VALSTYBĖS KONTROLĖ
BUDGET MONITORING

To the Seimas of the Republic of Lithuania

OPINION ON THE ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

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Vilnius

ECONOMIC GROWTH WILL BE DRIVEN BY DOMESTIC DEMAND AND EXPORTS, BUT RISKS STEM FROM HEIGHTENED UNCERTAINTY IN THE EXTERNAL ENVIRONMENT

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 2025–2028 published by the Ministry of Finance (MoF) on 20 March. The opinion is based on the Constitutional Law on the Implementation of the Fiscal Treaty.

The NAO FI endorses the Economic Development Scenario for 2025–2028, 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. A more detailed description of the NAO FI forecasts is provided in Part 2 of the opinion, and the projections table is in Annex 1.

Key messages of the opinion:

- **As international trade conflicts escalate, global economic uncertainty increases.**
- **NAO FI projects that the Lithuanian economy will grow faster this year than in 2024. The economy will be driven mainly by household consumption, recovering investment and exports.**
- **With continued industrial expansion and recovering foreign demand, the country's export growth is projected; however, potential trade restrictions pose risks to its development.**
- **Inflation is likely to be higher than 3% in 2025 after a pick-up at the start of the year, and above 2% in the medium term due to continued strong wage growth and rising excise duties.**
- **The labour market remains strong, with a high number of employed persons and rapid, above-inflation wage growth projected over the medium term.**
- **Following the assessment, the NAO FI endorses the Economic Development Scenario for 2025–2028 published by the Ministry of Finance in March.**

ASSESSMENT AND ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

The NAO FI carried out an assessment of the Economic Development Scenario for 2025–2028 published in March 2025[1]. The NAO FI analysed the macroeconomic environment and prepared independent projections. In assessing the Ministry of Finance's EDS, the NAO FI analysed the validity of the assumptions used in the scenario, compared the projections of the scenario with the projections of the NAO FI and of other institutions, used the endorsement range method and expert judgement.

There are no significant differences in the projections of the main macroeconomic indicators for the period 2025–2028 between the MoF and the NAO FI. Taking into account the 2024 results and updated assumptions, the country's economy is projected to grow at a faster pace this year than it did last year. Economic growth is projected to be below 3% (NAO FI 2.9%, MoF 2.8%), driven mainly by household consumption, investment and exports. Household consumption will continue to benefit from the strengthening purchasing power of the population, while investment will be supported by EU support flows. As Lithuania's main trade markets recover, export growth is expected to be stronger than in 2024. Real GDP is projected to expand in 2026–2028, exceeding growth recorded in 2024.

Wages and number of employed persons are projected to be higher in 2025 than expected in December. The labour market situation will remain stable between 2025 and 2028, with a steady decline in the unemployment rate and average wages rising faster than inflation.

Inflation is projected to be above 3% in 2025 and is likely to decline in the medium term, but remain above 2%. This is likely to be driven by rising fuel prices due to higher taxation and further increases in food and services prices. Growth of GDP at current prices is projected to be above 6% in 2025, while the growth rate is projected to decelerate towards 5.5% over the rest of the projected period. A more detailed description of the NAO FI forecasts is provided in Part 2 of the opinion, and the projections table is in Annex 1. The March 2025 EDS is presented in Annex 2. Estimates of the NAO FI and MoF indicators may differ due to different assumptions, models and expert judgement.

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 2025–2027: changes in GDP at current and constant prices, real household consumption expenditure, average gross monthly earnings (AME) and number of employed persons (Annex 3). The projections for all indicators fall within the 40% confidence intervals. They represent 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 endorsement ranges are based on historical errors and therefore may not necessarily be fully indicative of future uncertainty.

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 2028 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 2025 and 2028 (Annex 1). The Ministry of Finance projects real GDP growth at 2.8% in 2028. This is close to the NAO FI's estimate of potential GDP growth of 2.6% in 2028.

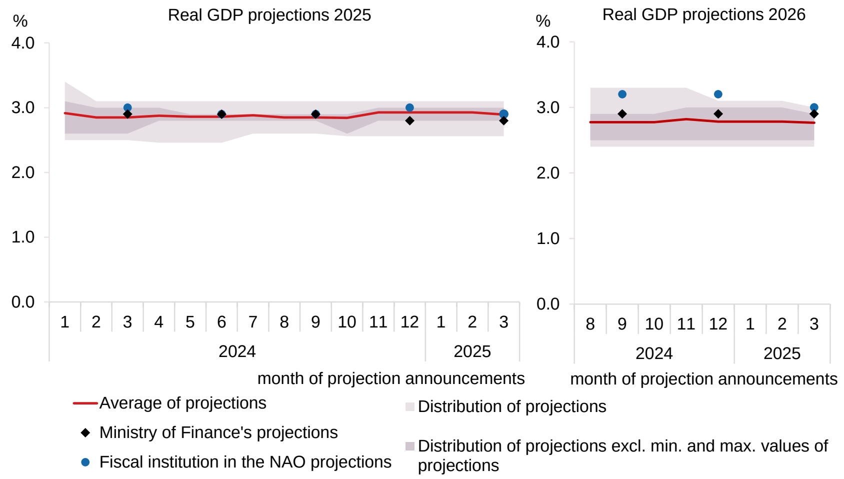
[1] The evaluation and endorsement process and the methods used by NAO FI are defined in the Description of Evaluation and Endorsement of the EDS of the NAO FI. Available online: https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/ERS_vertinimo_ir_tvirtinimo_aprasas.pdf.

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

[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 potential GDP and output gap may differ between the NAO FI and the MoF.

The March 2025 EDS real GDP projections for the period 2025–2026 are close to the average of other institutions' projections. The average of the other institutions' real GDP projections is 2.9% in 2025 and 2.8% in 2026 (Figure 1 and Annex 4). It should be noted that most of the institutions publishing macroeconomic forecasts for Lithuania updated them by the end of February 2025, before the favourable second estimate of Q4 2024 gross domestic product appeared.

Figure 1. The Ministry of Finance's March 2025 EDS real GDP projections for 2025–2026 are close to the average of other institutions' projections



The institutions included 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.

Most institutions started publishing their 2026 forecasts in August–December 2024.

