



OECD Independent Fiscal Institutions Review

Lithuania's Independent Fiscal Institution **Budget Policy Monitoring Department (BPMD) in the** **National Audit Office of Lithuania**





Organisation for Economic Co-operation and Development

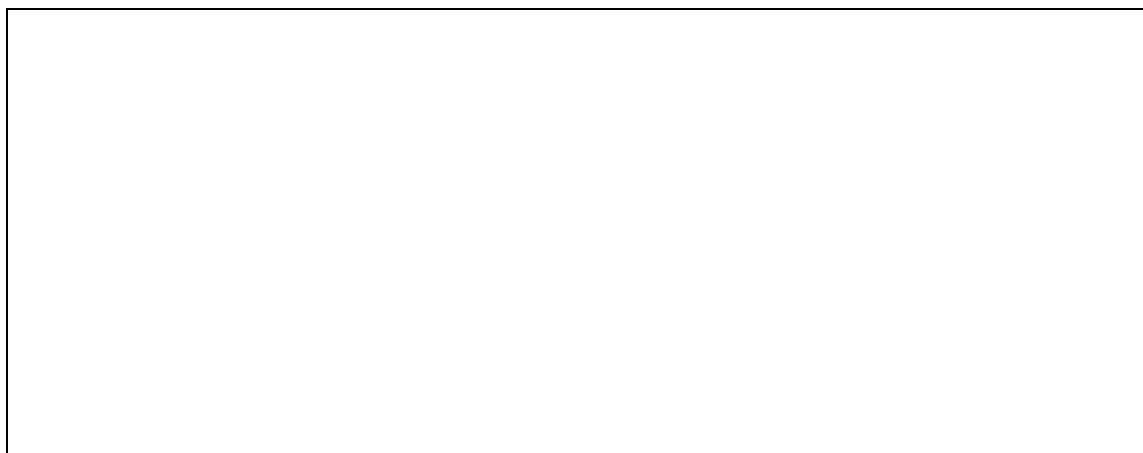
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**OECD Review of the Budget Policy Monitoring Department in the Lithuanian
National Audit Office**



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Acronyms and Terms

AIReF	Spain's Independent Authority for Fiscal Responsibility
AG	Auditor General
BPMD	Budget Policy Monitoring Department
CBR	Slovak Council for Budget Responsibility
CPI	Consumer Price Index
EC	European Commission
ECA	European Court of Auditors
ESCB	European System of Central Banks
EU	European Union
EU-IFIs	Network of EU Independent Fiscal Institutions
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IFAC	Irish Fiscal Advisory Council
IFI	Independent Fiscal Institution
IMF	International Monetary Fund
ISSAI	International Standards of Supreme Audit Institutions
MIDAS	Mixed-data sampling
MoU	Memorandum of Understanding
MPs	Members of Parliament
NAO	National Audit Office
OBR	UK Office for Budget Responsibility
OLS	Ordinary least squares
PBO	Parliamentary Budget Office
PBO Network	OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions
Seimas	Lithuanian Parliament
SAI	Supreme Audit Institution
UK	United Kingdom
US	United States
VAR	Vector Autoregressive

Summary and Recommendations

The Lithuanian Budget Policy Monitoring Department (BPMD) was set up in 2015 as part of Lithuania's commitment to sustainable fiscal policies under EU rules upon joining the European Monetary Union. The BPMD has quickly built a reputation for solid independent analysis. In a relatively short period, the institution has helped bring about fiscal transparency gains for Lithuania and generated increased parliamentary and public debate on fiscal issues.

Lithuania is a small country with a limited tradition of independent institutions. This led the Government to propose that the independent fiscal institution function be set up within the National Audit Office (NAO), rather than as a separate institution. The BPMD is one of three institutions sitting under the NAO – the supreme audit institution, the EU investment audit institution, and the independent fiscal institution (IFI) – a set-up unique among its European peers.

The BPMD faces several challenges. The most prominent among them are:

- a) **The BPMD lacks a clear public identity and visibility**, with many stakeholders unable to distinguish between the work of the BPMD and the NAO. Similarly, the leadership arrangements lack clarity for many stakeholders.
- b) **The BPMD lacks operational independence** to ensure it can carry out its tasks effectively over the long-term. The BPMD does not have autonomy over its reports and operational decisions. Current institutional arrangements mean that the BPMD's budget is set at the discretion of the Auditor General.
- c) **The BPMD struggles to recruit and retain senior staff**. This is exacerbated by its inability to determine salary levels. The recruitment and other processes laid out by the new Law on Civil Service do not appear to be appropriate for the BPMD or the NAO in light of international standards related to independence for independent fiscal institutions and supreme audit institutions.

Given the challenges around resourcing, in the short-term, the BPMD should continue to invest in strengthening its capacity to deliver its existing mandate. While its self-initiated work on long-term sustainability has been well-received, more resource intensive functions such as policy costings should only be considered in the longer term should additional resources become available. The BPMD could also look for opportunities to leverage cooperation with others around policy costings.

To enhance the independence of the BPMD and bring it in line with the OECD Principles for Independent Fiscal Institutions, the review recommends the following:

1. The BPMD has benefitted from the strong leadership and support of the Auditor General in its early formative years but the current institutional arrangements for the BPMD do not offer sufficient guarantees of its ability to operate as a sustainable, autonomous and independent institution into the future. To solidify the BPMD's independence and to clarify its operational arrangements, **the BPMD should become a separate institution with its own leadership.** An arrangement that has worked well for many small OECD IFIs, has been to enter into a service level agreement with a larger institution, buying back office services. One option, should the BPMD become a standalone institution, would be for the BPMD and the NAO to build on their good relationship, by setting up a service level agreement between the BPMD and the NAO. Alternatively, a standalone BPMD could seek to enter into a service level agreement with another independent institution such as the Bank of Lithuania, as is the case, for example, for the fiscal council in Estonia.
2. In line with OECD Principle 2.5, **the BPMD should have the autonomy to make its own hiring decisions** (including setting competitive salary levels and being able to hire from international markets). The recruitment process laid out by the new Law on Civil Service does not appear to be appropriate for the BPMD. Given the BPMD's small size, any loss of staff or delays in recruitment have an outsized impact on the institution.
3. To reinforce its budgetary independence, **the BPMD should be able to set its own budget, subject to parliamentary approval.** OECD Principle 4.1 states that the appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.
4. Consistent with OECD Principle 7.4, **the BPMD should develop a clearer branding in its communications**, including considering changing its name to more clearly identify it as Lithuania's independent fiscal institution. The BPMD should be represented publicly by its own leadership and its reports should be published under its own name. The BPMD communications strategy could also benefit from developing and better tracking and analysing communications-related performance indicators, as well as other measures to assess the BPMD's impact.
5. To further enhance its transparency and credibility, the **BPMD should publish its macroeconomic forecasts**, as well as details on its methodology in technical notes, staff working papers, and other types of publications. In line with good practice, **the BPMD should also assess and publish its forecasting record over time and as compared with other institutions.** Given its current level of resources, the BPMD should focus on strengthening its capacity to deliver its existing mandate.

Introduction and Review Methodology

1. In line with internationally agreed best practice, the Auditor General and the Director of the BPMD committed to undertaking an independent external evaluation of the BPMD. The NAO will also be undergoing another peer review by the European Court of Auditors (ECA) and the Supreme Audit Institutions (SAIs) of Poland and the United Kingdom.

2. The methodology for this review is anchored in the OECD Principles for Independent Fiscal Institutions (OECD, 2014) and a subsequent evaluation framework elaborated within the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). Principle 9.1 of the OECD Principles for Independent Fiscal Institutions states that:

“IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country.”

3. The Network of EU Independent Fiscal Institutions (EU-IFIs) reaffirmed this OECD Principle in their document Defining and Enforcing Minimum Standards for Independent Fiscal Institutions (2016).

4. The evaluation framework takes as a starting point internationally agreed standards (e.g. the OECD Principles). As such, the review assesses the BPMD against these standards, benchmarks it against peer institutions in OECD countries and, where possible, identifies the difference it has made. The framework covers four main elements:

- **Context**, the institutional setting and mandate of the BPMD
- **Resources and independence**, human and financial resources, access to information and independence
- **Outputs**, the BPMD’s core products, including effectiveness of the methodology
- **Impact**, of the BPMD’s work, including effectiveness of communications and stakeholder confidence

5. The evaluation framework follows a performance framework approach used by governments globally and leverages conventional evaluation tools such as stakeholder interviews and peer review.

6. The OECD will publish the final report in English and Lithuanian, and make it available electronically on the OECD’s website. The OECD PBO Network will discuss the findings of the review at a peer review session during its 2020 Annual Meeting.

The review team

7. The review team included two members of the OECD Secretariat’s Budgeting and Public Expenditures Division in the Directorate for Public Governance, two international peers from the United Kingdom (UK) and Ireland, and one local peer. The review also draws upon contributions from other relevant members of the OECD Secretariat and peers within the PBO Network. A mission to Vilnius, Lithuania, for stakeholder interviews was undertaken in April 2019 (see Annex B for more information).

Chapter 1: Context

1.1. Introduction

8. Lithuania's independent fiscal institution, the Budget Policy Monitoring Department (BPMD) was set up as part of Lithuania's commitment to sustainable fiscal policies under EU rules upon Lithuania joining the European Monetary Union. It was established¹ as part of a 2014 legislative package implementing the European Fiscal Compact and became operational on 1 January 2015 as a department within the National Audit Office (NAO). Parliament discussed the establishment of the BPMD within the debate on the larger reform package, however stakeholders noted that little particular attention was paid to the IFI function apart from a discussion on whether to place the IFI in the Bank of Lithuania or NAO.

9. Although the BPMD was not directly established in response to the financial crisis, the crisis did have severe repercussions on Lithuania's public finances. At the height of the crisis the total budget deficit rose from .8% of GDP in 2007 to 9.1% in 2009, despite substantial consolidation measures. Lithuania continued to pursue consolidation measures (mainly on the expenditure side) until it narrowed to 3.1% of GDP in 2012 (still short of reaching the target of 3.0% of GDP as set in the 2012 convergence programme).² More recently, Lithuania's economic growth has been relatively robust, mainly fuelled by domestic demand, particularly household consumption.³

10. Lithuania is a small country relative to other EU and OECD members with a limited tradition of independent institutions and almost no tradition of think tanks or institutes working on public finances. These considerations led to the BPMD being set up within the NAO, an institution which already had a strong reputation for independence. The alternative of hosting the IFI at the Bank of Lithuania, which arguably enjoys even more independence and autonomy given the independence of its budget and staffing arrangements, and the backing of the European System of Central Banks (ESCB), was ruled out according to stakeholders as potentially violating ESCB rules and deviating too much from the Bank's main activities, despite this arrangement being in place in other EU countries.⁴

11. Since its establishment, the BPMD has enjoyed broad cross-party support. It has already experienced one change of government in 2016⁵. Parliamentary elections to form

¹ Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, 6 Nov. 2014: <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c4be7b32bb6b11e4a939cd67303e5a1f>

² Source for figures, Statistics Lithuania.

³ According to the Bank of Lithuania Lithuanian Economic Review (March 2019), see: https://www.lb.lt/uploads/documents/files/musu-veikla/ekonomikos-analize-prognozes/lietuvos_ekonomikos_apzvalga_2019-03_en.pdf

⁴ For example, Lithuania's close neighbour, Estonia, has a Fiscal Council that works under the auspices of Estonian central bank.

⁵ Government changed from a Social Democratic Prime Minister supported by a coalition of several parties to an Independent prime minister supported by a coalition of the Lithuanian Farmers and

a new government will take place in 2020. A new president – who is independent from any political party, as was the previous president – was elected in 2019. At present, the BPMD does not consider there to be an existential threat to its existence from any political party or major interest group. It should be noted that the President will have to ratify amendments to the NAO's legislation if passed in parliament. As a candidate he criticised attacks on the NAO and the Bank of Lithuania and publicly supported the changes proposed on the new Law on the National Audit Office.⁶ The new Auditor General (AG) for the NAO will also be appointed by the Seimas on the recommendation of the President when the current AG's term ends in April 2020.

Box 1.1. BPMD's legislative framework

The **Constitutional Law on the Implementation of the Fiscal Treaty (2014)** established the BPMD to monitor Lithuania's commitments to sustainable fiscal policies under the European fiscal framework and sets out the duties of the BPMD. The Law underpins the BPMD's independence, stating that "the head of the monitoring authority, his deputies, civil servants and other officials of the monitoring authority working under employment contracts must not accept instructions from any other institution and person".

The **Law on National Audit Office (2002)** sets out specific protections to ensure that both the Auditor General and the BPMD Director are independent and non-partisan. However, concerns have been raised that the 2002 law is insufficient and new legislation has been submitted to parliament that aims to reinforce the independence of the NAO.

