VALSTYBĖS KONTROLĖ
BUDGET MONITORING

OPINION

OPINION ON THE ECONOMIC DEVELOPMENT SCENARIO

26 March 2026

No. BPE-2

WAR IN IRAN INCREASES UNCERTAINTY – INFLATION IS EXPECTED TO ACCELERATE

The National Audit Office, as the Independent Fiscal Institution (hereinafter – IFI), submits to the Seimas its Opinion on the Economic Development Scenario for 2026–2029 (EDS) published by the Ministry of Finance (MoF) on 24 March. The opinion is submitted in accordance with the Law on Fiscal Governance of the Republic of Lithuania.

The Independent Fiscal Institution endorses the projections of the Ministry of Finance's Economic Development Scenario of March 2026 for the percentage changes in GDP at current prices, GDP at constant prices, final consumption expenditure at current prices, and the wage bill. Given the increased uncertainty, they are consistent with the specified assumptions and are based on relevant statistical data. The views of the IFI and the MoF on the prospects for the Lithuanian economy are similar. A description of the IFI's forecasts is provided in Section 3 of the opinion, and the table of projections is provided in Annex 1.

Key messages of the IFI's macroeconomic projections:

- **The greatest risk to the economic prospects at present is the war in Iran. The course of the conflict will determine the development of both the Lithuanian and global economies.**
- **With energy prices surging, inflation in Lithuania is expected to accelerate to 3.9% this year.**
- **Due to slower household consumption and exports than expected in September, the real GDP growth projection for 2026 is being revised down to 3.3%.**
- **The labour market situation will remain stable, but due to inflationary pressures, household purchasing power will grow more moderately in the coming years.**
- **War in Iran could lead to high energy prices for a long time, so it is important to prepare in advance to implement the most targeted support measures possible.**

1. ASSESSMENT AND ENDORSEMENT OF THE ECONOMIC DEVELOPMENT SCENARIO

Following the EU economic governance review and changes to national legislation, amendments to the preparation and endorsement process of the Economic Development Scenario came into force on 1 January 2026. In order to align the national fiscal system with the new EU economic governance framework and to transpose the provisions of Directive 2024/1265, three laws of the Republic of Lithuania were amended. These are the Constitutional Law on the Implementation of the Fiscal Treaty, the Law on the National Audit Office and the Law on Fiscal Discipline (which has become the Law on Fiscal Governance). Under the new Law on Fiscal Governance, the following key changes come into force:

- The Ministry of Finance prepares and publishes the Economic Development Scenario at least twice a year. Under the previous procedure, the EDS was prepared twice a year, and during the period of exceptional circumstances – at least once a quarter.
- The IFI prepares an opinion on the Economic Development Scenario, in which it indicates whether it endorses or does not endorse the macroeconomic projections for fiscal planning of GDP at current prices, GDP at constant prices, final consumption expenditure at current prices, and wage bill indicators expressed as percentage changes, and justifies its decision. Under the previous procedure, the entire Economic Development Scenario had to be endorsed.
- *The "comply or explain*" principle has been established. If the IFI does not endorse the EDS, the MoF must either comply, i.e. adjust the scenario, or publicly explain its position. The MoF must publish the explanation on its website within 7 working days of the date of publication of the IFI's opinion. The MoF's explanation and the IFI's opinion are considered together by the Seimas committee specified in the Statute of the Seimas of the Republic of Lithuania. Under the previous procedure, fiscal plans could only be drawn up on the basis of the Economic Development Scenario endorsed by the IFI.
- The IFI prepares and publishes an annual opinion assessing the errors in the Economic Development Scenario and the general government finance projections. If a significant systematic error is identified in the EDS and general government financial projections, the Ministry of Finance, when preparing the EDS, takes the necessary measures to eliminate this significant systematic error and publishes information on the measures taken or planned to be taken together with the EDS. Prior to the legislative amendments, the assessment of errors in macroeconomic and fiscal indicators was carried out by the MoF.

The independent fiscal institution carried out an assessment of the 2026–2029 Economic Development Scenario published in March 2026[1]. The IFI analysed the macroeconomic environment and prepared its own projections. In assessing the Ministry of Finance's EDS, the IFI examined the validity of the assumptions used, compared the scenario's projections with those of the IFI and other institutions, and applied the method of endorsement ranges and expert judgement.

Given the increased uncertainty, the MoF's and the IFI's projections for key macroeconomic indicators for 2026–2029 do not differ significantly. The ongoing war in Iran has increased geopolitical uncertainty and triggered a surge in energy prices, which will negatively affect Lithuanian domestic consumption and external demand. In view of this, both institutions have lowered their real GDP projections for 2026. However, the economy is still expected to grow slightly faster this year than in 2025 (IFI 3.3%, and MoF 3.1%). This will be positively influenced by

[1] The assessment and endorsement process, as well as the methods applied by the IFI, are defined in the Description of Evaluation and Endorsement of the EDS. Available online: https://www.valstybeskontrole.lt/TVS/Content/Biudzeto_stebesena/EDS_assessment_and_endorsement_description.pdf.

a surge in household consumption, driven by changes to the second pillar of the pension system, and EU support flows that are expected to be higher than anticipated in September. Once the one-off consumption effect has faded, economic growth will slow significantly in 2027, reaching just over 2%. Faster economic growth is projected for subsequent years compared to 2027. Real GDP growth will be driven primarily by household consumption and investment, whilst the impact of net exports on GDP will remain neutral due to strong domestic demand.

Due to assumptions of higher energy prices, the IFI and the MoF have raised their inflation projections for 2026 (to 3.9% and 3.7% respectively). Inflation is projected to slow in the medium term but remain above 2%. This will be driven by rising prices for services and increased excise duties. The IFI and the MoF project that in 2026, GDP at current prices will grow at a similar rate to that of 2025 (6.4% and 6.6% respectively), whilst in 2027–2029, growth in this indicator will slow and will not reach 6%. By projecting higher inflation and real household consumption than in 2025, the institutions anticipate that final consumption expenditure at current prices will grow by more than 8% in 2026, whilst increasing at a slower pace for the remainder of the medium term.

Average gross wages are projected to rise by almost 8% this year. Although growth will slow in the medium term, it will still exceed inflation. Both institutions project that the labour market situation will remain stable in 2026–2029: no significant rise in the unemployment rate is expected, and the number of employed persons will not change significantly. Wage bill growth is expected to reach around 8% this year (7.9% according to the IFI and 8.1% according to the MoF), and is projected to slow to less than 6% in the medium term. A more detailed description of the IFI forecasts is provided in Section 3 of the opinion, and the table of projections is in Annex 1. The March 2026 EDS is presented in Annex 2. Estimates of IFI and MoF indicators may differ due to different assumptions, models and expert judgement.