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

The assumptions used in the March 2025 EDS are reasonable, and the main risks to Lithuania's economic development remain related to the geopolitical situation and international trade. In the assessment of the NAO FI, the March EDS is based on up-to-date assumptions on exchange rates, economic developments in the world economy and in the economies of the main export partners, and oil prices. The main downside risks to the Lithuanian economy remain related to the geopolitical situation and international trade. The importance of these risks is also reflected in the rising economic policy uncertainty. Fiscal policy and the development of the defence industry, as well as higher household consumption, which would be affected by changes in personal saving, could boost economic development. For a more detailed description of the macroeconomic environment, assumptions and risks, see Part 1 of the opinion.

The NAO FI endorses the Economic Development Scenario 2025–2028 published by the Ministry of Finance in March 2025. According to the Council of the European Union Directive[4], budgetary planning must be based on the most likely or more prudent macrofiscal scenario. In view of the remaining uncertainties and considering the results of the above-mentioned methods, the NAO FI endorses the Economic Development Scenario 2025–2028 published in March 2025.

On March 6, 2025, the Ministry of Finance submitted the draft EDS to the institutions for coordination (copy to the NAO FI) and on March 12, 2025, the revised draft was submitted to the NAO FI. Details on the timeline of the coordination are provided in Annex 5. On the basis of the above methods, the NAO FI carried out an assessment of the draft EDS. A meeting between the MoF and the NAO FI took place on March 7, 2025, during which the MoF responded to the questions posed by the NAO FI on household consumption, inflation developments, assumptions in the investment projections. On March 14, 2025, the NAO FI informed the MoF that it had no reason not to endorse the draft EDS.

[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/EN/TXT/HTML/?uri=OJ:L_202401265.

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

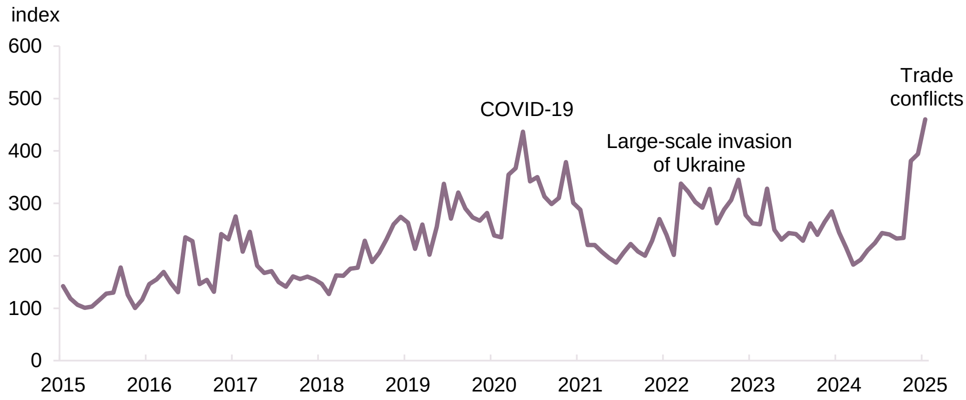
According to the assessment of the NAO FI, the March EDS is based on up to date[5] assumptions on global and major export partner economic developments, exchange rate and oil prices. Both the MoF and the NAO FI have based their world and EU growth assumptions on the IMF's projections of January 2025 and foresee a slightly slower recovery for the EU economy than in December 2024. From 2025 onwards, the NAO FI and MoF assume faster growth of Lithuania's main export markets than in 2024. For the assumptions of the euro against the US dollar, the MoF used the European Central Bank's December assumptions, while NAO FI used the February actual data (Table 2 of Annex 1 and 2). Both institutions assume that the euro will remain weaker against the US dollar throughout the medium term than in 2024. The March EDS assumes a more rapid decline in the oil price than the December EDS, with the price stabilising from 2027 onwards. Futures point to a decline in the oil price also in 2028. Given the prevailing uncertainty in the oil and exchange rate markets, in the assessment of the NAO FI, these differences between assumptions and market expectations are not significant. In this context, the assumptions used by the MoF in preparing the March EDS reflect the most up to date information available at the time the projections were made.

Over the past few years, risks to Lithuania's economic development have been mainly related with geopolitical tensions and international trade. The importance of these risks is also reflected in the rising economic policy uncertainty from the end of 2024 (Figure 2). The main risks that could affect the development of the Lithuanian economy in the medium term:

- **Intensifying geopolitical tensions.** Increased geopolitical tensions could not only lead to greater uncertainty in the world, but also have a negative impact on global economies. Escalating geopolitical conflicts could lead to increased volatility in financial markets and higher prices for energy and other commodities. Higher prices could fuel inflation not only in Lithuania but also in the EU as a whole, and increase production costs, especially in energy-intensive industries. Increased uncertainty could make companies more cautious when making investment decisions. All of this could lead to slower economic growth.
- **Fragmentation of international trade.** Prospects remain uncertain due to the increasing geo-economic fragmentation, with more and more trade taking place within geopolitical blocs rather than between them. Protectionist economic policies pursued by the US and retaliatory measures by the affected countries pose risks in the short and medium term for the US itself and for other economies and their international trade (Figure 2). An intensifying trade war could affect investment, supply chains and inflation both globally and in Lithuania.

[5] It should be noted that the date for the inclusion of statistics and other information in the scenario is 28 February 2025.

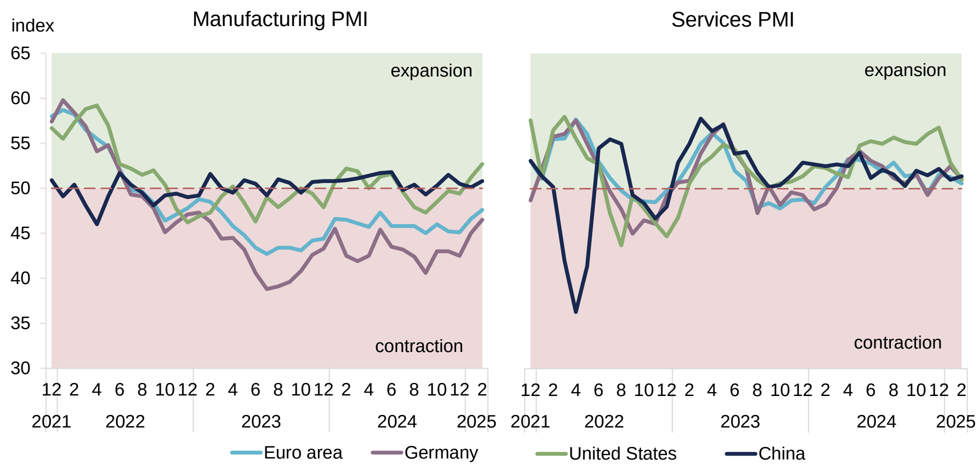
Figure 2. The Global Economic Policy Uncertainty Index reaches an all-time high in early 2025