Changes to the **Law on Civil Service (1999, amended in 2002 and 2019)** adopted in 2019 mean that the HR recruitment function and performance assessments for civil servants – including the Director and staff of the BPMD and staff of the NAO – is now centralised within the Government. These changes have been strongly opposed by the current Auditor General as limiting the NAO's functional independence and ability to carry out its duties.

In addition to its enabling legislation, the BPMD has developed its own internal regulations covering their tasks, functions, rights and organisation of activities.⁷

Source: Authors, based on public information.

1.2. BPMD's governance structure, accountability and stakeholder relations

12. As noted above, the BPMD sits in Lithuania's NAO. The NAO is unique in the European context in that it comprises three institutions, the Supreme Audit Institution, the European Union Investment Audit Department and the Budget Policy Monitoring Department (Lithuania's independent fiscal institution). Only two other OECD IFIs, France and Finland, have chosen a similar model placing the IFI function in the supreme audit

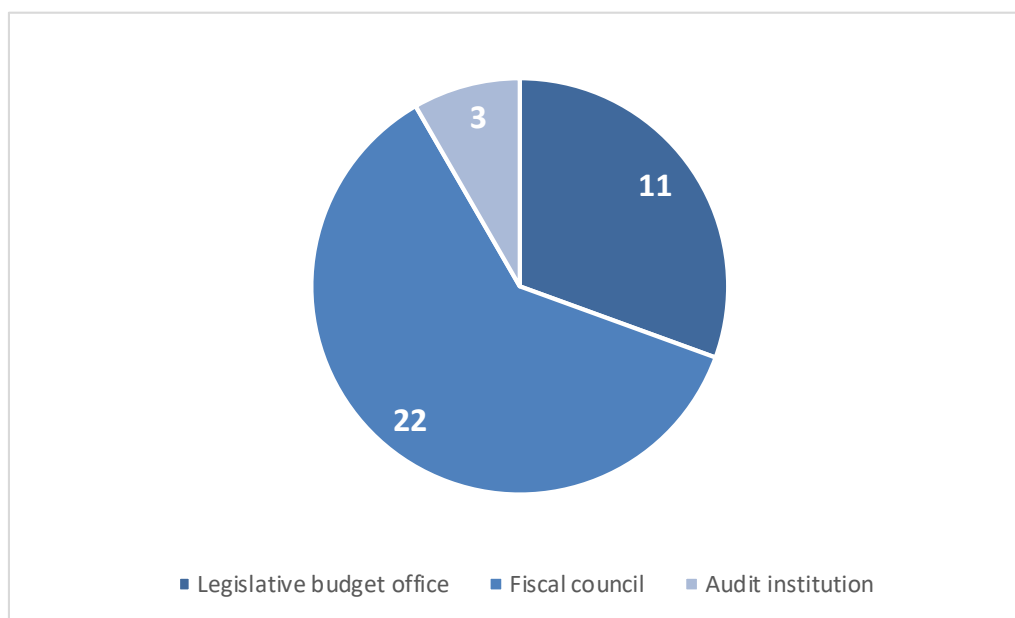
Greens Union (currently the largest party in parliament) and the Social Democratic Party of Lithuania.

⁶ See article on DELFI, a major internet news portal for Estonia, Latvia and Lithuania: <https://www.delfi.lt/news/daily/lithuania/gitanas-nauseda-kas-vyksta-musu-valstybeje.d?id=80807061https://www.lrytas.lt/lietuvosdiena/aktualijos/2019/04/04/news/preziden-to-posto-siekiantis-g-nauseda-nepriklausomos-institucijos-yra-torpeduojamos--9841810/>

⁷ Internal regulations are available in Lithuanian at: <http://www.ifi.lt/puslapis.aspx?id=2>

institution, although Finland has now also established a separate Economic Policy Council. In the Finnish case independent monitoring and evaluation is assigned to the institution within the audit institution and the Economic Policy Council now gives *ex ante* advice.

Figure 1.1. OECD IFIs Institutional Models



Note: The data includes 36 OECD IFIs, including three subnational IFIs in Australia (Victoria), Canada (Ontario) and the United Kingdom (Scotland) and one supra-national IFI, the European Fiscal Board. The data includes two IFIs for Austria, Finland, Greece, and Ireland. IFIs in non-OECD countries are excluded.
Source: (OECD, 2019).

Box 1.2. The National Audit Office of Lithuania

The NAO has as its mission to “help the State in managing public funds and property wisely”. Although legally a single institution headed by the Auditor General, the NAO performs the functions of three independent institutions:

1. The **Supreme Audit Institution** undertakes financial (compliance) audits and performance audits.
2. The **European Union Investment Audit Department** evaluates implementation of European Funds.
3. The **Budget Policy Monitoring Department** endorses the macroeconomic forecasts used for fiscal planning; assesses budgetary forecasts, assesses ex ante and ex post fiscal rules, assesses draft annual budgets, and monitors fiscal policy and budgetary execution.

Source: Authors, based on public information from the National Audit Office.

13. Placing the independent fiscal institution function within the NAO has allowed the BPMD to benefit from the NAO’s already well-established reputation for independence and credible analysis. It is also able to draw upon shared administrative and financial services. However this arrangement also poses certain risks to its independence, particularly around budget and staffing, which will be discussed in more detail in subsequent chapters. Stakeholders also noted that the BPMD has struggled to establish a distinct public identity among stakeholders and the public. Finally, while the BPMD benefits from support services, there is little overlap in terms of the technical skills that can be fruitfully shared.

14. The BPMD is headed by Lithuania’s AG who has overall responsibility for its management decisions and, along with the BPMD Director and senior BPMD staff, represents the BPMD publicly. The AG is nominated by the President and approved by the parliament for a term of five years, renewable once. The AG is responsible for hiring the BPMD Director. In practice, day to day management is carried out by the BPMD Director. The Deputy AGs are consulted on the BPMD’s reports and reports are reviewed signed off by the AG.

15. In line with the OECD Principles, in April 2016 the BPMD established a three-member Advisory Panel of international experts. The Advisory Panel provides advice on a range of issues, as well as methodological assistance. While the BPMD does not officially subject its work to other sorts of peer review, it may receive comments from the Bank of Lithuania and it benchmarks its reports against the reports of other IFIs. The BPMD has enjoyed support from professional partners nationally and internationally (see also section 1.4).

16. As a part of the NAO, the BPMD is accountable to the Seimas. As noted above the appointment of the AG must be approved by parliament. The Seimas – in particular the Committee on Audit and the Committee on Budget and Finance – regularly uses BPMD analysis and the AG, the Director of the BPMD and other senior BPMD staff regularly go before parliamentary committees to give evidence. Despite being a young and small institution, the BPMD is well received at the parliament, but its work is not always distinguished from that of the other functions of the NAO. The parliament does not have independent budgetary analysis capacity of its own.

17. The Government is not formally required to respond to reports and recommendations from the BPMD, although in practice they have commented in committee meetings or in the media. The BPMD may hold informal talks with the Ministry of Finance and Bank of Lithuania before an official issuance of the IFI opinion. The BPMD has a close working relationship with the Bank of Lithuania in general and frequently exchanges views on economic development and public finances. Apart from macroeconomic forecasting done by private banks, there are no other institutions providing similar or complementary analysis.

1.3. Mandate

18. The BPMD has a fairly broad mandate to promote sustainable public finances and stable economic development. The BPMD endorses the macroeconomic forecasts used for fiscal planning; assesses budgetary forecasts, assesses *ex ante* and *ex post* fiscal rules, assesses draft annual budgets, and monitors fiscal policy and budgetary execution. As such, the BPMD is legally mandated to submit five opinions to Parliament each year (see Chapter 3 for details).

19. In the case of exceptional circumstances, the BPMD is mandated to give its opinion on the situation of the economy once per quarter. Until now, there has been no unusual fiscal event and the BPMD has not had to issue any opinion in this regard. Should this change, it will be a significant test of the BPMD as real resistance to the IFI function may only become apparent when risks of non-compliance or substantial disagreements with government arise.

20. BPMD analysis covers the general government sector. In accordance with the Constitutional Law on the Implementation of the Fiscal Treaty the BPMD began monitoring compliance of municipalities with fiscal rules on 1 January 2016 for municipalities where planned appropriations did not exceed 0.3 % of the previous GDP and on 1 January 2018 for municipalities where planned appropriations exceeded 0.3 % of the previous GDP.

21. The BPMD may undertake work at its own initiative. In 2016 and 2017, the BPMD took the initiative to publish an assessment of long-term fiscal sustainability. In 2018, the BPMD published an assessment of the Stability Programme; this will be an annual report coming out in May.

22. The policy costing function across government ministries is very weak. Some stakeholders expressed interest in the BPMD undertaking a role in policy costings. However, OECD IFIs generally find that this is a resource intensive function and at present the BPMD lacks the necessary capacity.

1.4. Engagement with the global IFI community and adherence to international standards

23. Article 9 of the Constitutional Law on the Implementation of the Fiscal Treaty states that “the monitoring authority shall have the right to involve independent Lithuanian and foreign experts”. From the outset, the BPMD has made a concerted effort to learn from the experience of more established IFIs and to share good practice. The BPMD is an active participant in the regional Baltic-Nordic IFI Network, as well as the EU IFI Network and the OECD’s PBO Network. Outside of the IFI community, international organisations, such as the European Commission, the OECD and the IMF, engage with the BPMD and its work when carrying out assessments in Lithuania.

24. Standards developed by the OECD and EU IFI communities, as well as the rich literature on independence for other independent institutions such as central banks and supreme audit institutions, provide a useful comparative context in which to evaluate the BPMD. The BPMD stands apart from the majority of its peers in that it is located within the National Audit Office. As such, any impediments to the independence and good functioning of Lithuania's NAO, also impact upon the BPMD. The review team supports efforts by the NAO to review and strengthen the mechanisms for its independence in line with good international practice for SAIs.

25. Analysis demonstrates that the BPMD globally meets the OECD Principles many of which are reaffirmed by the EU-IFI Minimum Standards (see Table 1 below). This adherence to defined global standards provides the BPMD with legitimacy among peer institutions and should provide confidence to its stakeholders in Lithuania. Nevertheless, the review identifies risks inherent to the BPMD's current institutional arrangements and areas where the BPMD's functional independence could be reinforced.

Table 1.1. Does the BPMD meet the OECD Principles for Independent Fiscal Institutions (assessment of legislation and practice)?

Key: ●=yes; ◐=partial; ○=no

OECD Principle	Is there related EU-IFI Principle	Assessment	Notes
1. LOCAL OWNERSHIP			
1.1 Broad national ownership, commitment, and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed.	In preamble	●	
1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI.	In preamble	●	The institutional model selected for the BPMD reflects Lithuania's institutional landscape, however stakeholders do not always distinguish the work of the BPMD from that of the other functions of the NAO.
2. INDEPENDENCE AND NON-PARTISANSHIP			
2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, and serves all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.		●	Although it is not legally prohibited from doing so, the BPMD refrains from providing normative advice or specific recommendations on policy issues.
2.2 The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit.	✓	◐	Although this has been the case to date, should the NAO (and therefore the BPMD) continue to be subject to the new Law on Civil Service, the recruitment process and performance assessments for the BPMD Director would be centralised within the Government presenting a potential risk to this principle.
2.3 Term lengths & number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria & process.		●	The Auditor General holds a five-year term renewable once. Legislation sets out six criteria for the AG's dismissal. In accordance to the Constitution, the Seimas, by a majority vote of all of its Members, may dismiss the Auditor General from office following a loss of confidence. This provision generates a risk to

			the independence of the Auditor General and is not in line with the International Standards of Supreme Audit Institutions (ISSAI). The BPMD Director is a permanent position subject to the Law on Civil Service.
2.3 The leadership's term should optimally be independent of the electoral cycle.	✓	●	The AG has a five-year term of office, delinked from the political cycles of the President and Parliament. The BPMD Director is not subject to term limits.
2.4 The position of head of the IFI should be a remunerated and preferably full-time position. Strict conflict-of-interest standards should be applied.	✓	●	This applies to both the AG and the Director of the BPMD.
2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.	✓	○	The new Law on Civil Service limits independence. It centralises recruitment and performance assessments for NAO and BPMD staff within the Government and defines salary bands and job titles among other things.
2.6 Staff should be selected through open competition based on merit & technical competence, without reference to political affiliation, in line with civil service conditions.		●	See above.
3. MANDATE			
3.1 The mandate should be defined in legislation, including types of reports and analysis they are to produce, who may request them and timelines for release.		●	
3.2 IFIs should have the scope to produce reports and analysis at their own initiative and autonomy to determine their own work programme within their mandate.	✓	●	BPMD publications are reviewed by the AG and signed off by the AG. Deputy AGs are consulted on BPMD publications.
3.3. Clear links to the budget process should be established within the mandate.		●	
4. RESOURCES			
4.1 The resources allocated to IFIs must be commensurate with their mandate.	✓	●	In general, the BPMD's level of funding is similar to what was anticipated when established.
4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.	✓	○	The BPMD's budget allocation is part of the NAO budget. According to the Law on the Budget Structure the NAO is an "appropriation manager" and the AG is Head of the "appropriation

