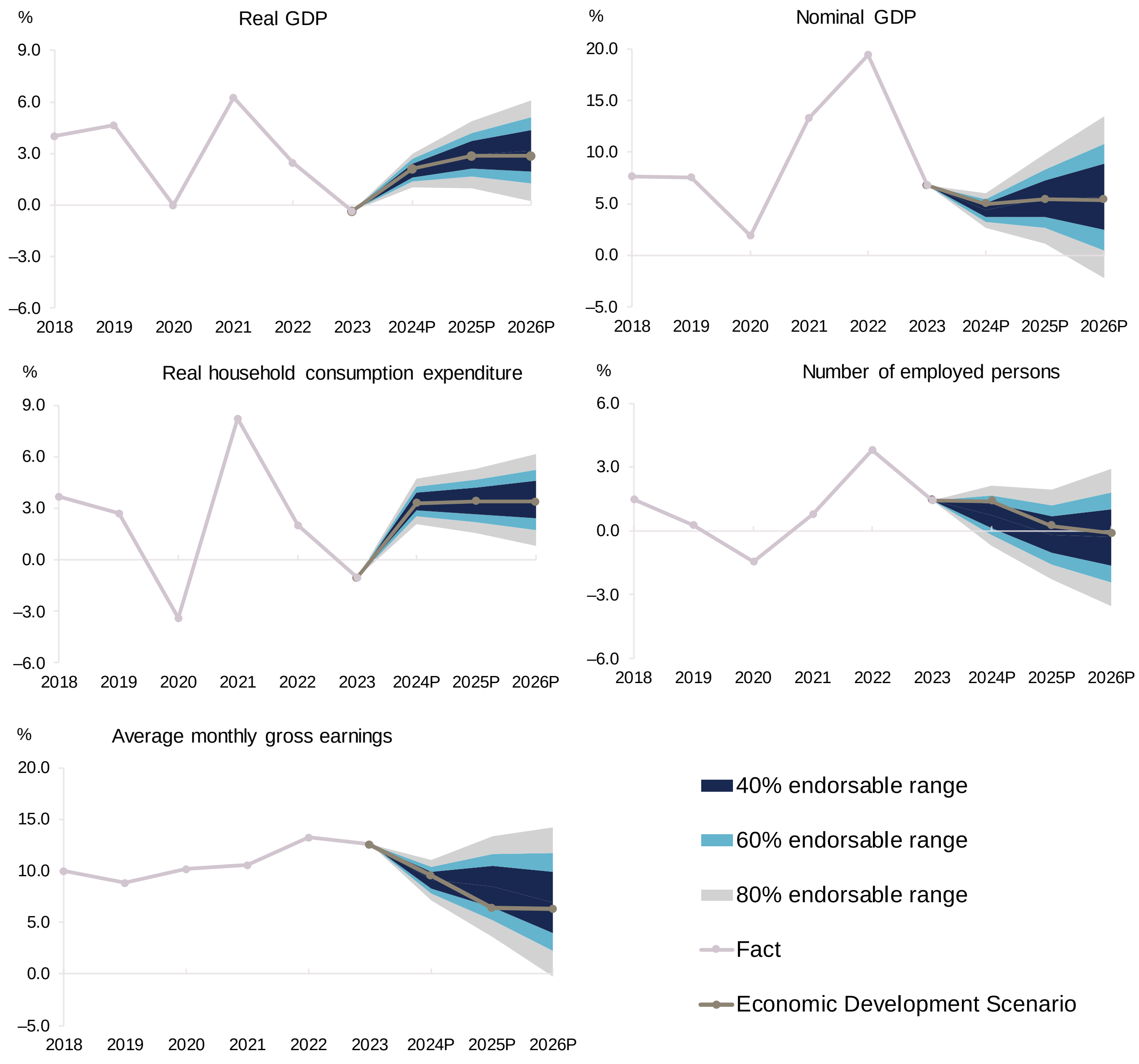
EDS ENDORSEMENT RANGES ESTIMATED BY THE NAO FI



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.
F - forecast

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	2024F	2025F
Bank of Lithuania*	11/06/2024 (19/03/2024)	1.9 (1.6) ▲	3.1 (3.1)
European Commission	15/05/2024 (15/02/2024)	2.0 (2.1) ▼	2.9 (3.0) ▼
AB SEB	02/05/2024 (23/01/2024)	1.5 (1.5)	2.8 (2.8)
OECD	02/05/2024 (29/11/2024)	1.7 (1.7)	3.1 (3.1)
AB Swedbank	18/04/2024 (25/01/2024)	1.8 (1.8)	2.8 (2.5) ▲
IMF	16/04/2024 (10/10/2024)	2.2 (2.7) ▼	2.5 (2.6) ▼
Average of institutions	–	1.9 (1.9)	2.9 (2.9)
Ministry of Finance	20/06/2024 (18/03/2024)	2.1 (1.6) ▲	2.9 (2.9)
NAO FI	02/07/2024 (27/03/2024)	2.0 (1.8) ▲	2.9 (3.0) ▼

The previous forecasts of the institutions are provided in parentheses.
The projections used are updated to 14 June 2024.
* After adjusting for seasonality and number of working days.
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

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PROCESS OF EVALUATION OF THE EDS PUBLISHED IN JUNE 2024

31 May	The State Data Agency has published the second estimate of GDP for Q1 2024.
4 June	**The draft EDS was submitted by the MoF to the institutions for coordination (copy to the NAO FI).**
6 June	The NAO FI has produced its macroeconomic projections for 2024–2027*.
7 June	A meeting between the Bank of Lithuania and the NAO FI was held to discuss Lithuania's economic development.
7 June	The NAO FI submitted comments and proposals on the draft EDS to the MoF. The NAO FI also questioned the MoF on its macroeconomic forecasts for 2024–2027.
10 June	The MoF replied in writing to the NAO FI's questions.
14 June	**The revised draft EDS was submitted by the MoF to the NAO FI for coordination.**
14 June	The NAO FI informed the MoF that it had no reasons not to endorse the draft EDS.
20 June	The June 2024–2027 EDS has been made publicly available by the MoF on its website.
2 July	The NAO FI has made public on its website its opinion on the endorsement of the EDS 2024–2027, published in June. 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

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INTERNATIONAL INSTITUTIONS ASSUMPTIONS COMPARISON AND FUTURES CONTRACTS

Period	World Bank (11/06/2024)		ECB (06/06/2024)		EC (15/05/2024)		OECD (02/05/2024)		IMF (16/04/2024)		Futures*	
	oil price	USD/EUR	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	1.08	82.5	1.08	82.5	1.08	82.5	–	82.5	1.08
2024F	84.0	–	83.8	1.08	85.4	1.07	84.6	1.08	78.6	–	85.4	1.08
2025F	79.0	–	78.0	1.08	80.0	1.07	85.0	1.08	73.7	–	80.0	1.09
2026F	78.1	–	74.5	1.08	–	–	–	–	–	–	76.2	1.12
2027F	–	–	–	–	–	–	–	–	–	–	73.3	1.13

The date of publication is given in parentheses.

* 10-business day futures average for 12-25 April 2024, reflecting the period used by the European Commission in its May 2024 projections.

F - forecast

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