Source: https://www.policyuncertainty.com/index.html

- **Slower-than-expected recovery in the economies of Lithuania's main export partners.** Slower growth in the economies of Lithuania's main trading partners could have a negative impact on the country's exports and economic development. The German economy contracted by 0.2% in 2024, having experienced difficulties in the industrial sector due to higher energy costs and weak global demand. Leading indicators of economic activity, such as the Purchasing managers' index, still point to a contraction in industrial production in both Germany and the euro area (EA) as a whole (Figure 3). Structural challenges in the EA and risks to international trade could negatively affect Lithuanian exports.

Figure 3. In February 2025, a contraction is observed in the EA manufacturing. The service sector remains in expansion territory



PMI - Purchasing Managers' Index

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

- **Growth supportive fiscal policy and the expansion of the defence industry.** President of the European Commission Ursula von der Leyen announced back in February[6] that the EC would propose to activate the Stability and Growth Pact clause allowing Member States to increase defence spending to strengthen European security and resilience. The acceleration of defence investment could have a corresponding impact on the further economic development of both the EU and Lithuania: the EC's defence package[7] could contribute to the expansion or

[6] Available online: https://ec.europa.eu/commission/presscorner/detail/en/ac_25_526.

[7] Available online: https://ec.europa.eu/commission/presscorner/detail/en/statement_25_673.

diversification of industries in Lithuania. The German Parliament has approved the creation of a €500 billion fund for infrastructure and the exemption of defence spending above 1% of GDP from the "*debt brake*" in order to increase investment in these areas. This could contribute to the growth of Lithuania's main export partner. However, such investments would inevitably increase national budget deficits and may require restrictive fiscal policies in the future in order to maintain fiscal discipline and balanced economic growth.

In Lithuania, tax changes are being discussed, which could impact the country's economic development. The impact could be manifold and will depend on the specific decisions made. According to the NAO FI, a fairer and more efficient tax system should be pursued[8].

- **Climate change risks.** The increasingly evident impacts of climate change could have negative effects on supply chains, food prices or inflation. In Lithuania, climate change could manifest itself in more frequent and intense storms or floods. All of these would affect the wealth and health of the population[9]. However, investments in renewable energy and other green transition oriented solutions can not only help to combat climate change and build resilience, but also boost economic development.
- **Stronger domestic demand could be the key to stronger growth.** Continued migration could contribute to higher employment. Changes in the consumer behaviour linked to lower savings, could have a positive impact on household consumption. If the proposed changes to the second pillar of pension system are adopted[10], this is also likely to boost household consumption in the short term, but would increase risks to the sustainability of public finances in the long term. Investment could be higher than foreseen due to more active implementation of the *Recovery and Resilience Facility* and other EU-funded projects, political decisions to invest even more in defence or other areas, as well as stronger private sector investment.

[8] 08/05/2023 NAO FI report "Assessment of Lithuania's Stability Programme 2023". Available online: https://www.valstybeskontrole.lt/EN/Product/24172/assessment-of-the-stability-programme-of-lithuania-for-2023.

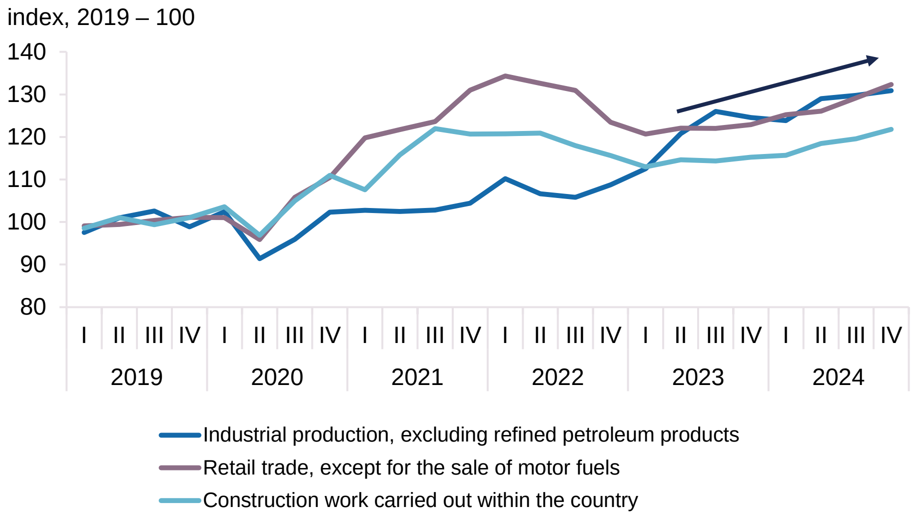
[9] Available online: https://klimatokaita.lt/prisitaikymas-prie-pokyciu/issukiai-lietuvos-gyventojams/.

[10] Available online: https://socmin.lrv.lt/lt/naujienos/pristatyti-siulymai-kaip-pertvarkyti-antraja-pensiju-pakopa-didesnis-lankstumas-ir-kaupimo-patrauklumas.

2. NAO FI ECONOMIC DEVELOPMENT FORECAST

The economy is likely to grow slightly faster this year than in 2024. However, heightened uncertainty in the external environment leads to a more cautious assessment of the economy's medium-term growth prospects. In 2024, the country's economy developed faster than expected in December, with real GDP 2.7% higher compared to the previous year. This growth was mainly driven by household consumption. It should be noted, that the expansion of the largest economic sectors has continued (Figure 4). Seasonally and calendar adjusted data shows that industrial production and retail turnover have been increasing since the end of 2023. Despite pandemic and inflation shocks, industrial and retail trade activity remain more than 30% and 20% higher than in 2019, respectively. The volume of construction work carried out in the country is also on the rise, mainly due to the rapid expansion of civil engineering structures and the recovering residential construction.