			manager”. As such the BPMD’s budget at the discretion of the Auditor General. Although the BPMD has its own budget line within the NAO’s budget, “For the implementation of the budget policy monitoring functions”, these resources are not ring-fenced and may be adjusted. It should also be noted that there are potential concerns around the independence of the NAOs budget which will be covered in a forthcoming review. To align with ISSAI-10.8, the NAO should be free to propose its budget to the Parliament without interference from the executive; moreover, it should have the right of direct appeal to the Legislature if resources provided are insufficient.
4.1 Multiannual funding commitments may further enhance IFIs independence and provide additional protection from political pressure.	✓	●	The BPMD’s budget is set by the Auditor General on an annual basis along with provisional information on allocations for the subsequent two years.
5. RELATIONSHIP WITH THE LEGISLATURE			
5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature.	✓	●	The Auditor General is appointed by Parliament, and the NAO submits its annual work program and its annual report to Parliament’s Audit Committee. The BPMD’s work programme and annual report are an integral part of these. The BPMD submits its reports and opinions to parliament. NAO leadership and BPMD senior staff appear before parliamentary committees.
5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.	✓	●	
5.2 The role of the IFI vis-a-vis the parliament’s budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.		●	While the Law does not clearly lay out how BPMD should respond to parliamentarians’ requests for analysis, in practice, the few requests that the BPMD has received have been in relation to compliance with the fiscal rules and so were related to BPMD core analysis. Answers to such requests are provided through an official letter from the AG drawing on the official reports of the BPMD.
6. ACCESS TO INFORMATION			
6.1 IFI should have full access to all relevant information in a timely manner.	✓	●	In practice, the BPMD tends to be given access to relevant government information in a timely manner. Access to

			information is supported by MoUs signed between the BPMD and government stakeholders.
6.2 Any restrictions on access to government information should be clearly defined in legislation.	✓	●	
7. TRANSPARENCY			
7.1 IFI should act as transparently as possible, including full transparency in their work and operations.		●	The BPMD has its own website detailing its work and operations.
7.2 IFI reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to parliament.		◐	All opinions and reports are published and made available on the BPMD's website, however due to resource constraints the BPMD has not published macroeconomic forecasts and underlying methodologies.
7.3 The release dates of major reports and analysis should be formally established, especially in order to coordinate them with the release of relevant government reports and analysis.		●	Although not specified in legislation, the publication dates of each of the BPMD's reports are formally established in a calendar made public on its website.
7.4 IFIs should release their reports and analysis, on matters relating to their core mandate on economic and fiscal issues, in their own name.		◐	Under the current institutional arrangements, BPMD reports are signed by the AG and released under the logo of the NAO.
8. COMMUNICATIONS			
8.1 IFIs should develop effective communication channels from the outset.		◐	Although the BPMD relates with the media, its institutional arrangements mean that even the specialist media do not always distinguish the BPMD's functions from that of the NAO.
9. EXTERNAL EVALUATION			
9.1 IFIs should develop a mechanism for external evaluation of their work.	✓	●	Advisory board established (2016) and first external evaluation conducted by international experts (2019).

1.5. Conclusions

26. Although it is still a young and small organisation, the BPMD has quickly built a reputation for solid independent analysis among stakeholders. The BPMD has also been proactive in sharing experiences and learning from counterparts in the Bank of Lithuania and peer institutions internationally.

27. The BPMD's legal framework, governance, mandate and institutional landscape inform and affect its operations. The choice to place the IFI function in the NAO reflects the fact that Lithuania is a small country with a limited tradition of independent institutions and think tanks or institutes working on the public finances.

28. This institutional set up is rare among OECD IFIs. It has brought both advantages and challenges to how the BPMD operates as an IFI, in particular in relation to budget, staffing, as well as visibility of the BPMD with stakeholders. Due to the current institutional arrangements, any impediments to the independence and good-functioning of Lithuania's NAO also impact directly upon the BPMD. The review team supports efforts by the NAO to review and strengthen the mechanisms for its independence in line with good international practice for SAIs.

Chapter 2: Resources and independence

2.1. Introduction

29. This chapter looks at the extent to which the BPMD has sufficient resources and independence to deliver its mandate. This includes human and budgetary resources, but also access to information. The extent to which these resources are predictable and sustainable impacts whether the IFI has the necessary level of independence to carry out its work. According to the OECD Principles, an IFI must have resources commensurate with its mandate to fulfil it in a credible manner and mechanisms in place to prevent pressure being placed on the institution through the budget (Principle 4.1). An IFI must also have access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals (Principle 6.1). Finally, non-partisanship and independence are pre-requisites for any successful IFI (Principle 2.1).

30. Analysis indicates that the BPMD has received resources commensurate with its mandate. However, it lacks budgetary independence as compared to peer IFIs and does not align with the OECD Principles in this regard. The BPMD cited the general shortage of economists and public finance experts in Lithuania, together with the BPMD's low salary levels and some restrictions on hiring non-nationals, among reasons they have struggled to recruit and retain the skilled staff necessary to deliver its work. Although the BPMD has a Director who leads its day to day operations, the post holder reports to the Auditor General who takes key decisions such as funding for the institution and signs all of the BPMD's publications. While the BPMD's positioning within the NAO has served it well in its initial years, it also raises questions as to how to strengthen the institution's visibility, independence and sustainability in the longer term. The BPMD has had relatively good access to information, although at times it has experienced problems with the quality and timing of responses.

2.2. Funding

31. The BPMD is funded through the budget of NAO. In general, the BPMD's current level of funding is similar to what was anticipated by stakeholders in Lithuania at the time of its creation, and its resources are viewed as commensurate with the scope of its mandate. Its budget is set by the Auditor General on an annual basis along with provisional information on allocations for the subsequent two years. Although the BPMD has its own budget line within the NAO's budget, "For the implementation of the budget policy monitoring functions", these resources are not ring-fenced and can be adjusted.

32. The NAO is funded by the State budget, with the exception of the European Union Investment Audit Department function which is financed from the EU structural funds. At present its budget is set by the Ministry of Finance. The Seimas approves the State budget and supervises its execution. However, there are moves to strengthen the independence of the NAO and its accountability to parliament. In particular, a draft law currently under consideration by parliament proposes to amend the Statute of the Seimas of the Republic of Lithuania so that the NAO's budget allocation be subject to the consideration of the Audit Committee.

33. In 2019, the allocation for the BPMD accounted for just under 3% of the NAO's budget. However, this does not take into consideration certain costs, in particular the costs

related to NAO support staff that also support the BPMD, or NAO management support to the BPMD. The NAO has indicated that should these costs be taken into consideration the budget would increase considerably.

34. While the budget allocation for the NAO has remained stable over the period 2015 to 2019 (with increases only from restoration of unlawfully reduced salaries for civil servants⁸), the budget allocation of the BPMD has increased 73%. This has been driven by growing payroll costs as the BPMD sought to hire its full staff complement. Staff costs made up 82% of BPMD expenditure in 2018. The remainder of the BPMD's costs are overheads (e.g. rent of tangible and intangible assets, communal services, business trips, training courses, the purchase of other goods and services, etc.).

Table 2.1. Annual expenditure of NAO and BPMD 2015-2019 (EUR)

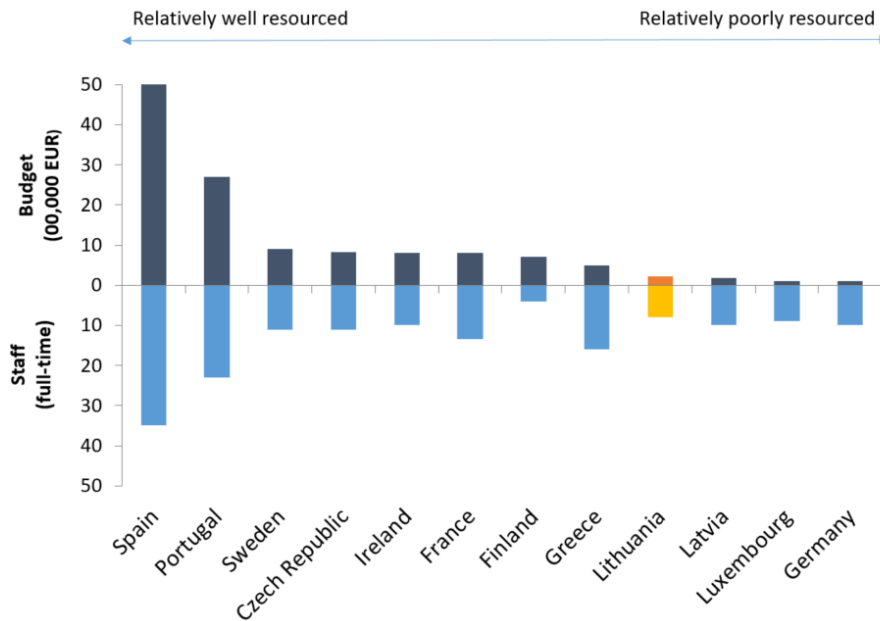
	2015	2016	2017	2018	2019	Compound average growth rate 2015-2019
NAO	8,475,000	8,662,000	8,674,000	8,662,000	9,272,000	2.3%
BPMD	141,985	203,703	194,944	242,820	245,000	14.6%
BPMD as a % of NAO	1.7%	2.4%	2.2%	2.8%	2.6%	N/A

Note: Figures for the BPMD do not include costs related to support provided by NAO staff. Figures for 2019 are indicative. The BPMD figure for 2019 has been adjusted to remove the exceptional costs associated with this OECD Review.

Source: Authors, based on information provided by the BPMD.

35. Although the financial resources available to the BPMD have significantly increased in recent years, its resourcing remains lower than that of peer institutions with similar functions (see Figure 2.1 below). This may partly be explained by Lithuania being a small country relative to EU peers, as well as having lower labour costs.

⁸ The NAO was allocated additional funds following the ruling of the Constitutional Court on the restoration of unlawfully reduced salaries for civil servants during the economic crisis (2009-2013).

Figure 2.1. Mandate and resources of EU IFIs with similar functions to the BPMD

Note: The Spanish IFI has a broader mandate additional responsibility for sub-national fiscal oversight and spending review which partly explains its additional resourcing. Data on the budget for Austria are not available. Staff includes council members.

Source: (OECD, 2019).

36. The current Auditor General has been receptive to the growing funding needs of the BPMD. The BPMD has never been threatened with budget cuts or similar action when perceived as critical by the Government. Nevertheless, the BPMD's budget stands at the entire discretion of the Auditor General and there is the risk that a future Auditor General may not view the BPMD as favourably when it comes to the allocation of resources across the three institutions within the NAO.

37. A number of stakeholders expressed a preference for increased budgetary protections for the BPMD, and in particular, the BPMD having the ability to set its own budget subject to approval by the Audit Committee at the Seimas. This would also bring the BPMD in line with the existing practices of many OECD IFIs and Supreme Audit Institutions (SAIs), along with the OECD Principles (Principle 4.1), which state that:

“the appropriations for IFIs should be published and treated in the same manner as the budgets of independent bodies, such as audit offices, in order to ensure their independence” (OECD, 2014).

38. Alternatively, it would be beneficial for the BPMD to have its own budget line within the State budget document. This would provide greater transparency on the level of resourcing given to the BPMD. This good practice of having a separate budget line has already been adopted in almost half of OECD countries with an IFI (OECD, 2019).