The IFI forecasts are treated as a benchmark using the endorsement ranges method. Based on this, the IFI has compiled uncertainty charts for changes in the following EDS indicators [2] for 2026–2028: GDP at current and constant prices, real household consumption expenditure, average gross monthly earnings and the number of employed persons (Annex 3). The projections for all indicators fall within 40% endorsement intervals. These represent the central range of the probability intervals, which is closest to the reference point (mode) for the IFI projections. It should be noted that the endorsement ranges are based on historical errors and therefore may not fully reflect future uncertainty.

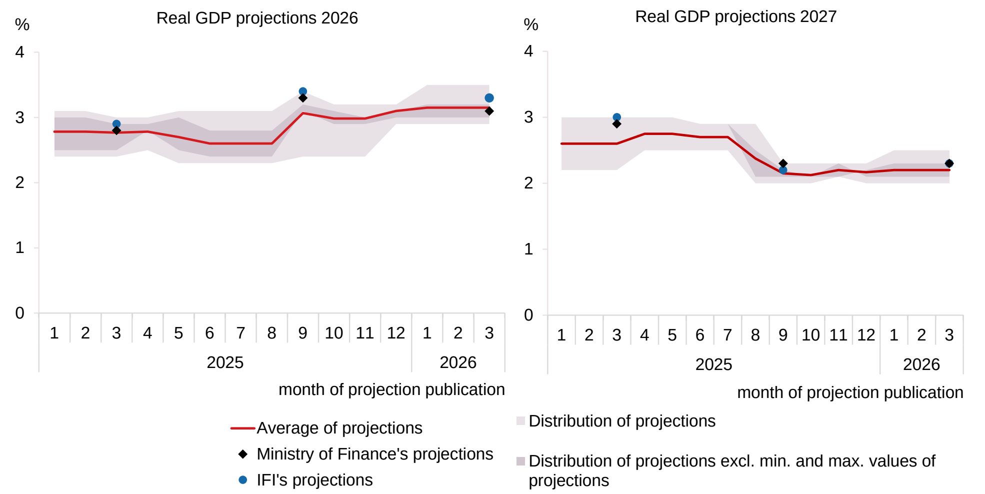
The EDS's real GDP projection for 2029 is considered plausible based on the IFI's method for estimating potential GDP. The method is designed to verify the consistency of medium-term projections. According to the IFI's assessment, potential GDP [3] is expected to grow by an average of around 2.8% annually between 2026 and 2029 (Table 1 in Annex 1). The Ministry of Finance projects that real GDP growth in 2029 will amount to 2.6%. This is in line with the IFI's estimate of potential GDP growth for 2029, which also stands at 2.6%.

[2] Not all macroeconomic indicators specified in the Law of Fiscal Governance have had endorsement ranges set directly for them – these have been set for their components. Projections of the wage bill are assessed based on the growth rates of the number of employed persons and the average gross monthly earnings. Projections of final consumption expenditure at current prices are assessed based on the growth rates of real household consumption endorsement ranges, taking into account inflation projections.

[3] The latest EDS projections from the MoF are used to estimate potential GDP. 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 IFI and the MoF.

March 2026 EDS's real GDP projections for 2026–2027 are close to the average of other institutions (Figure 1). The average of other institutions' real GDP forecasts for 2026 stands at 3.2%, and for 2027 at 2.2% (Annex 4). It should be noted that most institutions publishing macroeconomic forecasts for Lithuania updated them by February 2026 and therefore had not yet taken into account the impact on energy prices and the country's economy of the war that broke out in Iran in late February. Furthermore, the institutions' forecasts were updated before the release of the fourth-quarter 2025 gross domestic product figures.

Figure 1. The MoF's and IFI's real GDP projections of March 2026 for 2026–2027 are close to the average of other institutions



The following institutions are included in the range of projections: the European Commission, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the Bank of Lithuania, Swedbank AB, and SEB AB.

Source: Independent Fiscal Institution calculations

Given the increased uncertainty, the assumptions used in the March 2026 EDS are reasonable. The risks most likely to affect the development of the Lithuanian economy are related to the war in Iran. In the IFI's assessment, the March EDS is based on reasonable assumptions regarding the exchange rate, global economic developments and those of main export partners, as well as oil prices. The main downside risks that could affect Lithuania's economic development are linked to the geopolitical situation in the Middle East. The outbreak of war in Iran has increased uncertainty in energy markets. If energy prices do not fall, this would increase inflation and slow global economic growth. A more detailed description of the macroeconomic environment, assumptions and risks is provided in Section 2 of the opinion.

The IFI endorses the macroeconomic projections for fiscal planning set out in the Ministry of Finance's Economic Development Scenario of March 2026. In accordance with Directive[4] of the Council, budget planning must be based on the most likely or a more prudent macroeconomic fiscal scenario. Taking into account the increased uncertainty and having assessed the results of the methods listed above, the IFI endorses the projections of the Economic Development Scenario of March 2026 for the percentage changes in GDP at current prices, GDP at constant prices, final consumption expenditure at current prices, and the wage bill. These projections are suitable for fiscal planning.

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

During the EDS assessment, the institutions exchanged information:

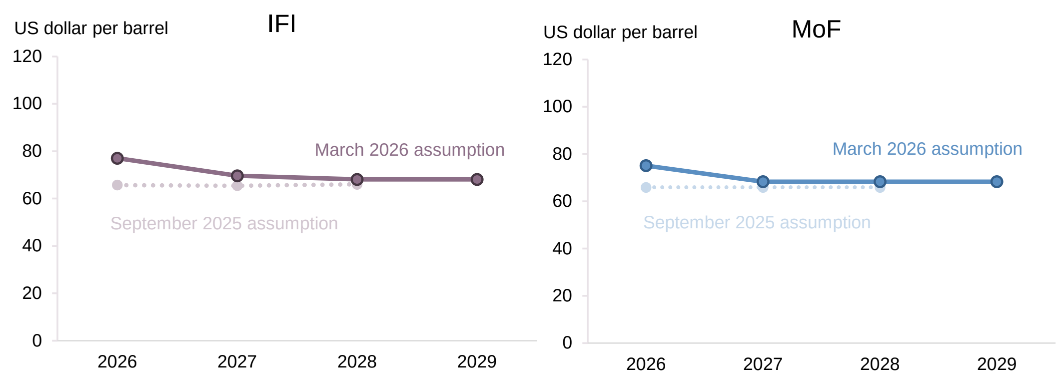
- on 5 March, the IFI and the MoF exchanged their draft macroeconomic projections,
- on 9 March, a meeting took place at which the institutions discussed the assumptions underlying the projections, projections for real GDP and its components, and trends in price indices and average wages,
- on 13 March, having updated the assumptions in line with the latest futures contracts, the institutions exchanged their revised macroeconomic projections.