Figure 4. The expansion of industry and retail trade continues, and the volume of construction work carried out is increasing



Seasonally and calendar adjusted

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

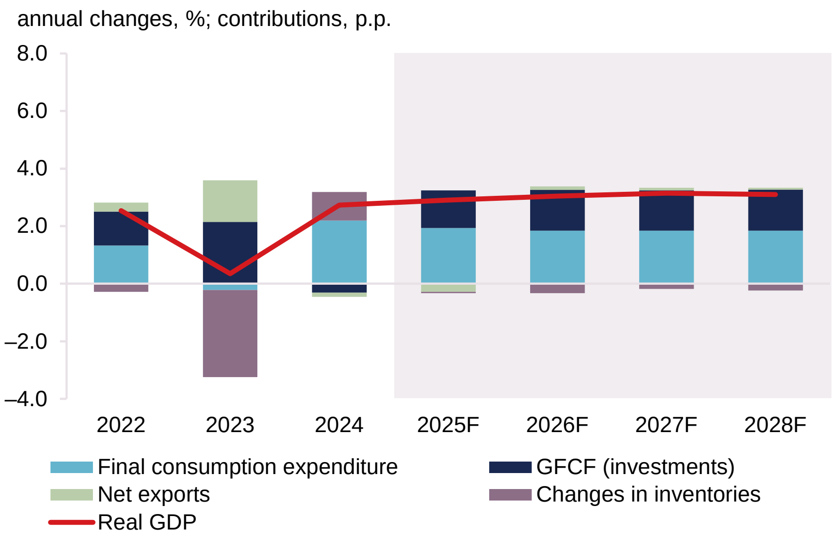
In February Lithuanian industrial companies are still cautious about demand for their products, but more positive than in 2024. Activity of this sector in the euro area remains subdued and expectations for production orders have not yet improved. For this reason, the industry's growth prospects should be viewed with caution.

Economic growth in 2025 is projected to be slightly faster than in 2024. The annual change in GDP will benefit from a favourable carry-over effect[11] following the strong Q4 2024. However, in view of heightened geopolitical uncertainty and higher-than-expected inflation at the beginning of this year, the NAO FI slightly lowers its projection for real GDP growth in 2025 to 2.9%. This year, the economy is expected to be driven by household consumption, which will benefit from the strengthening purchasing power of the population, and investment boosted by more favourable monetary policy and record-high EU support flows (Figure 5). With the recovery of Lithuania's main trade markets, export growth is expected to be

[11] For more information on carry-over effects, see Box A of the NAO FI Opinion on the endorsement of the Economic Development Scenario No BPE-1 of 28/03/2023. Available online: https://www.valstybeskontrole.lt/EN/Product/24157/opinion-on-the-endorsement-of-the-economic-development-scenario.

stronger than in 2024. With domestic demand strengthening, higher import growth is also expected, which results in a negative contribution of net exports to GDP development. Real GDP is projected to grow by around 3.0% between 2026 and 2028.

Figure 5. In 2025–2028, the NAO FI projects economic growth to be driven by household consumption, investment and recovering exports

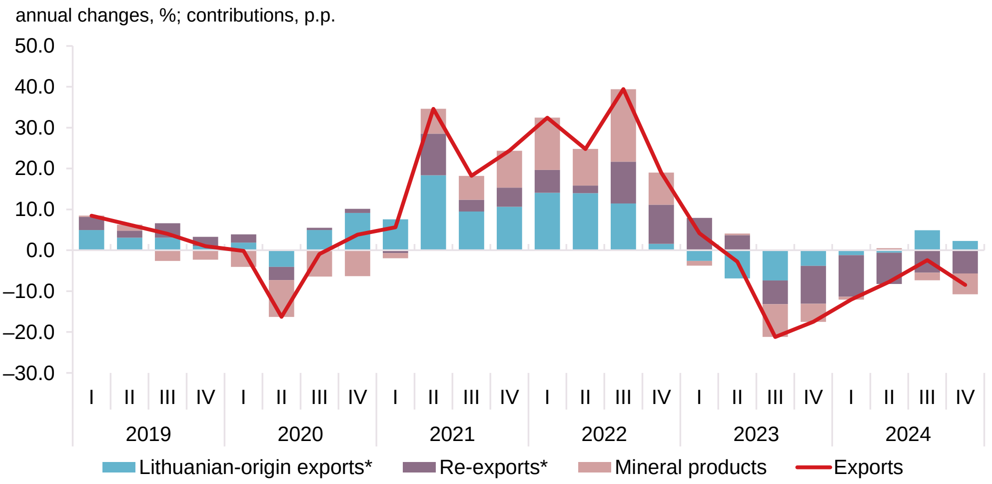


F – forecast

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

As exports of goods of Lithuanian-origin continue to recover, a faster export growth is expected in 2025. However, international trade is challenged by the tense geopolitical situation, including possible trade restrictions. According to preliminary data, in Q4 2024, Lithuania's real exports contracted by 6.0% year-on-year, while imports contracted by 1.7%. The fall in exports of goods was driven by a further decline in re-exports to Eastern countries and exports of mineral products (Figure 6). It should be noted that exports of goods of Lithuanian origin (excluding mineral products) grew for the second quarter in a row. This was driven by the development of Lithuanian industry, especially in the chemicals and plastics sectors. Demand for exports of Lithuanian-origin goods is likely to continue to recover in line with falling interest rates, leading to faster growth in real exports this year than in 2024. However, the increased uncertainty in the international environment, in particular with regard to possible trade restrictions between the US and the EU, encourages a more cautious outlook for Lithuania's foreign trade development. In view of this and the data for Q4 2024, the NAO FI moderates its projections for real export and import growth in 2025–2027 (Annex 1, Table 1). Export growth is projected to reach 3.4% in 2025 and accelerate to 4.3% in 2026. In line with strengthening domestic demand, import growth is projected to reach 4% this year and 4.5% in 2026.