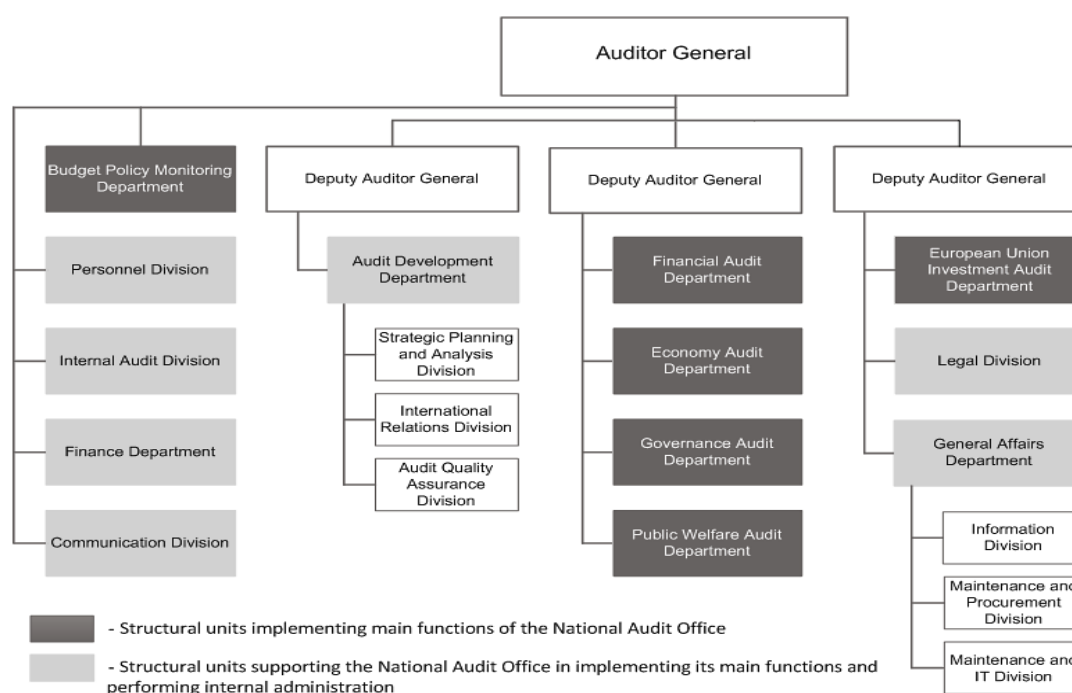
39. It should also be noted that there are potential concerns around the independence of the NAOs budget which will be covered in a forthcoming review. To align with ISSAI-10.8, the NAO should be free to propose its budget to the Parliament without interference from the executive; moreover, it should have the right of direct appeal to the Legislature if resources provided are insufficient.

2.3. Human resources

2.3.1. Leadership

40. As the BPMD is part of the NAO, the head of the BPMD is the Auditor General. The Director of the BPMD sits below the Auditor General, as shown in Figure 2.2. The Director of the BPMD directly reports to the Auditor General. The Deputy AGs also comment on all of the BPMD's reports.

Figure 2.2. Organisational chart of the National Audit Office



Note: Organisational chart as of January 2019.

Source: https://www.vkontrole.lt/page_en.aspx?id=217

41. The Auditor General is appointed by Parliament on the recommendation of the President of the Republic for a five-year term, renewable once. This is the same term length as the presidential term (although not necessarily concurrent) and longer than the legislative term of four years. The Law on the National Audit Office sets out that the Auditor General can be any citizen of the Republic of Lithuania who has an impeccable reputation, is not older than 65 years old, and has a higher university education. It also sets out six criteria for dismissal. The Auditor General may be dismissed: i) when they resign, ii) when their term expires, iii) in the case of a no-confidence vote, iv) due to illness, v) in case of a court decision where they are found guilty and vi) in the case of them losing their Lithuanian citizenship. Regarding the third provision, in accordance to the Constitution, the Seimas, by a majority vote of all of its Members, may dismiss the Auditor General from office following a loss of confidence. This provision generates a risk to the independence of the Auditor General and is not in line with the International Standards of Supreme Audit Institutions (ISSAI).

42. By contrast, the appointment and dismissal of the director of the BPMD is subject to different legal procedures. While the Law on National Audit Office sets out that the NAO can select requirements for, and restrictions on, the Director's recruitment, it is the Law on Civil Service that defines responsibilities, remuneration and also the procedure for their recruitment. Changes to the Law on Civil Service that came into force in January 2019 mean that the HR recruitment function for civil servants – including the Director of the BPMD and other staff at the NAO – is now centralised within the Government. This could diminish the independence of the BPMD given that the Ministry of the Interior, which will become responsible for the recruitment of BPMD staff, is accountable to the Ministry of Finance, the BPMD's main governmental interlocutor. It could cause recruitment difficulties for the BPMD due to creating a more lengthy recruitment process and being insufficiently flexible for the institution's needs (for example, "economist" is not a profession listed in the recruitment categories). In general, the new process is inappropriate for an institution as small and unique as BPMD.

43. The Auditor General strongly opposes these changes and has written a letter to the Speaker of the Seimas explaining that "Such a system will hamper impartiality, independence and autonomy of the National Audit Office performance and my capacity, as the head of the supreme audit institution, to independently and autonomously select civil servants for the National Audit Office". It is interesting to note that other institutions have also expressed concerns for their own functioning.

44. These changes are one of the reasons why a number of stakeholders have raised concerns that the enabling legislation for the NAO – passed in 2002 – has become obsolete, with insufficient provisions guaranteeing the independence and non-partisanship of the Auditor General and the Director of the BPMD. A draft law amending the Law on the National Audit Office aims to reinforce the independence of the institution and has been under examination by Parliament for over a year. Among other things, the Auditor General is seeking amendments to the Law on the National Audit Office to exclude the NAO and the BPMD from centralised recruitment procedures and performance assessments.

45. The delay to the amendment of the Law on the National Audit Office poses risks for both the NAO and the BPMD in terms of both institutions being under-resourced. The significant concerns that the Auditor General has regarding the new recruitment procedures for NAO and BPMD staff prevent him from replacing staff that have recently left the institution. The BPMD's first Director resigned in May 2019 to take on a position as Deputy Governor of the Bank of Lithuania. Having key positions unfilled for extended periods poses a significant risk to its ability to function effectively.

46. As a part of the NAO that reports to the Auditor General – both in a financial and decision-making capacity – the BPMD is not functionally independent as compared to most peer OECD IFIs. To date, the good working relationship between the NAO and the BPMD has been underpinned by positive personal relationships between the Auditor General and the first Director of the BPMD. However, there is no guarantee that this positive relationship will continue with the advent of new leadership. Should the NAO and the BPMD move to reinforce the BPMD's independence, mechanisms should be put in place to give the Director greater decision-making autonomy.

47. It was suggested by some stakeholders that the BPMD could evolve to be a separate institution led by a small council of independent experts. A council could provide strategic leadership, quality assurance, and serve as a public face to further engage stakeholders and communicate the BPMD's outputs. A key concern however, is the very small pool of national independent experts available to sit on such a council. Similar concerns have

existed in other small OECD countries looking to establish fiscal councils. However, in practice these institutions have managed to find sufficient suitable candidates. One strategy has been to recruit nationals living abroad or, in some cases, non-nationals (for example, in Ireland, Portugal and Sweden) although in the case of Lithuania there are naturally concerns about the ability to work in the local language. Box 2.1 outlines the cases of Estonia and Latvia, which are both countries that are smaller than Lithuania but that have an IFI led by a small council of independent experts.

Box 2.1. Examples of IFIs in small countries that are led by a council

Estonia

Estonia has a population of 1.3 million. When the Estonian Fiscal Council was first established, there were some concerns about the ability to find suitable candidates for its six member council. The statute of the Estonian Fiscal Council requires the central bank's Supervisory Board to nominate the Fiscal Council's Chair, Vice-Chair and four members for a period of office of five years at the proposal of the Governor of the central bank. However, through looking for experts across academia, the private sector and the central bank, on 14 May 2014 the Supervisory Board was able to appoint the first membership of the Fiscal Council. In March 2019, the Supervisory Board of the central bank approved the proposal of the Governor of the central bank that the same experts should remain in post for the next five years. This decision was taken because the current council members work very well together, and not because of a lack of alternative candidates.

Latvia

Latvia has a population of 1.95 million. When the Latvian Fiscal Discipline Council was being established, the Ministry of Finance had concerns about being able to source experts for its six-member Council. Council members are put forward by the Saeima (parliament), the President of the Bank of Latvia and the Minister of Finance and have six year terms. In order to boost the potential pool of candidates, some members of the council have been sourced from outside Latvia. The council currently includes two foreign experts (one Danish academic and the Deputy Governor of the Central Bank of Estonia) in addition to four Latvian nationals. It is anticipated that future council members might be former staff members of the Ministry of Finance, the Central Bank, commercial banks, the European Commission or peer IFIs with an expertise in macroeconomic or fiscal issues.

Source: Authors, based on information provided by the Estonian Fiscal Council and Latvian Fiscal Discipline Council.

2.3.2. Staffing

48. Fully staffed, the BPMD should have around ten staff members to enable it to deliver its mandate of endorsing the official macroeconomic forecasts, assessing compliance with fiscal rules, and budget analysis. At the time of this review it only has six staff members, with four vacant positions, including vacancies in key leadership positions (see Table 2.2). Of these, five staff are women. Staff have an educational background in economics, econometrics and mathematics, and typically hold a master's degrees. The professional background of staff tends to be either public policy, statistics, or economics. One staff member was hired straight out of university, one came from the Ministry of Finance, two from Statistics Lithuania, one from a non-governmental organisation, and one from the private sector. The average age is 34 years old.

49. The staffing levels of the BPMD are not set out in its enabling legislation. The Director of the BPMD, with the AG's approval, is responsible for choosing when to hire and when to dismiss staff, however, under the new Law on Civil Service, recruitment procedures (and other aspects) are now centralised within the Government limiting the autonomy of the Auditor General to hire.

Table 2.2. BPMD staffing levels 2015-2019

Staff	2015	2016	2017	2018	2019
1. Director (civil service) ¹	1	1	1	1	-
2. Senior Adviser (civil service) ²	1	1	1	1	1
3. Adviser (civil service) ³	1	1	1	1	-
4. Chief specialist ⁴	1	1	1	1	1
5. Adviser (civil service) ⁵	-	-	1	1	1
6. Chief specialist (under labour contract) ⁶	-	1	1	1	-
7. Senior specialist (under labour contract) ⁷	-	-	1	1	-
8. Chief specialist (civil service) ⁸	-	-	-	-	1
9. Chief specialist (civil service) ⁹	-	-	-	-	1
10. Chief specialist (civil service) ¹⁰	-	-	-	-	1
11. Senior specialist (secretary, under labour contract) ¹¹	-	-	-	1	-
Total	4	5	7	8	6

Notes: ¹ the first Director left this position in May 2019 and has not been formally replaced. ² This post holder is currently on leave. ³ This position was temporarily abolished in February 2019 but may be reinstated when the issues around the new recruitment process have been resolved. ⁴ The post holder is currently Acting Director. ⁵ This position was established in autumn 2017, and has been occupied since 1 December 2017. ⁶ This position became vacant in October 2018. ⁷ This position was established in summer 2017, occupied from September 2017 and became vacant in June 2018. ⁸ This position was established at the end of 2018. ⁹ This position was also established at the end of 2018. ¹⁰ This position was occupied from April 2019. ¹¹ This position was established in 2017, but became vacant in May 2019.

Source: Authors, based on information provided by the BPMD.

50. A key issue for the BPMD has been high levels of staff turnover. The institution struggles to attract and retain senior staff given a general shortage of economists and public finance experts in Lithuania, low salary levels in the public sector⁹, and some restrictions

⁹ As compared to similar positions in the Bank of Lithuania or the private sector. BPMD salary levels are in line with those of the Ministry of Finance.

on hiring non-nationals.¹⁰ There are concerns that staffing issues may be exacerbated further by the recent reforms to the Law on Civil Service that now centralises recruitment within government for both the BPMD and the NAO.

51. In addition, there is limited potential for secondments between the NAO and the BPMD given that there is only very limited complementarity between the skillset of the audit office staff and the skillset needed in the IFI. The Bank of Lithuania would be a more obvious choice for staff exchange or secondments, as has been done in other countries. There are some positive signs however as it has been agreed that one economist from the Bank will be posted in the BPMD for three weeks during the evaluation of the draft budget for 2020.

Box 2.2. Central bank support for the Spanish IFI

The Bank of Spain was active in pushing for the establishment of an IFI. When the Independent Authority for Fiscal Responsibility (AIReF) was established as Spain's IFI in 2013, the Bank was also active in providing technical support during its set-up phase. It seconded six staff to AIReF over its first two years, paid for by the Bank. Up until 2017, the Bank still had one staff member seconded to AIReF. Thereafter, the Bank viewed that AIReF was in a steady state and no longer needed its support. However, there is a still ongoing dialogue and cooperation between the two institutions, including quarterly technical meetings. AIReF's success as an institution is valued by the Bank of Spain, who find that the quality of macroeconomic and fiscal monitoring is improved by having multiple independent voices.

Source: Von Trapp, L. et al. (2018).

52. The BPMD would be better able to attract and retain skilled staff if the Director had full autonomy to hire staff and set their conditions of employment. This should include giving the BPMD Director the ability to set more competitive salary levels for its staff, and to hire experts from outside Lithuania. Box 2.2 provides examples of how several OECD IFIs allow for non-nationals to serve as council or staff members, thus increasing the pool of qualified candidates.