2. ANALYSIS OF THE MACROECONOMIC ENVIRONMENT AND EDS ASSUMPTIONS, RISKS TO THE DEVELOPMENT OF THE LITHUANIAN ECONOMY

Given the increased uncertainty, in the IFI's assessment, the March EDS is based on reasonable assumptions regarding the exchange rate, economic developments in the global economy and among main export partners, and oil prices. The assumptions used by the MoF in preparing the March EDS are consistent with the latest information available at the time of the projections[5]:

- In preparing the EDS, the MoF relied on assumptions regarding the euro-US dollar exchange rate published by the European Central Bank in December 2025. The IFI used outturn data from March when preparing its exchange rate assumption. Both institutions project that the euro-US dollar exchange rate will be stronger in the medium term than in 2025, reaching 1.16 (Tables 2 in Annexes 1 and 2).
- In preparing their assumptions for global and EU economic growth, the MoF and the IFI relied on the projections published by the International Monetary Fund in January 2026 and forecast a slightly faster recovery in both the global and EU economies than had been expected in September.
- In formulating their oil price assumption, the MoF and the IFI relied on futures contracts, which suggest that the price of oil will be higher in the medium term than was expected in September (Figure 2). Due to differences in the time horizons of the data used, the IFI applies a slightly higher oil price assumption for the period 2026–2027. Given the prevailing uncertainty in the oil and currency markets, the IFI considers that such differences in assumptions are not significant.

Figure 2. The MoF and IFI forecast that, in the medium term, the oil price will be higher than expected in September



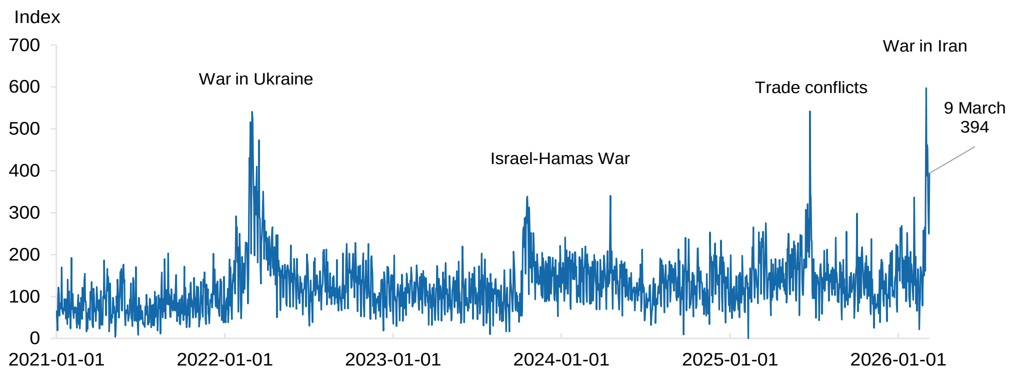
Source: Independent Fiscal Institution, Ministry of Finance

The outbreak of war in Iran has heightened geopolitical tensions and the level of uncertainty. The ongoing conflict in Ukraine and increased tensions in the Middle East due to the war in Iran are contributing to fluctuations in energy and metal prices. Fluctuations in oil prices due to disrupted exports are driving up inflation and may dampen global economic growth, particularly in European and Asian countries, which import a large proportion of their energy needs. The increased uncertainty is also reflected in the geopolitical risk index, which remains high in March 2026 (Figure 3). Trade relations between the US and China remain uncertain, and the 10% global tariffs imposed

[5] It should be noted that the date of inclusion of statistical data and other information in the scenario is 9 March 2026.

by the US in February have further increased uncertainty for manufacturers and investors planning future investments. EU countries and China may need to seek new markets and growth opportunities more actively, but China's excess capacity is putting increasing pressure on EU competitiveness. EU economic policy is also shaped by the need to increase defence spending whilst maintaining fiscal sustainability.

Figure 3. The Geopolitical Risk Index reached its highest level in over 20 years in March 2026



Source: https://www.matteoiacoviello.com/gpr.htm

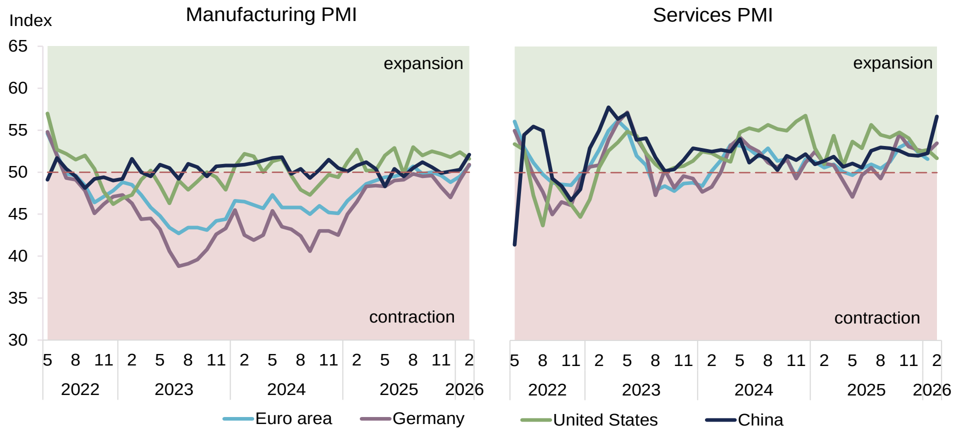
According to the IFI's assessment, the main risks that could affect the development of the Lithuanian economy in the medium term are:

- **A prolonged rise in energy prices may have a greater impact on inflation than expected.** Increased geopolitical tensions remain a significant source of uncertainty for the global economy. The war in Iran, which began at the end of February 2026, has driven up energy prices and disrupted supplies. There is a risk that the conflict could have a long-term impact on the transport of oil and liquefied natural gas via key maritime routes in the Middle East. Such a development would keep energy prices higher for longer. This would increase inflationary pressure and reduce household purchasing power in Lithuania.

- **The fragmentation of international trade could have a negative impact on exports.** Protectionist tendencies and tensions between major economies are increasing the risk of international trade fragmentation. Trade restrictions or tariff increases could alter global trade flows, increase competitive pressure from China on European manufacturers and reduce demand for exports. Weaker external demand could have a negative impact on Lithuanian exports and economic growth.