Figure 6. The fall in the value of goods exports (at current prices) in Q4 2024 is due to a further decline in re-exports to Eastern countries and in exports of mineral products



* excluding mineral products

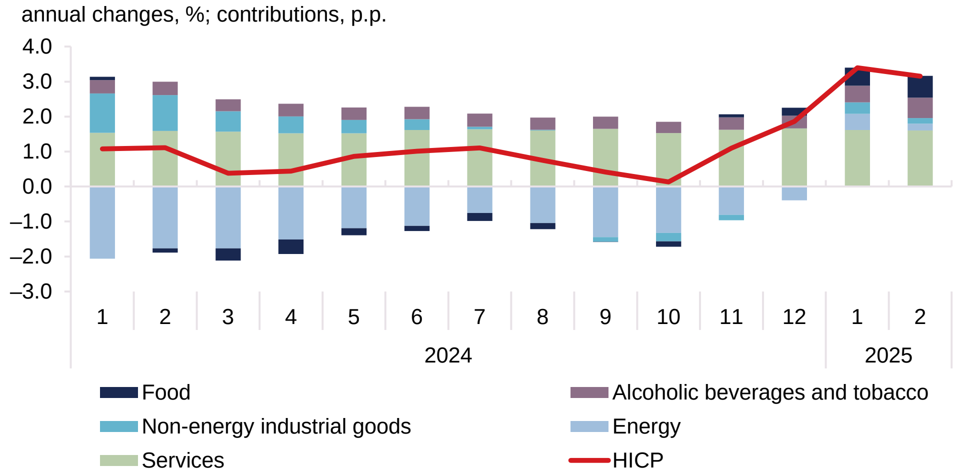
Source: State Data Agency, calculations by the National Audit Office, implementing the function of a fiscal institution

After contracting in 2024, investment is expected to recover this year. Real gross fixed capital formation (investment, GFCF) fell by 1.3% in 2024. This change is mainly driven by a decline in expenditure on transport equipment. On the other hand, investment in construction (excluding the dwellings component), which accounts for the largest share in the GFCF structure, remained positive. According to a survey of industrial managers[12], 42% of industrial enterprises surveyed expect an increase in investment in 2025, compared to 37% in 2024. The favourable development of investment in Q4 2024 leads to a positive carry-over effect to 2025. Taking into account the above factors, the strengthening of external demand, the easing of monetary policy, rising investment in national defence, and the anticipation of record EU support flows, the NAO FI forecasts GFCF growth of 5.4% in 2025. For the rest of the medium term, the indicator is projected to accelerate at an average annual rate of 5.6%.

Inflation is projected to exceed 3% in 2025, after picking up at the beginning of the year before declining over the medium term. After continued sluggish price increases throughout 2024, dampened by declining energy prices, the annual growth rate of the Harmonised Index of Consumer Prices (HICP) stood at 3.3% in January–February (Figure 7). This development was driven by increases in the prices of heat energy, food, alcohol, services and fuels. The latter were affected by the increase in excise duties from 1 January and the introduction of the CO_2 component. The NAO FI forecasts inflation to reach 3.5% in 2025. HICP growth is expected to slow down in the period 2026–2028, but to remain strong due to the impact of rising excise duties and prices of services, which will be driven by strong wage developments. Following the upward revision of the HICP forecast, the NAO FI also raised the GDP deflator forecast for 2025 to 3.5%. It has been revised upwards for the remaining years of the medium term, which implies faster nominal GDP growth between 2025 and 2028. The GDP deflator is projected to grow at the same rate as the HICP in 2025, and slightly more than the HICP for the rest of the medium term.

[12] Statistical survey on industrial investment by the State Data Agency. Data of 29/11/2024.

Figure 7. The acceleration of HICP growth in early 2025 is driven by higher prices for fuel, food, alcohol and services



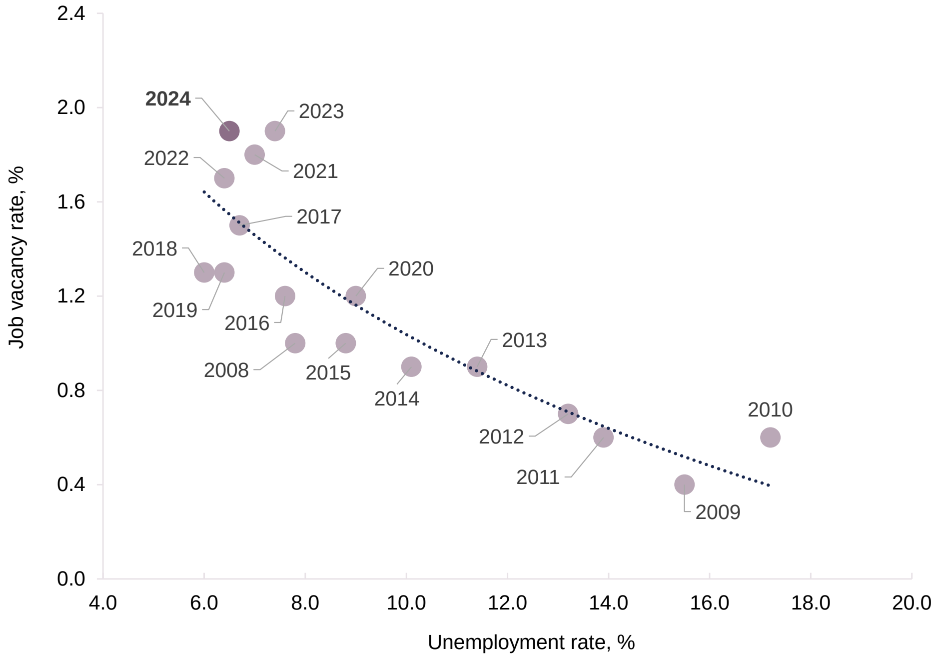
Source: Eurostat, calculations by the National Audit Office, implementing the function of a fiscal institution

The labour market remains strong, but its tightness is not easing. In Q4 2024, the number of employed persons continued to increase rapidly, reaching 1% year-on-year. The unemployment rate fell to 6.5% as the labour force participation rate for 15–29 year-olds declined. With the unemployment rate falling and the job vacancy rate remaining at historical highs, labour market tightness is not easing (Figure 8). This implies that labour supply is low, while demand remains strong, and therefore upward pressure on wages persists. However, the rising long-term unemployment rate signals a possible skills mismatch between the unemployed and labour market needs. Similarly, in the Lithuanian Employment Service's (LES) survey of employers[13], one of the most mentioned reasons of labour shortages is the lack of qualifications of candidates. Stricter rules on the employment of foreign workers may also influence the labour shortage problem[14]. The NAO FI projects that the unemployment rate will decline moderately in the medium term, reaching 6.8 % in 2028. The number of employed persons is also projected to decline from 2026 onwards, based on Eurostat demographic assumptions. However, the size of the employed population will remain high at more than 1.46 million between 2026 and 2028.