Box 2.3. Recruitment of non-nationals across OECD IFIs

A number of OECD IFIs allow for the recruitment of non-nationals as council or staff members in order to increase the pool of qualified candidates. These are typically IFIs that operate in small countries. For example, the **Scottish Fiscal Commission** was established in 2014. Recognising that Scotland has a limited pool of economic and statistical analysts, the IFI has recruited staff from the United Kingdom and across the European Union. At the **Irish Fiscal Advisory Council** and the **Swedish Fiscal Policy Council**, members can be non-nationals and both IFIs have experience of hiring foreign members. At the **Portuguese Public Finance Council** two of the five Senior Board members are required to be non-Portuguese citizens.

Source: Authors.

¹⁰ Non-nationals can be employed in the public sector on a contractual basis.

2.3.3. Advisory panel

53. In line with OECD Principle 9.1, in April 2016, the BPMD established an Advisory Panel with the aim of strengthening its effectiveness and ensuring its analysis is in line with good practice. The Advisory Panel was initially comprised of two members and a third member joined in 2018. There is limited specialist expertise available inside Lithuania, which means that the BPMD have had to look internationally to staff its advisory panel. Currently the three members of the panel are all international experts, although one member is based in Lithuania.¹¹

54. Members of the BPMD's Advisory Board are available for consultation electronically and may meet once during the year. The BPMD should continue to ensure that it has formal arrangements in place to pay the travel expenses of panel members in relation to this annual meeting.

55. The Advisory Panel is relatively small in comparison to peer institutions, and given the BPMD's limited staff, it may be advisable to expand the Advisory Panel's membership to provide more targeted advice and peer review of the BPMD's work. The BPMD should therefore consider trying to supplement their advisory panel by approaching academics with expertise on specific issues, and deepening collaboration with the central bank to improve its access to the available pool of expertise, as similar-sized IFIs have done, such as Slovakia.

2.4. Access to information

56. As independent institutions, IFIs require access to information from across the public sector to ensure they are in the best possible position to deliver informed analysis and opinion. Principle 6.1 of the OECD Principles states:

“This creates a special duty to guarantee in legislation – and if necessary to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.”

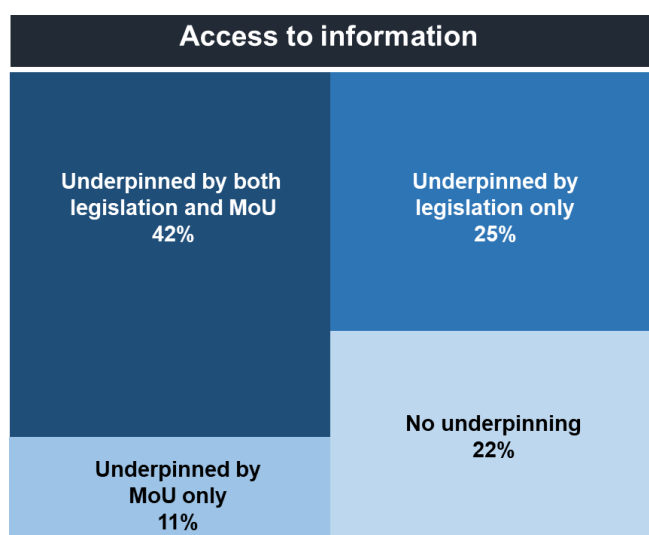
57. The BPMD has access to information provided for in its enabling legislation (Article 9). The law sets out that it has the right to request and receive data from state and municipal institutions as a necessary pre-requisite for the performance of its functions. It also compels the Bank of Lithuania to submit its macroeconomic forecasts to the BPMD each time they are updated, and at least twice a year. Of note, there are no restrictions or privileges on information provided by the Government.

58. Access to information is also supported by MoUs signed between the BPMD and government stakeholders, including the Ministry of Finance, the Ministry of Social Security and Labour, the Bank of Lithuania, as well as with the municipalities of Vilnius, Kaunas and Klaipėda. Figure 2.3 shows that instruments available to the BPMD (both legislation and MoU) to secure access to information are the ones available to the largest

¹¹ The Panel includes a former member of the Slovak Council for Budget Responsibility, a former employee of the Hungarian Fiscal Council, and a non-national economist currently based in the Bank of Lithuania.

proportion of IFIs across OECD countries. A MoU helps to manage expectations on processes for information requests, timeframes, steps to take when requests are not complied with, and treatment of confidential data.

Figure 2.3. Arrangements through which access to information is secured across OECD IFIs



Note: The data includes 36 OECD IFIs, including three subnational IFIs in Australia (Victoria), Canada (Ontario) and the United Kingdom (Scotland) and one supra-national IFI, the European Fiscal Board. The data includes two IFIs for Austria, Finland, Greece, and Ireland. IFIs in non-OECD countries are excluded.

Source: (OECD, 2019).

59. The BPMD can directly approach government staff to request information. Should the BPMD not be provided with the requested information, a three-step escalation process could be activated: i) requests would be forwarded to the political level of the relevant institution, ii) the BPMD would threaten to mention it in their report, iii) the Auditor General would get involved.

60. In practice, the BPMD has never been threatened with limits on access to information by the government, and has not had to utilise the escalation process. The BPMD tends to be given access to relevant government information in a timely manner. Unlike some of its peers, the BPMD does not track information requests, nor does it make these requests public. It may wish to consider tracking this metric in the future.

61. In addition to the legal framework underpinning the BPMD's access to information, good personal relationships between the BPMD leadership and government staff have played a key role in ensuring smooth access to information. This is especially relevant for Statistics Lithuania, who have provided the BPMD with the information it has requested despite the lack of a MoU between the two institutions. However, the BPMD should be cautious about over-reliance on good personal relationships, and should ensure that MoUs are in place and maintained to help ensure that access to information from all key actors is secured in the longer-term.

62. Although the BPMD tends to receive responses to access to information requests, recently issues have arisen around poor quality of responses and slow responses. For example, in 2018, data on the draft budget for 2019 was submitted by the Ministry of

Finance to the BPMD later than usual. This unforeseen delay impacted the BPMD's internal organisation regarding the production of the opinion on the draft budget, as it had to be released in time for deliberations in Parliament. In addition, in 2019 with the newly introduced income tax reform, the information transmitted to the BPMD on budget execution was incomplete, as it was missing data on social security. Some data was later obtained on request.

63. These incidents signal that the MoU signed in 2015 with the Ministry of Finance may benefit from an update so as to ensure that there are appropriate stipulations on timescale and information being provided in open data format. Any update should also take into account new requirements for information relating to reports that the BPMD has recently started producing. The regular updating of MoUs is an essential task to ensure that they remain fit for purpose (see Box 2.4 for the UK OBR's approach).

Box 2.4. The UK OBR's approach to regular updating its MoUs

The UK OBR does not have a specific policy on scheduled updates to its MoUs, but takes care to update them in response to any new or special circumstances which merit changes being made. For example, the OBR updated its MoU with HM Treasury, HM Revenue & Customs and the Department of Work and Pensions in 2017 subsequent to expanded responsibilities for the institution. The OBR has also created new MoUs with devolved institutions, including the Scottish Fiscal Commission, in response to expanded responsibilities in relation to devolved fiscal forecasts.

Source: Authors, based on information provided by the UK OBR.

2.5. Independence

64. Independence and non-partisanship refer to the ability of an IFI to undertake its duties free from political pressure or influence. The extent to which independence is fostered within an IFI is significantly influenced by the legislation that establishes and governs the institution.

65. One of the main reasons that the BPMD was placed within the NAO is that it has a long-standing reputation as a body that is independent from the government. In particular, the Auditor General has leadership and operational independence that has served both the NAO and the BPMD well in recent years. Despite being a young institution, stakeholders generally regard the work of the BPMD as thoroughly independent and non-partisan.

66. Although the BPMD sits within a highly independent institution – and has benefited from this – this position also compromises the independence and visibility of the IFI as its own institution. Some of the ways in which this arrangement compromises the BPMD's independence are highlighted below:

- **Leadership independence:** Although the BPMD has its own Director, the Auditor General is legally the head of the IFI. The BPMD is often represented by the Auditor General at parliamentary hearings or in the media.
- **Operational independence:** The BPMD undertakes its own technical analysis and writes its own reports. As the head of the NAO, the AG reviews and signs off on the BPMD's reports and they are released under the NAO logo. The Deputy AGs may also be consulted for comment.

- **Financial independence:** The budget for the BPMD is part of the NAO budget and may therefore be adjusted at the AG's discretion.

67. Overall, it is observed that many key decisions relating to the BPMD are taken by the Auditor General. While the Director of the BPMD and the Auditor General have enjoyed positive relations, the first Director of the BPMD has recently left and the Auditor General's term is due to end in the next year. A different dynamic between future leaders could potentially hamper the ability of the BPMD to function independently within the NAO. As noted in the OECD's 2018 Economic Survey of Lithuania, "the council remains under the authority of the National Audit Office whose reputation is high, but tensions could arise should the objectives of the two functions (NAO and IFI) diverge."

68. A further risk is that the NAO faces challenges to its own independence through the recent reforms of the Law on Civil Service, which means that all NAO and BPMD staff will now be recruited centrally by the Government and be subject to centralised training and performance assessments.

69. Taken together, the current institutional arrangements for the BPMD do not offer sufficient guarantees of its ability to operate as a sustainable, autonomous and independent institution into the future. Increased independence for the BPMD would require the BPMD becoming a standalone independent institution rather than a functional unit with IFI tasks inside another institution.

70. An arrangement that has worked well for many small OECD IFIs (see box 2.5), has been to enter into a service level agreement with a larger institution. This allows the IFI to focus their resources on delivering their mandate, while buying back office services (IT, facilities management, and legal services etc.). The current institutional arrangement has meant that the NAO has provided the BPMD with back office services and this arrangement has worked smoothly, although there could be greater clarity around the cost of these services, something a service level agreement would provide. One option, should the BPMD become a standalone institution, would be for the BPMD and the NAO to build on their current good relationship, by setting up a service level agreement that allows the BPMD to continue to sit within its current offices and buy services from the NAO. Ultimately this would imply changes to the BPMD's legal framework and the NAO would have to agree. Alternatively, should the NAO not be willing to enter into a service level agreement with the BPMD, the BPMD could seek to enter into a service level agreement with another independent institution such as the Bank of Lithuania.

Box 2.5. Examples of Service Level Agreements across OECD IFIs

Estonia: The Estonian Fiscal Council sits within the Central Bank in Estonia and it is meant to provide all of the resources for the Council's work. This includes the analytical staff, premises, IT support, legal, translation services, etc. The relations between the Council and the Central Bank are described in the Bank's law and in more detail in the statutes of the Council. The Council sets out its funding requirement and sends this to the Governor of the Central Bank for approval. The Central Bank covers the expenses of the Council out of its own budget. The Bank can technically be reimbursed by the Government for these expenses, but it has never exercised this right. Key to the

Council maintaining its independence and a separate identity within this set up is that the Chair and vice-Chair are not Central Bank employees and the Council has its own webpage.

Ireland: The Irish Fiscal Advisory Council was set up on an interim basis in 2011. To get the Council established and operating quickly in its interim form, support services and accommodation were provided by the Economic and Social Research Institute (ESRI), an independent research institute that is partly funded by government. These arrangements have continued following the adoption of the Fiscal Responsibility Act, with the ESRI being reimbursed from the IFAC budget for the services provided.

Scotland: The Scottish Fiscal Commission can choose where to be located and how to provide its corporate services and IT. After consideration, the Commission decided that it would make use of the Scottish Government's HR, IT, procurement and internal audit services. The Scottish Government also provides legal services and supports the procuring of external legal support if advice cannot be provided by an internal lawyer. However, the Commission manage its communications service entirely in house. The Commission is based in a building is owned by the Scottish Government for which it has sole occupancy. The Commission pays an annual charge to the Scottish Government for the services that it receives on a cost recovery basis.

Source: Authors.

2.6. Conclusions and recommendations

71. Fully staffed, the BPMD should have around ten staff members to enable it to deliver its mandate of endorsing the official macroeconomic forecasts, assessing compliance with fiscal rules, and budget analysis. Currently it has six staff members with four vacant positions, including vacancies in key leadership positions. The institution struggles to attract and retain skilled staff, given a general shortage of economists in Lithuania, the low salary levels it is able to offer, and restrictions on hiring non-nationals. Staffing issues are likely to be exacerbated by the recently enacted Law on Civil Service which centralises future recruitment and performance assessments for the BPMD – and all public sector institutions - within the government. By taking away the BPMD's ability to hire its own staff, this new arrangement compromises the BPMD's independence and further fragilises an institution that is already very tightly resourced. To align with the OECD Principles and peer institutions, and to help overcome its staff shortages, the BPMD should instead have full autonomy to hire staff and set their conditions of employment. It should also be able to hire experts from outside Lithuania.