- **A slower-than-expected recovery of the global economy and of Lithuania's export partners could have a negative impact on economic growth.** The Purchasing Managers' Index (a leading indicator of economic activity) at the start of this year suggested that economic growth in the Euro area (EA) was on the horizon (Figure 4). The German economy began to grow again in Q4 2025 following a contraction in the first half of the year, and in February 2026 the industrial production index moved into expansion territory for the first time in more than three years. At the start of the year, economic activity indicators in the US and China also remained favourable. However, higher energy prices could increase production costs and reduce the competitiveness of European industry. Furthermore, persistent inflationary pressures may prompt central banks to maintain higher interest rates, which would dampen investment and consumption. Due to these factors, global and Euro area economic growth could be slower, which would also have a negative impact on Lithuanian exports and economic growth.

Figure 4. In February 2026, for the first time since July 2022, expansion was observed in the German manufacturing sector. Growth in the services sector remains, with particularly rapid growth in China in February



PMI – Purchasing Managers' Index.
Source: https://www.pmi.spglobal.com

- **Climate change may increase inflation.** Increasingly frequent extreme weather events, such as floods or droughts, may disrupt supply chains and negatively affect agricultural production, which would increase food price volatility. Research shows[6] that the EU's agricultural sector alone loses more than €28 billion annually due to adverse weather conditions.

- **Strengthening the defence industry would stimulate faster economic growth in the EU.** EU countries' investment in defence could boost their economic growth and contribute to increased productivity. Higher public expenditure could stimulate industrial development, innovation and investment in both the defence sector and related activities. However, rising budget deficits may necessitate tighter fiscal policy in the future to ensure the sustainability of public finances and maintain balanced economic growth.

- **Stronger domestic demand could provide a greater boost to economic growth.** Household consumption may be positively affected by changes in consumer behaviour, linked to lower savings rates and the reform of the second pillar of the pension system[7] . Furthermore, continued positive net migration may contribute to an increase in the number of employed persons. Investment could be higher following policy decisions on even greater investment in defence or other sectors, as well as more active private sector investment.

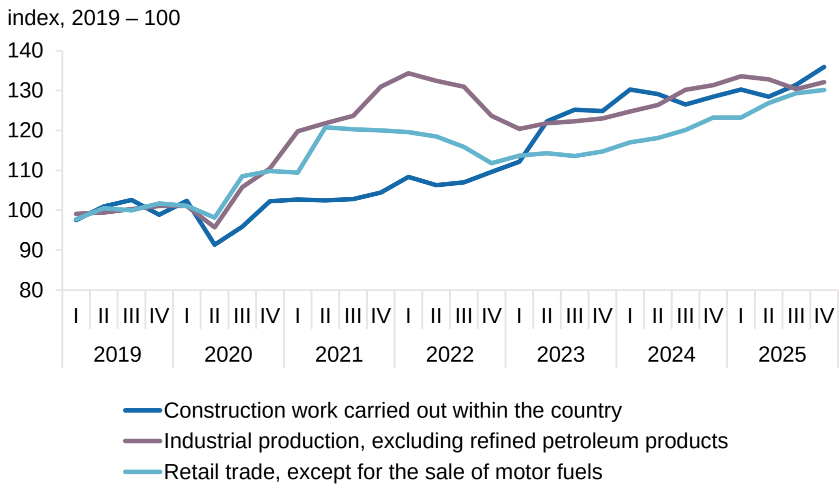
[6] Report by the European Investment Bank and the European Commission. Available online: https://www.fi-compass.eu/library/market-analysis/insurance-and-risk-management-tools-agriculture-eu.

[7] Available online: https://socmin.lrv.lt/lt/naujienos/pritarta-pertvarkai-antroji-pensiju-kaupimo-pakopa-taps-patrauklesne-ir-lankstesne/.

3. INDEPENDENT FISCAL INSTITUTION'S ECONOMIC DEVELOPMENT FORECASTS FOR 2026-2029

The economic growth forecast for 2026 has been revised downwards: a surge in energy prices will slow down domestic consumption and the growth of external demand. In 2025, Lithuania's real GDP grew by 2.9%. Economic expansion was driven by accelerated exports, a recovery in investment and rising household consumption. Due to strong domestic demand, the contribution of net exports was negative. Following a sluggish Q3 2025, GDP growth accelerated significantly in Q4. After a six-month hiatus, industrial production began to recover in Q4 (Figure 5). The performance of firms in this sector was driven primarily by the manufacturing of computer, electronic and optical products. Growth in retail trade and construction output continued. It is expected that the strong inertia of GDP growth in 2025 (carry-over effect) will have a positive impact on the results for 2026.

Figure 5. In Q4 2025, industrial production began to recover, whilst retail trade and construction output continued to grow

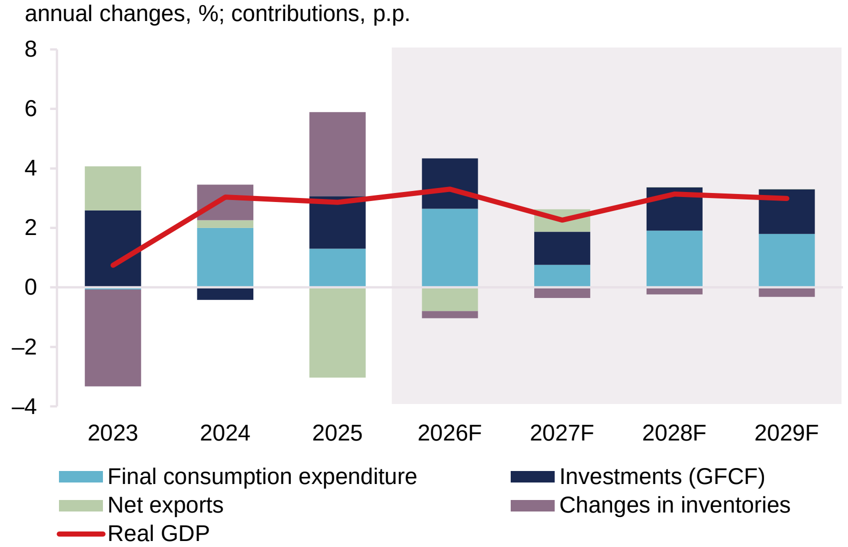


Seasonally and calendar adjusted.

Source: State Data Agency, calculations by the Independent Fiscal Institution

Nevertheless, the IFI has revised down its projection for Lithuania's real GDP growth in 2026 to 3.3% (Figure 6). Household consumption and exports are expected to grow more slowly than anticipated in September. This will be driven by the energy price shock that occurred at the start of this year, which will affect the purchasing power of residents in Lithuania and its main trading partners. Nevertheless, private consumption will remain the main driver of Lithuania's economic growth this year due to changes in the second pillar of the pension system. It is projected that, once the one-off surge in consumption has subsided, the country's economic growth will slow to 2.3% in 2027 and reach around 3% in 2028–2029. It should be noted that, compared with September, the real GDP projections for 2027–2028 have been slightly revised upwards, taking into account a more favourable growth assumption for Lithuania's export partners.