[13] Available online: https://uzt.lt/data/public/uploads/2025/02/dapkl-2024-ataskaita.pdf.

[14] Available online: https://socmin.lrv.lt/lt/veiklos-sritys/darbo-rinka-uzimtumas/uzimtumo-ir-darbo-rinkos-politika/uzsienieciu-idarbinimo-kvota-2025-m/.

Figure 8. Labour market tightness is not decreasing as the unemployment rate falls in Q4 2024 and job vacancy rate remain high



The figure shows data for Q4 of the corresponding year.

The Beveridge curve shows a negative relationship between unemployment and job vacancies.

Labour market tightness is a situation where a country has a low unemployment rate and a high number of job vacancies.

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

Over the medium term, wage growth is expected to be more moderate, yet remain robust. In Q4 2024, annual wage growth was 10.7%. Wage growth was faster in the public sector (14.5%) than in the private sector. In the private sector, the double-digit annual growth of AME in 2024 slowed down to 8.9% in Q4. The highest growth in AME was seen in the education sector (20.5%) due to the fulfilment of wage increase commitments[15], while the lowest growth (2.3%) was seen in administrative and service activities. Tightness in the labour market, the raising of the minimum monthly wage (MMW), the desire to retain existing staff and higher inflation than projected in December 2024 will be among the main reasons for the further increases in AME. However, in the LES survey, almost half of employers identified raising the MMW as a challenge in 2025. Slowing nominal GDP growth between 2025 and 2028 may provide less scope for rapid wage increases. According to the NAO FI's estimate, wage growth will reach 8.5% in 2025 and slow down to 5.7% in 2028. Real wage growth, after catching up with the multi-year trend in 2024, is expected to continue to increase in the medium term, with wages rising faster than prices.

In 2025 and over the medium term, private consumption is expected to continue to grow in line with real wage growth. In 2024, real household consumption expenditure grew by 3.5%, driven not only by the strengthening of the purchasing power of the population, but also by extremely favourable consumer sentiment. At the beginning of this year, consumer expectations also remain at historically high levels[16]. The NAO FI projects that household

[15] In 2024, two pay rises - 10% in January and 15% in October - to bring teachers' salaries to 130% of the national AME. Agreement on Lithuanian Education Policy (2021–2030), available online: https://smsm.lrv.lt/media/viesa/saugykla/2024/1/OdR2qpvyHyo.pdf.

[16] According to the February 2025 Consumer Sentiment Survey, consumer confidence is above the multi-year average and assessments of the current and future financial situation are among the highest since the index was first calculated.

consumption expenditure will grow by 3.5% in 2025, driven by wage growth that is still well above inflation. Also contributing to this increase in 2025 will be the rising number of employed persons, favourable consumer expectations, falling interest rates and a favourable evolution of the indicator at the end of 2024. Measures in the State Budget Law for the period 2025–2027 related to raising people's income will also have a positive impact on the disposable income of the population. Over the remaining medium term, as favourable trends in the labour market continue, household consumption will grow at a similar pace – 3.4% annually (Annex 1, Table 1).

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 2025–2028 prepared by the Ministry of Finance of the Republic of Lithuania and published on 20 March 2025. 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 2025–2028 AND MAIN ASSUMPTIONS

Table 1. Macroeconomic projections of the NAO FI for 2025-2028

Indicator	2024	2025F	2026F	2027F	2028F
Key macroeconomic indicators					
Change in GDP at constant prices, %	2.7	2.9 (3.0) ▼	3.0 (3.2) ▼	3.1 (3.2 ▼	3.1
GDP at constant prices, EUR million	59 907.3	61 650.0	63 527.6	65 526.7	67 558.0
Change in GDP at current prices, %	5.6	6.5 (5.6) ▲	6.2 (5.9) ▲	5.8 (5.8)	5.6
GDP at current prices, EUR million	77 940.0	83 014.4	88 183.5	93 286.6	98 544.2
Change in labour productivity, %	1.1	2.4 (2.6) ▼	3.1 (3.3) ▼	3.3 (3.3)	3.4
Components of GDP at constant prices, rate of change, %					
Household consumption expenditure	3.5	3.5 (3.6) ▼	3.4 (3.5) ▼	3.4 (3.5) ▼	3.4
General government consumption expenditure	1.3	0.2 (0.2)	0.1 (0.1)	0.1 (0.1)	0.1
Gross fixed capital formation	–1.3	5.4 (5.7) ▼	5.7 (5.5) ▲	5.5 (5.5)	5.5
Exports of goods and services	0.3	3.4 (4.3) ▼	4.3 (4.7) ▼	4.4 (4.7) ▼	4.4
Imports of goods and services	0.5	4.0 (5.0) ▼	4.5 (4.8) ▼	4.6 (4.8) ▼	4.6
Price indicators, rate of change, %					
GDP deflator	2.8	3.5 (2.5) ▲	3.1 (2.6) ▲	2.6 (2.5) ▲	2.5
Household consumption expenditure deflator	0.8	3.5 (2.4) ▲	3.0 (2.5) ▲	2.5 (2.4) ▲	2.4
Government consumption expenditure deflator	10.6	10.7 (7.3) ▲	4.6 (4.7) ▼	4.6 (4.7) ▼	4.5
Gross fixed capital formation deflator	2.2	2.5 (2.4) ▲	2.2 (2.1) ▲	2.1 (2.1)	2.1
Export (goods and services) deflator	0.8	0.6 (0.5) ▲	0.4 (1.6) ▼	1.4 (1.5) ▼	1.4
Import (goods and services) deflator	–1.5	0.1 (–0.2) ▲	0.0 (1.5) ▼	1.4 (1.6) ▼	1.5
Harmonised index of consumer prices (annual average)	0.9	3.5 (2.4) ▲	3.0 (2.5) ▲	2.5 (2.4) ▲	2.4
Labour market indicators					
Number of employed persons (according to the Labour Force Survey methodology), thousand	1463.7	1471.3	1470.4	1468.2	1464.3
Change in the number of employed persons, %	1.6	0.5 (0.4) ▲	–0.1 (–0.1)	–0.2 (–0.1) ▼	–0.3
Unemployment rate (according to the Labour Force Survey methodology), %	7.1	7.0 (7.2) ▼	6.9 (7.0) ▼	6.9 (6.8) ▲	6.8
Average monthly gross earnings, EUR	2218.4	2407.8	2580.3	2741.4	2896.5
Change in average monthly gross earnings, %	10.2	8.5 (8.2) ▲	7.2 (7.1) ▲	6.2 (6.2)	5.7
Wage bill, million EUR	30 925.0	33 740.7	36 134.3	38 332.6	40 395.4
Change in the wage bill, %	11.1	9.1 (8.6) ▲	7.1 (7.0) ▲	6.1 (6.1)	5.4
Changes in potential GDP and the output gap					
Change in potential GDP, %	3.2	3.1 (3.0) ▲	2.9 (2.9)	2.8 (2.7) ▲	2.6
Output gap (% of potential GDP)	–0.5	–0.8 (–1.3) ▲	–0.9 (–1.3) ▲	–0.9 (–1.1) ▲	–0.7