72. The budget for the BPMD is currently set by the Auditor General of the NAO. While its budget has grown under the leadership of the current Auditor General, his term is due to end in the next year. A number of stakeholders called for the BPMD to be able to set its own budget, subject to approval by the Audit Committee at Parliament. At the very least, it would be beneficial for the BPMD to have its own budget line within the government's annual budget document.

73. The BPMD has access to information set out in legislation and this is further supported by MoUs between the institution and government stakeholders. In general, the BPMD receives the information it requests, although in some instances it is not received in open data format, and is not received in a timely fashion. The BPMD should periodically update its MoU to ensure that these issues are addressed.

74. The IFI function was set up within the NAO due to its long-standing reputation as a body that is independent from the government. While this arrangement has served the BPMD well in its early years, it has arguably compromised the independence and the

visibility of the BPMD. The current institutional arrangements mean that the Auditor General represents the BPMD publicly and signs its reports and that the BPMD's reports are released under the logo of the NAO. In addition, the Auditor General takes a number of key decisions relating to the BPMD, including setting its funding. The current institutional arrangements for the BPMD do not offer sufficient guarantees of its ability to operate as a sustainable, autonomous and independent institution into the future. Increased independence for the BPMD would require the BPMD becoming a standalone independent institution rather than a functional unit with IFI tasks inside another institution. One option, should the BPMD become a standalone institution, would be for the BPMD and the NAO to build on their current good relationship, by setting up a service level agreement that allows the BPMD to continue to sit within its current offices and buy services from the NAO. Ultimately this would imply changes to the BPMD's legal framework and the NAO would have to agree. Alternatively, should the NAO not be willing to enter into a service level agreement with the BPMD, the BPMD could seek to enter into a service level agreement with another independent institution such as the Bank of Lithuania.

Chapter 3: Outputs and methodologies

3.1. Introduction

75. This chapter highlights the outputs of the BPMD and the methodologies used to deliver them. It includes a technical assessment of the BPMD methodologies which benchmarks them against those used by peer institutions, and also highlights key issues for BPMD reports, including; near-term focus versus longer-term, treatment of uncertainty, comprehensiveness and clarity of reporting, quality control process, and transparency.

76. Analysis indicates that the BPMD's outputs are highly regarded and well-presented, although key points could be highlighted in a more structured way. The BPMD's methods are found to be appropriate and align with those of peer institutions. To further bolster its credibility and transparency, the BPMD could publish its macroeconomic forecast and communicate the results of its own methodologies.

3.2. Outputs of the BPMD

77. As outlined in Chapter 1, the BPMD endorses the macroeconomic forecasts used for fiscal planning; assesses budgetary forecasts, assesses *ex ante* and *ex post* fiscal rules, assesses draft annual budgets, and monitors fiscal policy and budgetary execution. It is legally mandated to submit the following five opinions to Parliament each year:

1. Opinion on an endorsement of macroeconomic scenario (in spring and autumn).
2. Opinion on compliance with fiscal discipline rules in the draft budget law (*ex ante*).
3. Opinion on compliance with fiscal discipline rules in the previous year budget (*ex post*).
4. Opinion on the correspondence with exceptional circumstances.
5. Opinion on the compliance of the structural adjustment and guidelines on measures to fulfil these targets with the requirements for the achievement of the medium-term objective.

78. The BPMD has a role to give its quarterly opinion on the situation of the economy. The BPMD is also mandated to assume a major role in case of exceptional circumstances. These are supplementary publications in case of unusual fiscal events. In case of severe deviation from fiscal targets, the government must provide a plan of concrete measures. This plan would be assessed by the BPMD. They would give an opinion on whether or not these measures are sufficient. Until now, there has been no unusual fiscal event and the BPMD has not had to issue its opinion in this regard.

79. BPMD analysis covers the general government sector. The BPMD began monitoring compliance of municipalities with fiscal rules on 1 January 2016 for municipalities where planned appropriations did not exceed 0.3 % of GDP and on 1 January 2018 for municipalities where planned appropriations exceeded 0.3 % of GDP.

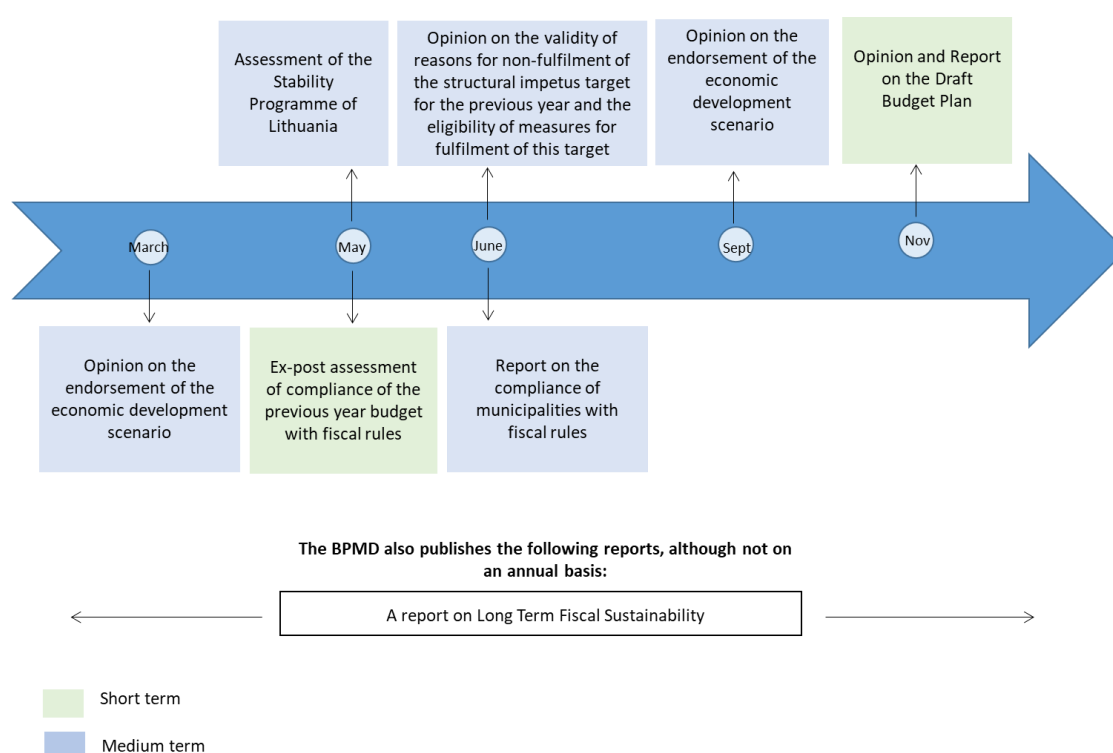
80. In order to go beyond the short-term perspective and encompass medium and long-term assessments of fiscal forecasts and sustainability, the BPMD has recently expanded its work programme to include additional outputs. In 2016 and 2017, the BPMD took the initiative to publish an assessment of long-term fiscal sustainability. In 2018 BPMD

published an assessment of the Stability Programme; this will be an annual report coming out in May. In response to emerging imbalances in the economy, the BPMD has also started to produce a fiscal risk scoreboard. These publications assist the BPMD in monitoring the fiscal framework.

81. The BPMD's work plan is set out in the annual NAO work programme. Like most of its peer IFIs, the BPMD has the autonomy to undertake analysis at its own initiative. Although it is not legally prohibited from doing so, the BPMD refrains from providing normative advice or specific recommendations on policy issues, also in line with the majority of OECD IFIs.

82. The BPMD's publications are relatively evenly distributed throughout the budget cycle (which aligns with the calendar year), as illustrated in Figure 3.1. In spring, the BPMD produces an opinion on the endorsement of the macroeconomic scenario as well as a report assessing the Stability Programme. In summer, three reports are produced: an *ex post* opinion on the compliance of the previous year budget with fiscal discipline rules, a report on the assessment of long-term sustainability, and a report on the compliance of municipalities with fiscal discipline rules. In autumn, the BPMD publishes an opinion on an endorsement of macroeconomic scenario as well as *ex ante* opinion on the compliance of the draft budget law with fiscal discipline rules.

Figure 3.1. BPMD reports throughout the year



Source: Authors.

83. Although the BPMD currently does not have a role in policy costing nor in costing election platforms, there is some demand for it to develop policy costing capacities. As this is a resource intensive function, this could be envisaged over the long term should more

resources become available. For now, the BPMD should continue investing in strengthening its capacity to deliver its existing mandate and limit itself to “test of reasonableness” assessments of government policy costings for initiatives with significant impact on the public finances or the economy. The BPMD could also look for opportunities to leverage cooperation with others around policy costings. For example, the new government’s initiative to found the Government’s Strategic Analysis Center which should be operational in 2021.

3.3. Technical assessment of BPMD methodologies

84. This technical assessment looks at the approaches used by the BPMD to carry out the tasks in its mandate, and considers their scientific and methodological appropriateness.

3.3.1. Approach

85. There are a number of areas where the BPMD uses technical tools to carry out its mandated functions. These technical tasks include the:

- Development of benchmark macroeconomic forecasts
- Estimation of the output gap
- Surveillance of the general government balance and debt sustainability
- Assessment of compliance with budgetary rules
- Production of long-term fiscal forecasts

86. In recent years, the BPMD has made changes to its approach to these tasks and a number of methodologies were applied for the first time in 2018 and 2019.

87. Choosing a model involves trade-offs that are not only difficult to balance, but often in opposition to one another. Analysts at IFIs must make difficult decisions to prioritise certain criteria over others when choosing an appropriate tool for the job. For this reason, it is difficult to offer a final pronouncement on whether a tool is the most appropriate for the analysis. Instead, the OECD has considered the results of six assessment criteria and offered a subjective opinion on whether each methodology may be considered suitable for delivering the BPMD’s mandate. The assessment also considers whether they meet standards practiced by other IFIs. Table 3.1 summarises the six assessment criteria used.

Table 3.1. Assessment criteria

Theoretical justification	Does the academic literature support this model, or set of tools, for this analysis?
Accuracy	Is the model likely to give accurate results for this type of analysis?
Communication	Can the methodology and results be easily and convincingly communicated to parliamentarians and the public?
Transparency	Are assumptions clear? Does the model use free and open data? Has it been published in a manner that lets the public recreate its results?

Resources and continuity	Does the model require many analysts with specialized skill sets to maintain?
International use	Does it compare favourably to approaches used at other research institutions and those recommended by authoritative reference manuals?

3.3.2. Results of the technical assessment

88. The technical assessment concludes that the methodological approaches used by the BPMD to carry out its mandated functions are appropriate for its analysis, though significant improvements could be made in transparency and communication. Each of the BPMD's approaches has a theoretical justification in the economic and forecasting literature and is consistent with those of peer IFIs.

Table 3.2. Assessment of BPMD's methodological approaches

Model	Approach	Assessment
Econometric models for the economic outlook	Multivariate regression models based on correlation analysis	Appropriate
GDP models	Vector autoregression models	Appropriate
Inflation model	Dynamic model averaging short-term forecasting model	Appropriate
Potential GDP and output gap projection	Semi-structural multivariate filter, production function approach	Appropriate
Surveillance of Lithuanian Economic Development (SLED)	Medium sized structural quarterly macro-econometric model, neoclassical and (new) Keynesian synthesis represented in an error-correction form	Appropriate
Debt sustainability analysis	IMF approach, baseline scenario, sensitivity tests	Appropriate
Health care expenditure model	Macro-simulation model	Appropriate
Education expenditure model	Macro-simulation model	Appropriate
Surveillance of general government balance	Link of public cash data to ESA2010 accrual methodology	Appropriate

Source: Authors.

89. On **theoretical justification**, the models used by the BPMD are based on academically accepted methodologies. BPMD's supply-side estimates come from a labour-augmented Cobb-Douglas production function with constant returns to scale. The BPMD also apply a number of Vector Autoregressive (VAR) models to provide eight-quarter forecasts of GDP. While VARs are not based on a specific economic theory, they are time series models that have become popular among forecasters for short-term forecasts. The Surveillance of Lithuanian Economic Development (SLED) model is an internally developed standard macro model that combines neo-classical long-term optimisation behaviour with short-term Keynesian dynamics through an error correction process.¹²

90. On **accuracy**, analysis conducted by an IFI aims to create a framework for debate and to assess the reasonableness of the government's forecasts and estimates. In this context, the precision of forecast numbers is not as important as the internal consistency of

¹² The staff member responsible for developing this model has since left the BPMD.

a forecast and the reasonableness of the narrative that explains the forecast. Despite this, most IFIs monitor the degree of accuracy of their forecasts over time and compare the results with forecasts of other such institutions, and with alternative models and the BPMD should do the same. The OECD did not undertake an independent assessment of the accuracy of BPMD's projections and forecasts and the performance of its models because to examine the accuracy of these, one requires data on estimates and outturns for a longer period than is currently available. Some of the methodologies have only recently been applied for the first time, including the GDP VAR models in 2018 and the econometric models for the economic outlook in 2019.