Figure 6. IFI projects that real GDP will grow by 3.3% in 2026, whilst in 2027, once the one-time surge in consumption subsides, growth will slow to 2.3%



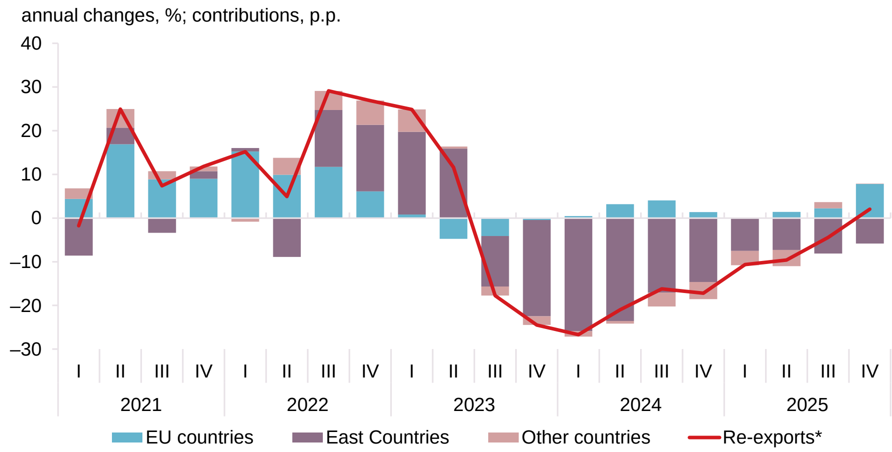
F – forecast.

Source: State Data Agency, Independent Fiscal Institution

Lithuania's real export and import projections for 2026 are being revised downwards due to rising prices. In 2025, real exports of goods and services grew by 4.2%, whilst imports of goods and services rose by 8.4%. During this period, the value of goods exports was boosted by Lithuanian-origin exports (excluding mineral products), particularly machinery and equipment and chemical industry products. Lithuanian-origin exports in the first half of 2025 were also boosted by increased trade with the US, as companies sought to export goods before the US announced higher customs tariffs. Meanwhile, as trade with the East declined and trade with the EU grew, re-exports of goods recovered: after a hiatus of more than a few years, the annual change turned positive in Q4 2025 (Figure 7). It is likely that this will increasingly contribute to the expansion of the country's goods exports in the future. However, the ongoing war in Iran is affecting Lithuania's foreign trade prospects for 2026. The Middle East is of minor importance to the country's exports[8], but almost a third of mineral products are imported from there. The current situation in the region has triggered an energy price shock, which will increase the prices of Lithuania's exports and imports and is likely to slow the growth of foreign demand. As a result, the projections for country's real exports of goods and services and imports of goods and services for 2026 have been revised downwards (Table 1 in Annex 1).

[8] In 2025, 1.3% of Lithuanian-origin goods were exported to Bahrain, Iraq, Iran, Israel, Jordan, the United Arab Emirates, Qatar, Kuwait, Lebanon, Oman, Saudi Arabia and Syria.

Figure 7. With trade to the East declining and trade with the EU increasing, the annual change in the value of re-exports (at current prices) in Q4 2025 was positive



* excluding mineral products

Source: State Data Agency, calculations by the Independent Fiscal Institution

Following the recovery in investment in 2025, further growth is expected this year due to the more active implementation of public sector projects. In 2025, real gross fixed capital formation (hereinafter referred to as investment or GFCF) grew by 7.3% year-on-year. This change was mainly driven by increased expenditure on construction (excluding the dwellings component), as well as investment in machinery and equipment. Data on tangible investment show that investment recovered last year not only in the private sector but also in the public sector. Admittedly, activity in the latter was somewhat higher. According to a survey of industrial company managers[9], this year, compared to 2025, more companies expect to invest in the modernisation of production and the expansion of production capacity. The IFI forecasts GFCF growth of 6.7% for 2026. This will be positively influenced by rising defence expenditure and increased flows of EU funds (2026 is the final year in which Lithuania can receive funding under the Recovery and Resilience Facility). Over the remainder of the forecast period, the average rate of investment growth will be close to 5%.

In 2026, the growth of the harmonised index of consumer prices will reach 3.9% and will decline in the medium term. Compared with the projection published in September 2025, the forecast for harmonised index of consumer prices (HICP) growth in 2026 has been revised upwards due to higher assumptions for energy prices. Changes in VAT and excise duties, as well as expected higher household consumption because of the second-pillar pension reform, will also contribute to HICP growth. HICP growth is expected to slow in 2027–2029 but remain rapid due to rising prices of services and increases in excise duties. Despite faster consumer price growth, the IFI has lowered its forecast for GDP deflator growth in 2026 to 3%. This development is driven by deteriorating terms of trade, where import price growth is outpacing export price growth. Trade conditions are forecast to improve in 2027–2029, with the deflator rising faster than the HICP.

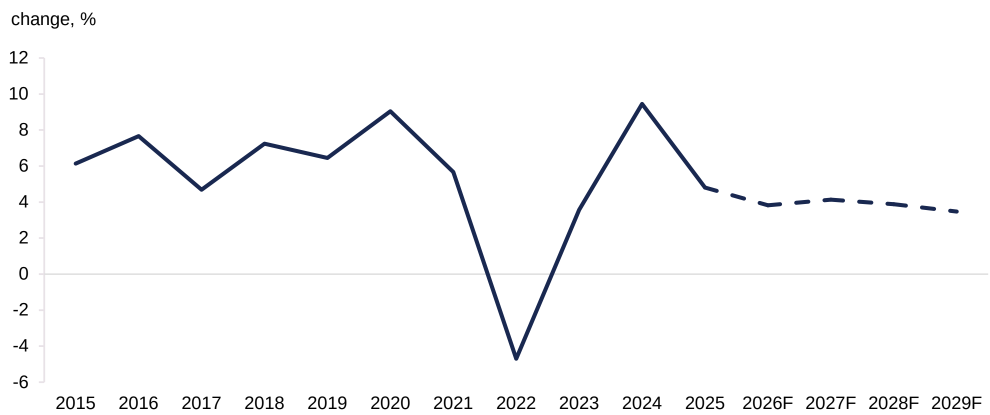
[9] Statistical survey of industrial enterprise investment conducted by the State Data Agency. Data as of 26 November 2025.