The projections in parentheses are the December 2024 NAO FI projections.
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 28 February 2025.
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	2024	2025F	2026F	2027F	2028F
US dollar to euro exchange rate*	1.08	1.04 (1.08)▼	1.04 (1.08)▼	1.04 (1.08)▼	1.04
World (excl. EU) GDP growth, %**	3.6	3.6 (3.6)	3.6 (3.6)	3.6 (3.6)	3.6
European Union GDP growth, %**	1.0	1.4 (1.5) ▼	1.7 (1.8)▼	1.7 (1.8)▼	1.7
Growth of Lithuania's main export markets, %***	1.3	1.6 (1.6)	1.9 (1.9)	1.9 (1.9)	1.9
Oil prices (*Brent*, USD per barrel)****	80.5	74.5 (73.1)▲	70.4 (71.5)▼	68.9 (70.8)▼	68.2

* The exchange rate during the forecast period remains at the exchange rate recorded between 3 February and 14 February 2025.
** Based on information from the International Monetary Fund made public on 17 January 2025.
*** Based on the methodology used by the NAO FI.
**** Average of 10 business days futures contracts from 3 February to 14 February 2025
The main assumptions of the December 2024 projections of the NAO FI are shown in parentheses.
F – forecast
Source: National Audit Office, implementing the function of a fiscal institution

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PROJECTIONS AND KEY ASSUMPTIONS FOR THE ECONOMIC DEVELOPMENT SCENARIO FOR 2025–2028 BY THE MINISTRY OF FINANCE

Table 1. Projections for the March 2025 Economic Development Scenario of the Ministry of Finance

Indicator, %	2024	2025F	2026F	2027F	2028F
Key macroeconomic indicators, change					
GDP at constant prices	2.7	2.8 (2.8)	2.9 (2.9)	2.9 (2.9)	2.8
Household consumption expenditure	3.5	3.6 (3.6)	3.5 (3.4) ▲	3.4 (3.4)	3.4
General government consumption expenditure	1.3	0.1 (0.1)	0.1 (0.1)	0.1 (0.1)	0.1
Gross fixed capital formation	–1.3	5.2 (5.2)	5.8 (5.8)	5.4 (5.4)	5.2
Exports of goods and services	0.3	3.5 (3.6)▼	4.0 (4.2)▼	4.0 (4.2)▼	4.0
Imports of goods and services	0.5	4.3 (4.4)▼	4.7 (4.9)▼	4.7 (4.9)▼	4.6
GDP at current prices	5.6	6.3 (5.4)▲	5.8 (5.7)▲	5.6 (5.6)	5.5
Price indices, change					
GDP deflator	2.8	3.4 (2.5)▲	2.8 (2.7)▲	2.7 (2.6) ▲	2.6
Harmonised index of consumer prices (annual average)	0.9	3.3 (2.5)▲	2.7 (2.7)	2.6 (2.6)	2.5
Labour market indicators					
Change in average monthly gross earnings	10.2	8.4 (7.9) ▲	6.8 (6.8)	5.7 (5.7)	5.7
Unemployment rate (according to the Labour Force Survey methodology)	7.1	7.0 (7.1)▼	6.8 (6.8)	6.5 (6.5)	6.3
Change in the number of employed persons (according to the Labour Force Survey methodology)	1.6	0.3 (0.3)	0.2 (0.1) ▲	0.0 (0.0)	–0.1

The date for the inclusion of statistics and other information in the scenario is 28 February 2025.
The projections for the economic development scenario of 20/12/2024 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 3. Main assumptions for the March 2025 Economic Development Scenario of the Ministry of Finance

Indicator	2024	2025F	2026F	2027F	2028F
US dollar to euro exchange rate*	1.08	1.06 (1.08) ▼	1.06 (1.08) ▼	1.06 (1.08) ▼	1.06
World (excl. EU) GDP growth, %**	3.6	3.6 (3.6)	3.6 (3.6)	3.6 (3.6)	3.6
European Union GDP growth as %***	1.0	1.4 (1.5) ▼	1.7 (1.8) ▼	1.7 (1.8) ▼	1.7
Growth of Lithuania's main export markets, %****	1.9	2.1 (2.2)▼	2.3 (2.4)▼	2.3 (2.4▼	2.3
Oil prices (*Brent*, USD per barrel)*****	79.7	74.4 (73.1) ▲	70.8 (71.5) ▼	70.8 (71.5) ▼	70.8

* European Central Bank (December 2024)
** International Monetary Fund (January 2025), Ministry of Finance calculations
*** International Monetary Fund (January 2025)
**** Ministry of Finance calculations
***** *Macrobond*, Ministry of Finance calculations. The calculations are based on the 10-day arithmetic average of futures prices on 25 February 2025.
The assumptions for the December 2024 EDS are shown in parentheses.
F – forecast
Source: Ministry of Finance