91. The methodologies and models that the BPMD employs are consistent with common practice. Thus, the BPMD's models are appropriate forecasting tools and if they are supplemented by sound judgement, they can provide reasonably accurate forecasts. Although there are various steps under transparency and communication that should be addressed first, it would be helpful if subsequent to taking those steps the BPMD could provide a more regular analysis of its forecasting accuracy, including in comparison with others. A first step towards this was taken when the BPMD published analysis of the forecasting accuracy of potential GDP by the BPMD, European Commission and Ministry of Finance in 2018.¹³

92. On **transparency**, in principle, allowing external stakeholders access to details behind methodological approaches can help improve the performance of the models. Experts could suggest improvements, find coding errors, and identify other issues that the analysts who maintain and use the models may have overlooked. There is significant scope for the BPMD to improve the transparency of its methodological approaches. First and foremost, the BPMD could publish and communicate its results. The BPMD publishes its endorsement decisions and an assessment of the official forecasts but does not publish its own macroeconomic forecasts that inform that decision and assessment. In fact, it is not clear from the published reports the extent to which the BPMD's own technical analysis informs the endorsement decision. For example, the fan charts on which the numerical approach to the endorsement decision is apparently based are centred around the forecasts of the Bank of Lithuania. The publication of the results does not have to be done at the time of the endorsement decision but could be done with a delay such as in a subsequent assessment report.

93. The BPMD could also improve its transparency by publishing details on its methodologies in staff working papers and other types of publications. Steps in this direction have already been taken. As a past example, in its 2015 "Endorsement of the Economic Development Scenario" the BPMD provided some information on methodologies used for the endorsement of economic development scenario, what the BPMD considered as the most likely scenario and how fan charts were developed.¹⁴ The BPMD is currently developing a paper on the scenario methodology for the opinion on the endorsement of economic development. As the BPMD is publicly funded it could be argued that transparency should go even further with perhaps the code and data used also made public. Transparency is valuable on its own merits, but can also provide other benefits, such as error checking and collaborative model improvement, that lead to better outputs. There

¹³ See Box A, "Is the economy growing warmer or colder", in the BPMD's *Opinion on the Endorsement of Economic Development Scenario* (2018). Link to the report: <http://www.ifi.lt/isvada.aspx?id=10223>

¹⁴ See Box A and Box B in report: <http://ifi.lt/isvados.aspx>

are some risks to increased transparency. For example, non-expert users may not fully appreciate the internal intricacies of a model that may lead them to generate inaccurate or misleading results. There is also the resource cost of producing documentation for external use. However, the limited transparency at present means that such risks and costs are likely to be outweighed by the benefits of increased transparency that would help to increase the BPMD's credibility.

94. On **communication**, the BPMD does effectively communicate the results of the endorsement decision but does not communicate the results of its own methodologies that it is assumed inform that decision. The BPMD should communicate the results of its own methodologies. The need for communication and the fact that parliamentarians are one of the key stakeholders of any IFI means that it is important to communicate the results of its reports in terms that parliamentarians can easily understand and that provide value. As such, a balance may have to be struck between the complexity of the models and the ability to easily explain the results. At present, the BPMD uses only a limited number of standard models with results that should be relatively easy to communicate. To enhance the status of the BPMD it would be beneficial if the results were branded or published under the name of the BPMD rather than the NAO.

95. On **resources and business continuity**, the fact that the BPMD, like most IFIs, is a relatively small organisation that could experience a high turnover of employees means that in selecting methodological approaches, the BPMD has to take into account the resources required to maintain and use the models, as well as the time needed to train new employees. If the models are complex and difficult to use, the institution may encounter disruption in its work when some employees leave. Internal consistency and overall evaluation of the modelling strategies are also important. At present, the BPMD has the right balance between the complexity of its models and the capacity to achieve business continuity. A small number of economists should be able to maintain and run all the models presently used by the BPMD. If resources allow, the BPMD may wish to invest in strengthening its macroeconomic analysis. As noted in Chapter 2, a secondment from the National Bank of Lithuania could help support ongoing development of the BPMD's macroeconomic function.

96. On **international use**, the BPMD's approach to short and medium-term economic outlook and fiscal outlook is similar to the approach used by other IFIs, including the Irish Fiscal Advisory Council. Some, such as Spain's AIREF, use more complex statistical models that are more difficult to maintain and operate, and that are unlikely to be appropriate for a smaller IFI such as the BPMD.

97. The BPMD uses a fairly standard approach to medium-term economic forecasting though some elements of the approach have only recently been adopted. The BPMD's approach to debt sustainability analysis follows the approach set out by the IMF. Forecasting government spending does not require complex models. In most cases, institutional arrangements, demographic factors and government policies determine the future path of spending. The BPMD's approach to long-term forecasts of government spending in health and education is in line with methodologies used by other IFIs. Compliance with fiscal rules is assessed using a spreadsheet approach incorporating mathematical and logical formulas as appropriate.

3.4. Key issues for BPMD reports

98. The publication of reports containing analysis and opinion is the main instrument used by the BPMD to deliver its mandate. This section assesses key aspects of the BPMD's reports, including their near-term versus long term focus, the treatment of uncertainty, and their comprehensiveness, clarity and transparency. It also provides an assessment of key BPMD reports relative to similar publications by peer institutions across the OECD.

3.4.1. Near-term focus versus longer-term estimates

99. The majority of the BPMD's reports are focussed on near-term analysis. That approach is consistent with its mandate to assess compliance against the Government's fiscal rules using the 3-year ahead economic forecasts produced by the Ministry of Finance. It is also a practical decision given the resources available and the limited time available to produce assessments of the government's economic forecasts.

100. The BPMD scrutinises the short term macro-fiscal forecasts of government *ex ante* and *ex post*, and usually provides alternative forecasts based on current policies for the balance of the general government. As such, both *ex ante* and *ex post* assessments are always provided for macro-fiscal forecasts. So far, the official forecasts have always been endorsed by the BPMD. However, the Ministry of Finance publishes the economic development scenario without information on the output gap (which is published up to 5 working days later as specified in legislation), making the endorsement decision for the BPMD more complicated. The usefulness of the BPMD's output gap analysis could be improved if the Government published the required information alongside the March and September forecasts.

101. The structure of the reports published by the BPMD reflects its specific mandate. For the current year and the next two years of the forecast the BPMD are required to endorse (or otherwise) the key fiscal determinants of the forecast (consumption, wages, employment) as well as the overall (real and nominal) GDP path. For the fourth year, the endorsement decision relates only to the projection of potential GDP growth in that year. However, the BPMD functions have evolved over time to cover not only short-term but also medium-term assessment of fiscal forecasts and long-term assessment of fiscal sustainability.

102. In 2018, the BPMD began producing an assessment of the Stability Programme, which now gives it an opportunity to comment on the public finances more widely than the constraints of the mandate assessment. At the moment, much of the discussion in the report is still focussed on the near-term outlook and evaluation of previous years' outturn, which is valuable, but a different balance could be struck in future reports, particularly given the BPMD's own investment in producing (as yet unpublished) internal medium term fiscal forecasts.

103. The focus on the near term is perhaps understandable given the BPMD's mandate and the tendency of the media to focus on shorter time horizons. To its credit, the BPMD have recognised the need to broaden its assessment of the sustainability of the public finances over the longer term. Starting in 2016, the BPMD, at their own initiative, published a long-term report looking at the sustainability of the public finances. Its 2017 long-term report examined the impact of changes in the pension system introduced in 2016. That report matches the content of many other peer IFIs, uses the OECD methodology to develop a baseline scenario, and performs sensitivity analysis of specified changes in GDP growth,

net migration and the interest rate. The BPMD also plans to look further into the sustainability of the pensions system if resources allow.

3.4.2. Treatment of uncertainty

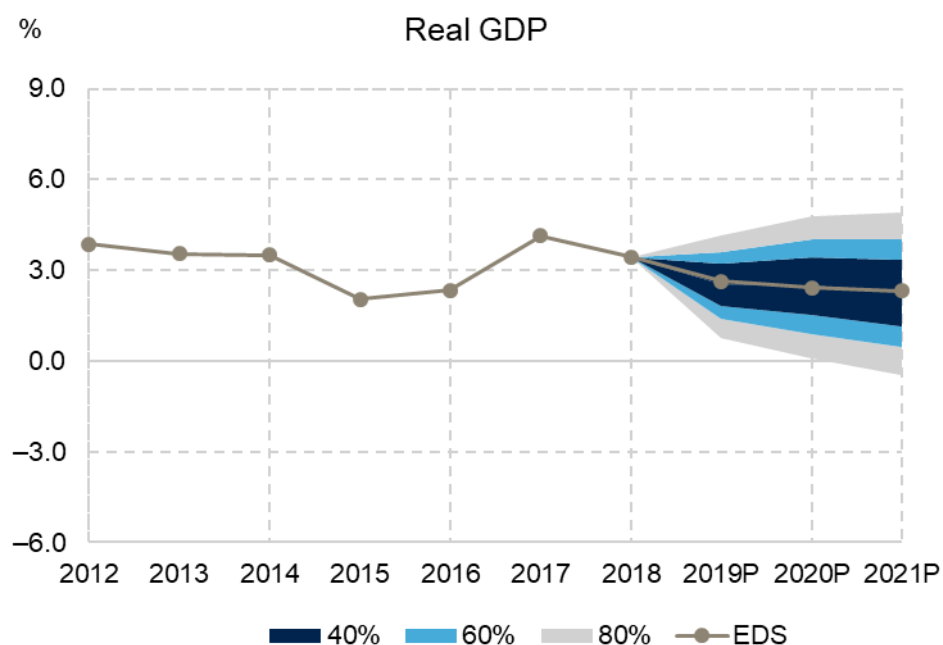
104. Projections of macroeconomic activity and the public finances are inherently uncertain. Constantly changing dynamics in domestic and worldwide markets, as well as government's responses to a country's needs, can significantly affect the magnitude and even the direction of recent economic and budgetary trends. As a result, any "point estimate" of GDP growth or the budget deficit is subject to considerable uncertainty and to the reality that the actual results will deviate noticeably from even the best, unbiased estimate.

105. In line with other IFIs, the BPMD highlights and quantifies this uncertainty by adopting the commonly used practice of including probability based "fan charts" and text discussing the uncertainty of projections in its key reports. But the BPMD is unusual amongst IFI's in the number of fan charts it publishes. The reports on the economic development scenarios include fan charts for each of the components of the forecast they are required to endorse, namely: real GDP, GDP deflator,¹⁵ consumption, employment and wages. And the Assessment of the Stability Programme report includes fan charts for the fiscal outlook, namely: the budget balance, structural balance and debt.

106. The fans are drawn to indicate 40, 60, and 80 per cent probability bands, which help to form the basis of the endorseable range, and give a clear visual impression of the range of uncertainty around the central forecasts. The bands are constructed from historical forecast errors, excluding the financial crisis years which are judged to be an exceptional period. Examples of the real GDP and budget balance fan charts from the most recent respective reports are shown in Figure 3.2.

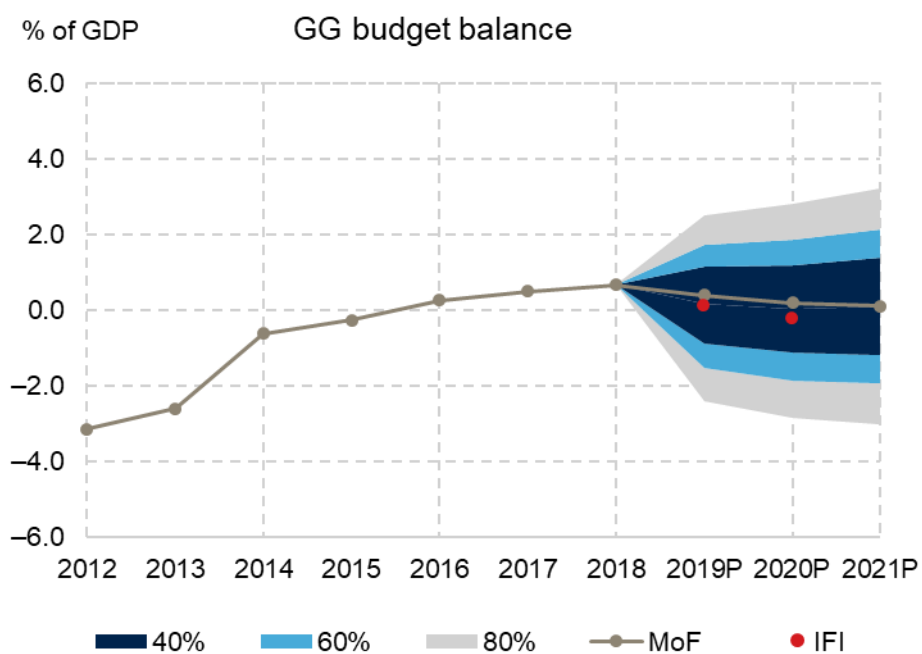
¹⁵ The BPMD has decided to change GDP deflator to nominal GDP and from 2019 autumn will endorse these indicators: real GDP, nominal GDP, consumption, employment and wages.