Labour market developments remain favourable, but challenges persist. In 2025, the number of employed persons contracted slightly (0.1%). The decline in the workforce affected the manufacturing, trade, construction and transport sectors most significantly. With the unemployment rate falling to 6.9% and the job vacancy rate remaining at historic highs, labour market tensions[10] show no sign of easing. According to the Lithuanian Public Employment Service's employer opinion survey[11] , the shortage of skilled workers remains one of the biggest challenges. An ageing population requires greater involvement of young people, yet according to Eurostat data, in 2024 Lithuania ranked third in terms of the proportion of young people neither in employment nor in education. To sustain economic growth and boost productivity, it is vital to invest in human capital. The IFI projects that, in the medium term, the number of employed persons will decline moderately but remain high, at around 1.46 million. At the same time, the unemployment rate will gradually fall, reaching 6.6% by 2029.

Household purchasing power will grow at a more moderate pace in the coming years. According to preliminary data, wages in the country rose by 8.4% in 2025 – no longer at the double-digit rate seen in previous years. Nevertheless, wage growth has been outpacing productivity growth for some time now. This situation is not sustainable in the long term and may pose challenges for businesses due to rising costs and declining competitiveness in the international market. Taking these emerging challenges into account, the IFI projects a slowdown in wage growth over the medium term. However, due to the increase in the minimum monthly wage, tightness in the labour market and inflation, this growth will remain fairly rapid – reaching 7.9% in 2026 and slowing to 6% in 2029.

In 2025, as inflation accelerated, real gross wages rose by 4.8%, compared with growth of 9.5% in 2024. Even faster inflation this year and slowing wage growth will mean that purchasing power will rise even more modestly in the coming period (Figure 8).

Figure 8. Real gross wages* will grow by around 4% annually in the medium term



* gross wages adjusted for inflation, calculated using the HICP.
F – forecast.
Source: State Data Agency, Independent Fiscal Institution

The sluggish growth in 2025 and faster inflation call for a more cautious assessment of this year's private consumption prospects. In 2025, real household consumption expenditure grew by 2.0% year-on-year. This moderate growth was driven by accelerating inflation since the start of the year, which caused household purchasing power to grow more slowly.

[10] A situation where the supply of labour is limited and demand is high. The job vacancy rate in Q4 2025 was historically high – rising to 2.3% (seasonally and calendar adjusted).

[11] Available online: https://uzt.lt/data/public/uploads/2026/02/dapkl2025-ataskaita-2026-02-18.pdf.

Furthermore, some households adopted a more cautious approach and saved more. This year, consumer sentiment remains stable, and retail trade results show favourable trends. The IFI forecasts that household consumption expenditure will rise significantly in 2026 and will be 4.9% higher than a year earlier. This will be largely driven by changes to the second pillar of the pension system. Household disposable income will also be positively affected by measures related to increasing household revenue, as provided for in the 2026–2028 Law on the Approval of State Budget. However, given the smaller-than-usual carry-over effect[12] and the expected faster inflation, the projection for private consumption growth in 2026 has been revised downwards compared with September. In 2027, as the impact of changes to the second pillar of the pension system subsides, consumption will grow more slowly – by 1.4%. Over the remainder of the medium term, with the labour market remaining stable, household consumption is projected to grow by an average of 3.5% per year (Table 1 in Annex 1).

Given the increased uncertainty, it is important to be prepared in advance to implement the most targeted support measures should the situation in the energy market deteriorate. Although the projected impact of the war in Iran on inflation in Lithuania is currently limited, measures to mitigate rising energy prices are already being discussed publicly. With the period of exceptional circumstances coming to an end and fiscal discipline rules being reapplied, the planned budget already utilises the available fiscal space. Accordingly, the scope for implementing large-scale fiscal support measures, similar to those applied in 2022–2023, is limited. Expenditure measures alone cost almost €1 billion during that period[13]. In Lithuania, given the limited fiscal space, targeted compensation could be provided, utilising existing support schemes, for the most vulnerable households or temporary relief for energy-intensive businesses, in order to avoid a significant reduction in competitiveness. It is important that these measures maintain incentives to save resources. Investment measures aimed at improving energy efficiency and developing renewable energy should also continue to be implemented.

The National Audit Office of the Republic of Lithuania, as the Independent Fiscal Institution, carried out an assessment and issued an opinion of the Economic Development Scenario for 2026–2029 prepared by the Ministry of Finance of the Republic of Lithuania and published on 24 March 2026. In accordance with Article 3(2) of the Law on Fiscal Governance of the Republic of Lithuania and Article 8(7)(1) 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

[12] Following a sluggish Q4 2025, the carry-over effect of household consumption expenditure in 2026 stands at 0.6 percentage points, whilst this effect averaged 1.2 percentage points between 2011 and 2025. Further information on the carry-over effect can be found in Appendix A of the IFI's Opinion No. BPE-1 of 28 March 2023 on the endorsement of the Economic Development Scenario. Available online: https://www.valstybeskontrole.lt/EN/Product/24157/opinion-on-the-endorsement-of-the-economic-development-scenario.

[13] Available online: https://economy-finance.ec.europa.eu/document/download/afb1169f-492f-4ad8-a180-271696e8559e_en?filename=2024_dbp_lt_en.pdf.