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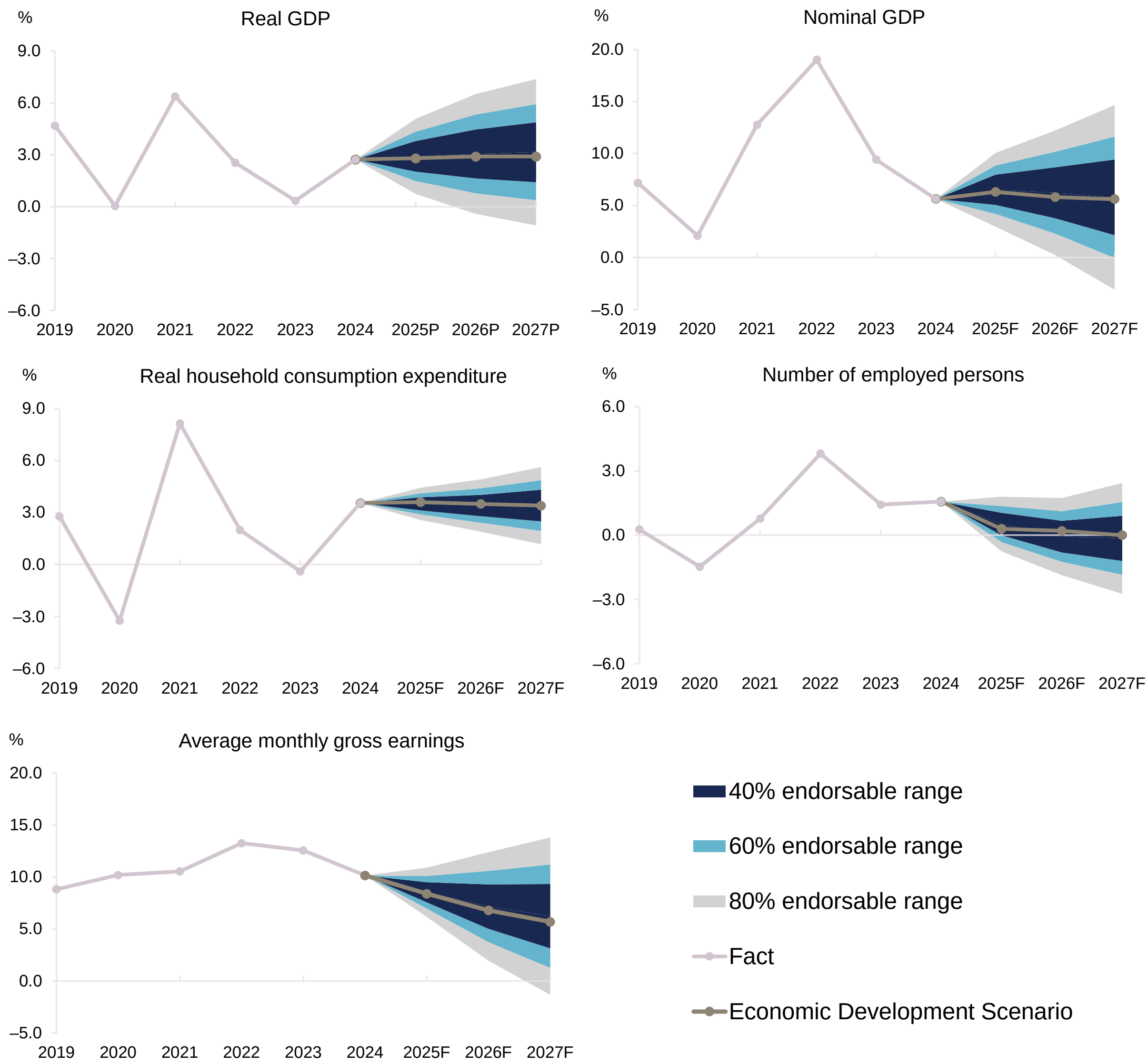
EDS ENDORSEMENT RANGES ESTIMATED BY THE NAO FI



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 REAL GDP BY OTHER INSTITUTIONS

Institution	Date of publication	2025F	2026F
AB SEB	28/01/2025 (12/11/2024)	2.8 (2.8)	2.9 (2.9)
AB Swedbank	28/01/2025 (12/11/2024)	3.0 (3.0)	2.5 (2.5)
Bank of Lithuania	12/03/2025 (19/12/2024)	2.9 (3.1) ▼	3.0 (3.1) ▼
OECD	04/12/2024 (02/05/2024)	3.1 (3.1)	2.8
European Commission	15/11/2024 (15/05/2024)	3.0 (2.9) ▲	3.0
IMF	22/10/2024 (24/07/2024)	2.6 (2.6)	2.4 (2.4)
Average of institutions	–	2.9 (2.9)	2.8 (2.7) ▲
Ministry of Finance	20/03/2025 (20/12/2024)	2.8 (2.8)	2.9 (2.9)
NAO FI	26/03/2025 (30/12/2025)	2.9 (3.0) ▼	3.0 (3.2) ▼

The institutions' forecasts are published up to and including 14 March 2025.

The institutions' previous forecasts are in parentheses.

F – forecast

Source: projections by the institutions listed in the table, 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 MARCH 2025

28 February	The State Data Agency has published its second estimate of GDP for Q4 2024. In the light of the new statistical data published, the NAO FI has revised and updated the macroeconomic projections related to the GDP components.
5 March	The NAO FI has produced its macroeconomic projections for 2025–2028. A meeting between the Bank of Lithuania and the NAO FI was held to discuss Lithuania's economic development.
6 March	**The draft EDS was submitted by the MoF to the institutions for coordination (copy to the NAO FI).**
7 March	The NAO FI posed questions to the MoF. A meeting took place between the MoF and the NAO FI, where the MoF answered the questions posed by the NAO FI.
10 March	The NAO FI informed the MoF that it had no comments or suggestions on the draft EDS.
12 March	**The revised draft EDS was submitted by the MoF to the NAO FI for coordination.**
14 March	The NAO FI informed the MoF that it had no reasons not to endorse the draft EDS.
20 March	The MoF has made the March 2025–2028 EDS publicly available on its website.
26 March	The NAO FI has made public on its website its opinion on the endorsement of the EDS 2025–2028, published in March. At the same time, the macroeconomic forecasts of the NAO FI were published.

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