ANNEXES

Opinion
On the Economic Development Scenario
Annex 1

MACROECONOMIC FORECASTS OF THE FISCAL INSTITUTION FOR 2026–2029 AND KEY ASSUMPTIONS

Table 1. IFI macroeconomic forecasts for 2026–2029

Indicator	2025	2026F	2027F	2028F	2029F
Key macroeconomic indicators					
Change in GDP at constant prices, %	2.9	3.3 (3.4) ▼	2.3 (2.2) ▲	3.1 (3.0) ▲	3.0
GDP at constant prices, EUR million	62 034.4	64 082.6	65 534.3	67 589.2	69 607.7
Change in GDP at current prices, %	6.4	6.4 (7.0) ▼	5.5 (4.8) ▲	5.7 (5.6) ▲	5.6
GDP at current prices, EUR million	84 061.2	89 446.9	94 390.7	99 779.3	105 336.4
Change in labour productivity, %	2.9	3.3 (3.4) ▼	2.3 (2.5) ▼	3.3 (3.2) ▲	3.2
Components of GDP at constant prices, rate of change, %					
Household consumption expenditure	2.0	4.9 (5.8) ▼	1.4 (1.3) ▲	3.6 (3.6)	3.4
General government consumption expenditure	1.2	0.4 (0.1) ▲	0.1 (0.1)	0.1 (0.1)	0.1
Gross fixed capital formation	7.3	6.7 (4.7) ▲	4.2 (5.5) ▼	5.5 (5.5)	5.5
Exports of goods and services	4.2	2.4 (3.7) ▼	3.9 (3.9)	4.0 (3.9) ▲	4.0
Imports of goods and services	8.4	3.5 (4.9) ▼	3.1 (3.3) ▼	4.1 (4.2) ▼	4.1
Price indicators, rate of change, %					
GDP deflator	3.5	3.0 (3.4) ▼	3.2 (2.5) ▲	2.5 (2.5)	2.5
Household consumption expenditure deflator	3.5	3.9 (3.3) ▲	2.8 (2.3) ▲	2.4 (2.4)	2.4
General government consumption expenditure deflator	9.6	7.8 (4.4) ▲	4.1 (4.6) ▼	4.4 (4.5) ▼	4.0
Gross fixed capital formation deflator	1.1	1.6 (2.3) ▼	1.9 (2.1) ▼	2.0 (2.1) ▼	2.0
Export (goods and services) deflator	0.0	2.5 (0.3) ▲	0.3 (1.7) ▼	1.5 (1.7) ▼	1.5
Import (goods and services) deflator	−1.4	3.2 (−0.5) ▲	−0.8 (1.7) ▼	1.5 (1.7) ▼	1.5
Harmonised index of consumer prices (annual average)	3.4	3.9 (3.3) ▲	2.8 (2.3) ▲	2.4 (2.4)	2.4
Labour market indicators					
Number of employed persons (according to the Labour Force Survey methodology), thousands	1 462.8	1 462.5	1 462.5	1 460.1	1 457.4
Change in the number of employed persons, %	−0.1	0.0 (0.0)	0.0 (−0.2) ▲	−0.2 (−0.2)	−0.2
Unemployment rate (according to the Labour Force Survey methodology), %	6.9	6.9 (7.0) ▼	6.8 (6.9) ▼	6.7 (6.8) ▼	6.6
Average gross monthly earnings, EUR	2 410.0	2 599.8	2 783.0	2 960.4	3 136.9
Change in average gross monthly earnings, %	8.4	7.9 (7.4) ▲	7.0 (6.8) ▲	6.4 (6.4)	6.0
Wage bill, EUR million	34 115.8	36 794.7	39 387.6	41 830.0	44 242.1
Change in the wage bill, %	9.6	7.9 (7.3) ▲	7.0 (6.6) ▲	6.2 (6.1) ▲	5.8
Changes in potential GDP and the output gap					
Change in potential GDP, %	3.1	3.0 (2.8) ▲	2.9 (2.7) ▲	2.7 (2.5) ▲	2.6
Output gap (% of potential GDP)	−0.1	0.0 (0.0)	−0.5 (−0.4) ▼	−0.5 (−0.2) ▼	−0.5

The projections in parentheses are the September 2025 IFI projections.
The projections are based on information and data published up to 9 March 2026.
F – forecast.
Source: State Data Agency, Independent Fiscal Institution

Table 2. Main assumptions of the macroeconomic forecasts of the IFI

Indicator	2025	2026F	2027F	2028F	2029F
US dollar to euro exchange rate*	1.13	1.16 (1.16)	1.16 (1.16)	1.16 (1.16)	1.16
World (excl. EU) GDP growth, %**	3.6	3.6 (3.4) ▲	3.5 (3.4) ▲	3.5 (3.4) ▲	3.5
European Union GDP growth, %**	1.5	1.5 (1.4) ▲	1.6 (1.4) ▲	1.6 (1.4) ▲	1.6
Growth of Lithuania's main export markets, %***	1.6	1.7 (1.6) ▲	1.8 (1.6) ▲	1.8 (1.6) ▲	1.8
Oil prices (*Brent*, USD per barrel)****	69.1	77.0 (65.7) ▲	69.6 (65.4) ▲	68.1 (66.0) ▲	68.1

* The exchange rate for the forecast period remains as recorded between 2 March and 9 March 2026.
** Based on information published by the International Monetary Fund on 19 January 2026.
*** Based on the methodology used by the IFI.
**** 6-day average of futures contracts from 2 March to 9 March 2026.
The main assumptions of the September 2025 projections of the IFI are shown in parentheses.
F – forecast.
Source: Independent Fiscal Institution

Opinion
On the Economic Development Scenario
Annex 2

PROJECTIONS AND KEY ASSUMPTIONS FOR THE ECONOMIC DEVELOPMENT SCENARIO FOR 2026–2029 BY THE MINISTRY OF FINANCE

Table 1. Projections of the Ministry of Finance's The Economic Development Scenario for March 2026

Indicator, %	2025	2026F	2027F	2028F	2029F
Key macroeconomic indicators, change					
GDP at constant prices	2.9	3.1 (3.3) ▼	2.3 (2.3)	2.8 (2.7) ▲	2.6
Household consumption expenditure	2.0	4.5 (4.6) ▼	2.2 (2.1) ▲	3.4 (3.2) ▲	3.0
General government consumption expenditure	1.2	0.1 (0.1)	0.1 (0.1)	0.1 (0.1)	0.1
Gross fixed capital formation	7.3	5.7 (5.2) ▲	4.5 (4.5)	4.4 (4.4)	4.4
Exports of goods and services	4.2	2.7 (2.9) ▼	3.6 (3.3) ▲	3.6 (3.3) ▲	3.6
Imports of goods and services	8.4	3.7 (3.7)	3.6 (3.3) ▲	3.9 (3.6) ▲	3.8
GDP at current prices	6.4	6.6 (6.7) ▼	5.0 (5.0)	5.5 (5.4) ▲	5.3
Price indices, change					
GDP deflator	3.5	3.4 (3.3) ▲	2.6 (2.7) ▼	2.6 (2.6)	2.6
Harmonised index of consumer prices (annual average)	3.4	3.7 (3.2) ▲	2.4 (2.4)	2.4 (2.4)	2.4
Labour market indicators					
Change in average gross monthly earnings	8.4	7.9 (7.3) ▲	6.1 (5.7) ▲	5.7 (5.7)	5.7
Unemployment rate (according to the Labour Force Survey methodology)	6.9	6.8 (6.8)	6.9 (6.9)	6.8 (6.8)	6.8
Change in the number of employed persons (according to the Labour Force Survey methodology)	−0.1	0.1 (0.2) ▼	-0.1 (0.0) ▼	-0.1 (0.0) ▼	−0.1

Date of inclusion of statistical data and other information in the scenario – 9 March 2026
The projections in parenthesis are from the Economic Development Scenario of 11 September 2025.
F – forecast.

Source: Ministry of Finance

Table 2. Main assumptions for the March 2026 Economic Development Scenario of the Ministry of Finance

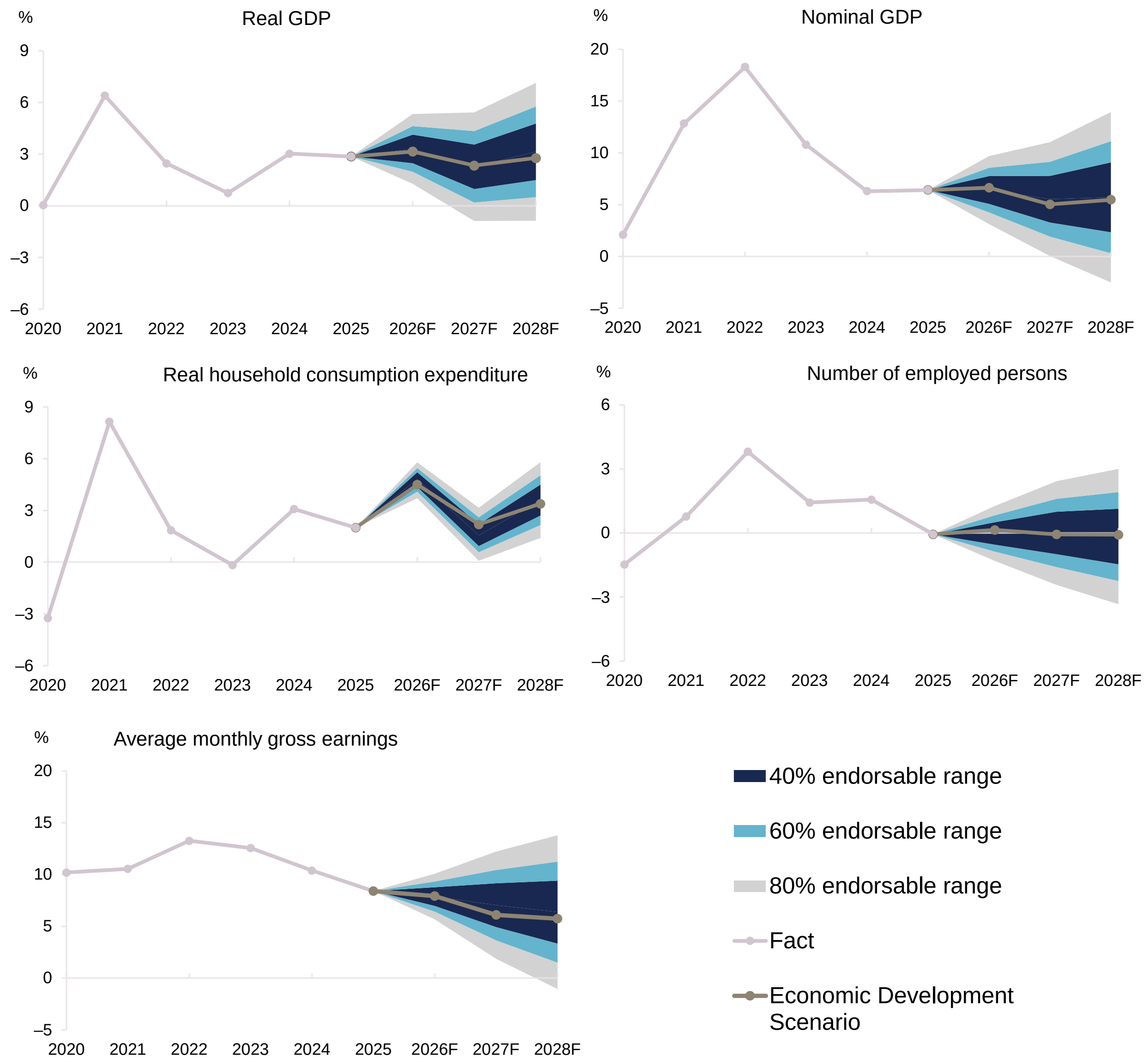
Indicator	2025	2026F	2027F	2028F	2029F
US dollar to euro exchange rate*	1.13	1.16 (1.13) ▲	1.16 (1.13) ▲	1.16 (1.13) ▲	1.16
World (excl. the EU) GDP growth,%**	3.6	3.5 (3.4) ▲	3.6 (3.4) ▲	3.6 (3.4) ▲	3.6
European Union GDP growth,%***	1.5	1.5 (1.4) ▲	1.6 (1.4) ▲	1.6 (1.4) ▲	1.6
Growth of Lithuania's main export markets, %****	2.1	2.1 (2.0) ▲	2.2 (2.0) ▲	2.2 (2.0) ▲	2.2
Oil prices (*Brent*, USD per barrel)*****	68.0	75.1 (65.9) ▲	68.3 (65.9) ▲	68.3 (65.9) ▲	68.3

* European Central Bank (December 2025).
** International Monetary Fund (January 2026), Ministry of Finance calculations.
*** International Monetary Fund (January 2026).
**** Ministry of Finance calculations.
***** *Macrobond*, Ministry of Finance calculations. The arithmetic mean of futures prices from 24 February to 9 March 2026 was used in the calculations.
The figures in parenthesis are the EDS assumptions for September 2025.
F – forecast.

Source: Ministry of Finance

Opinion
On the Economic Development Scenario
Annex 3

EDS ENDORSEMENT RANGES ESTIMATED BY THE IFI



Endorsement ranges have been constructed for changes of indicators.
The reference point (mode) of the endorsement ranges are the forecasts produced by the IFI.
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, Independent Fiscal Institution

Opinion
On the Economic Development Scenario
Annex 4

PROJECTIONS OF REAL GDP BY OTHER INSTITUTIONS

Institution	Publication date	2026F	2027F
AB SEB	27/01/2026 (11/11/2025)	3.2 (3.2)	2.1 (2.1)
AB Swedbank	21/01/ 2026 (04/11/2025)	3.5 (3.2) ▲	2.5 (2.3) ▲
Bank of Lithuania	22/12/2025 (16/09/2025)	3.2 (3.2)	2.3 (2.3)
Organisation for Economic Co-operation and Development	02/12/2025 (03/06/2025)	3.1 (2.4) ▲	2.0
European Commission	17/11/2025 (19/05/2025)	3.0 (3.1) ▼	2.2
International Monetary Fund	14/10/2025 (17/09/2025)	2.9 (3.4) ▼	2.1 (2.2) ▼
Average of institutions	–	3.2 (3.1) ▲	2.2 (2.2)
Ministry of Finance	24/03/2026 (11/09/2025)	3.1 (3.3) ▼	2.3 (2.3)
Independent Fiscal Institution	26/03/2026 (18/09/2025)	3.3 (3.4) ▼	2.3 (2.2) ▲

Institutional forecasts published up to and including 9 March 2026.
The institutions' previous forecasts are in parentheses.
F – forecast.

Source: projections by the institutions listed in the table, calculations by the Independent Fiscal Institution