Figure 3.2. BPMD use of fan charts – Real GDP



Source: BPMD 2019.

Figure 3.3. BPMD use of fan charts – General Government budget balance



Source: BPMD 2019.

107. Given the comprehensive use of fan charts, which are clearly presented and discussed in the reports, there is scope for greater use of the implied probabilities in the

summary assessments to provide more context to the binary “endorse/not endorse” decisions. This would be similar to the way in which Spain’s AIREF uses ranges, deeming compliance with fiscal targets to be “likely”, “feasible”, “unlikely” or “very unlikely”.

108. The BPMD also compares the government’s forecast to the limited number of forecasts made by other organisations¹⁶, taking into account the full set of forecast components subject to endorsement.

109. Overall, the BPMD’s extensive use of fan charts and forecast comparisons are helpful. That analysis provides useful context for their public messaging which could be more prominent in report summaries. If resources allow, the BPMD could also extend their treatment of uncertainty to cover additional sensitivity analysis to key parameters. Historical revisions of the output gap are already used to demonstrate the degree of uncertainty around estimates of the structural balance and this approach could be applied more widely.

3.4.3. Comprehensiveness and clarity of reporting

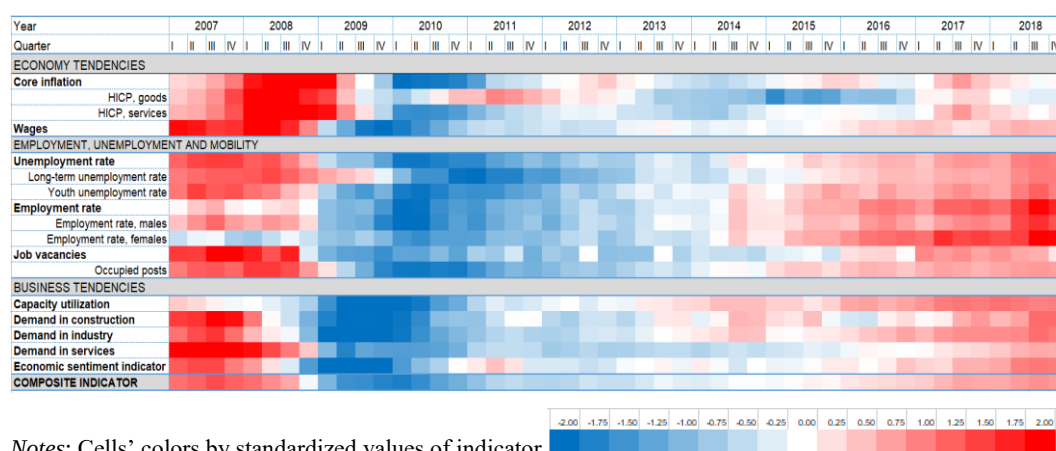
110. The BPMD’s regular publications tend to be comprehensive and well presented, giving the full picture of developments in the economy and public finances. There has also been clear progression and improvement over time in the layout, structure and use of graphics across BPMD publications. The most recent publications are very effective at presenting analytical material in detail, accompanied by numerous charts and tables (the underlying data for which are clear, accessible and in a user-friendly format on their website).

111. Given the quality of the detailed presentation in the reports, the summary documents could be improved by highlighting key points in a more structured way. These currently consist of a list of bullets summarising key aspects of the report, meaning that the key conclusions on the fiscal outlook can be lost among the sequence of bullets. The inclusion of a single summary chart capturing the key conclusion of the report, such as a table showing compliance with fiscal rules, would also help.

112. In general, the BPMD’s reports are clearly written, although there is an occasional tendency to lapse into jargon. In particular, the ‘Box’ sections - which are used to set out aspects such as details of methodological approaches - can include equations and technical details, and more time could be spent explaining terms to the non-expert reader. The opening of each report is typically also rather formal and the citation of the legal underpinning for each report does not help to draw the reader in.

113. With the limited resources available, the BPMD have sensibly focused on developing a few high impact graphics, the best example of which is the heatmap, shown in Figure 3.4, which has been well-received by stakeholders. The summary table of compliance with the fiscal rules was also singled out for praise by the media as an effective communication tool.

¹⁶ Including the Lithuanian Central Bank, the European Commission, the OECD and private banks such as Swedbank and SEB.

Figure 3.4. BPMD’s “heatmap” of the Lithuanian economy

3.4.4. Quality control process

114. The perceived quality of an IFI’s output - particularly its core publications - is critical to its public credibility. A consistently high-quality product creates the platform for the institution to provide effective independent scrutiny of public finances, putting it in a position where it might credibly disagree with the Government on the economic and fiscal outlook.

115. The BPMD has grown in size from a unit of three people, to a department of six. The staff, while well-qualified, are typically hired at a relatively early stage in their career, so do not have many years of experience. As mentioned in Chapter 2, high turnover has been an issue, particularly of more experienced staff, with the new Law on Civil Service now also hindering recruitment.

116. In these circumstance, the senior management of the BPMD has done an excellent job of matching their output to their limited resources, steadily developing the depth and breadth of reports as they build their institutional expertise, and carefully drawing on resources like the Advisory panel when appropriate. The number of legally mandated reports means that their production inevitably consumes the majority of the staff’s time, and leaves less space for the BPMD to develop their own analytical tools. That said, the BPMD have successfully prioritised work to produce its own methods and have published working papers setting out their approach.

3.4.5. Transparency

117. The BPMD’s reports are published and easily located on its well-structured public website. A small selection of report summaries is also available in English. The BPMD seeks to be transparent on its method for endorsing the macroeconomic scenario. In other areas, it acts as transparently as possible in the resources available and aims to publish more detailed methodology papers in the future. There is also a rich amount of detailed outturn and forecast data available on the website, presented in well-designed graphs and tables.

118. The BPMD has recently developed its own internal forecast to provide an additional benchmark to establish the endorseable ranges for its projections. Once the BPMD has sufficient confidence in its methods and processes for producing that forecast,

consideration should be given to publishing it, in line with good practice among peer IFIs, such as the Irish Fiscal Advisory Council.

119. Another key aspect of transparency is the BPMD's relationship with the media. Press releases accompany each of the BPMD's reports, and also its wider activities and parliamentary interactions. The BPMD did hold press conferences about its work in earlier years, although these were discontinued. More generally, however, the BPMD is pro-active in its approach to media communications, following-up with journalists that are writing stories about the public finances to explain its work. However, as highlighted in Chapters 1 and 2, a lack of clarity over the BPMD's status in relation to the NAO and over who leads the institution complicates media reporting and reduces public recognition of the BPMD as an independent institution and its impact.

3.4.6. Assessment of key outputs relative to peers

120. Like a number of EU IFIs, the BPMD has only been in operation for a little over 4 years, so it is still early to make a full assessment of its published work in comparison to those peer IFIs that have been established for longer. Nonetheless, its published work compares well with the output of similar sized IFIs in the OECD. The BPMD's extensive use of fan charts, and the continuous improvement in the structure and layout of its reports, are particular strengths. Table 3.3 provides a summary evaluation of some key BPMD reports relative to similar reports published by peer institutions across the OECD.

Table 3.3. Assessment of key outputs relative to peers

Report type	Macroeconomic forecast	Draft budget	Stability program update
<i>How well does the report fulfil the legal mandate?</i>	The BPMD complies with its mandate to review and endorse the Government's economic forecasts in the spring and autumn each year.	The BPMD assesses compliance against fiscal rules and compares government forecasts of key fiscal indicators against its own estimates.	The BPMD has extended its mandate to evaluate the Stability Programme update as it forms the basis for preparation of the Draft Budget, and an output on this is common across other EU IFIs.
<i>How does the content and methodology compare to international standards?</i>	Report includes a clear summary of the forecasts (although limited qualitative evaluation), and good tables and charts with relevant international comparisons.	The analysis and discussion of budget trends is relatively high level, with lots of detailed tables at the end of the report. The latest reports show very marked improvements from three years ago.	The report provides an independent evaluation of the forecast for the (structural) budget balance, debt and pro/counter-cyclical stance of fiscal policy. The newly introduced reports are somewhat briefer and less clearly presented than more established reports.
<i>How does the content and methodology compare to those of peer IFIs?</i>	The content and methodology compares well to those used by similar sized peer IFIs, but is not as extensive as larger peers. The BPMD does not yet publish its own economic forecasts as many of its peers, such as IFAC, do.	The BPMD analysis compares favourably with many similar-sized peers. The inclusion of the summary fiscal risks indicator graphic and discussion could be adopted by other peer IFIs.	Good summary and explanation of differences in revenue and expenditure trends relative to forecasts, but key conclusions on headline fiscal aggregates could be more prominently presented, as is done by peers such as AIREF.

3.5. Conclusions and recommendations

121. The BPMD's analysis is regarded as rigorous, independent and non-partisan. A technical assessment of its methodologies found that the methodological approaches used by the BPMD to carry out its mandated functions are appropriate for its analysis. However, improvements could be made in transparency and communication. Specifically, the BPMD could publish and communicate its own macroeconomic forecast, since this helps inform its assessment endorsement of the government forecast. In addition, the BPMD could publish more detailed methodological papers and communicate the results of its own methodologies. This would serve to bolster the credibility of its work. In line with good practice, the BPMD should also assess and publish its forecasting record over time and against other institutions.

122. The BPMD employs comprehensive use of fan charts to communicate uncertainty. If resources allow, the BPMD could also extend their treatment of uncertainty to cover additional sensitivity analysis to key parameters. There is also scope for greater use of the implied probabilities in the summary assessments to provide more context to the binary "endorse/not endorse" decisions.

123. BPMD publications are well written, and contain useful graphics. There have been notable improvements in the structure of key outputs in recent years. Going forward, summary documents could be further improved by highlighting key points in a more structured way. The inclusion of a single summary chart capturing the key conclusion of the report, such as a table showing compliance with fiscal rules, would also help.

124. The BPMD is mandated to publish five reports throughout the year. In addition to these mandated outputs, the BPMD has also recently expanded its mandate to include additional outputs that go beyond the short-term perspective and encompass medium and long-term assessments of fiscal forecasts and sustainability. These reports have been well-received by stakeholders. However, given limited resources, the BPMD should exert caution in committing to further outputs outside of its mandated tasks.

Chapter 4: Impact

4.1. Introduction

125. Like many of its peers, the BPMD is still a young institution and some elements of its work programme are very new. As such, any assessment of its impact is necessarily limited. Nevertheless, stakeholders reported that the BPMD has helped bring about fiscal transparency gains for Lithuania and generated increased parliamentary and public debate on fiscal issues. The BPMD's decision to undertake self-initiated work on longer-term sustainability was particularly appreciated by stakeholders.

126. While generally positive in their assessment, stakeholders also noted that the influence of the BPMD may be mitigated by certain factors, such as the very technical nature of BPMD's work which is unlikely to appeal to a broad audience, the lack of a rich media environment, and stakeholders being unable to distinguish between the work of the BPMD and the NAO. Media engagement remains an area for improvement.

4.2. Influence on the public debate

4.2.1. Media Coverage

127. OECD Principle 8.1 states that IFIs should develop effective communication channels from the outset, especially with the media. This assists in fostering informed constituencies that may then exercise timely pressure on the government to behave transparently and responsibly in fiscal matters.

128. The BPMD is continuing to develop its communications strategy. Currently, the BPMD does not have a staff member devoted to communications. This is unsurprising given the small staff contingent but it may be worth investing in media training for staff with a focus on improving the BPMD's reach and impact. Journalists can, and do, contact BPMD leadership about its work directly. They can also go through the Communications Unit of the NAO, which may contribute to the confusion between the BPMD and the NAO.

129. In terms of the media, the BPMD's outreach is largely confined to publishing press releases on the day of the publication of a report and holding background briefings with relevant journalists as needed. At times, the AG and the BPMD Director have held interviews on television and radio, as well as with the main business newspaper *Verslo Žinios* and they remain open to doing so in future. Again, when the BPMD is represented by the AG, it may contribute to stakeholders' failure to separate whether the NAO or the BPMD is speaking.

130. Although the BPMD held press conferences in the past (in 2015 and 2016 and attended by around a dozen journalists), this practice has been discontinued. The BPMD may wish to reinstate press conferences as analysis of media mentions shows that significant spikes in coverage were achieved around the press conferences for the release of the BPMD's opinions on the draft budget.

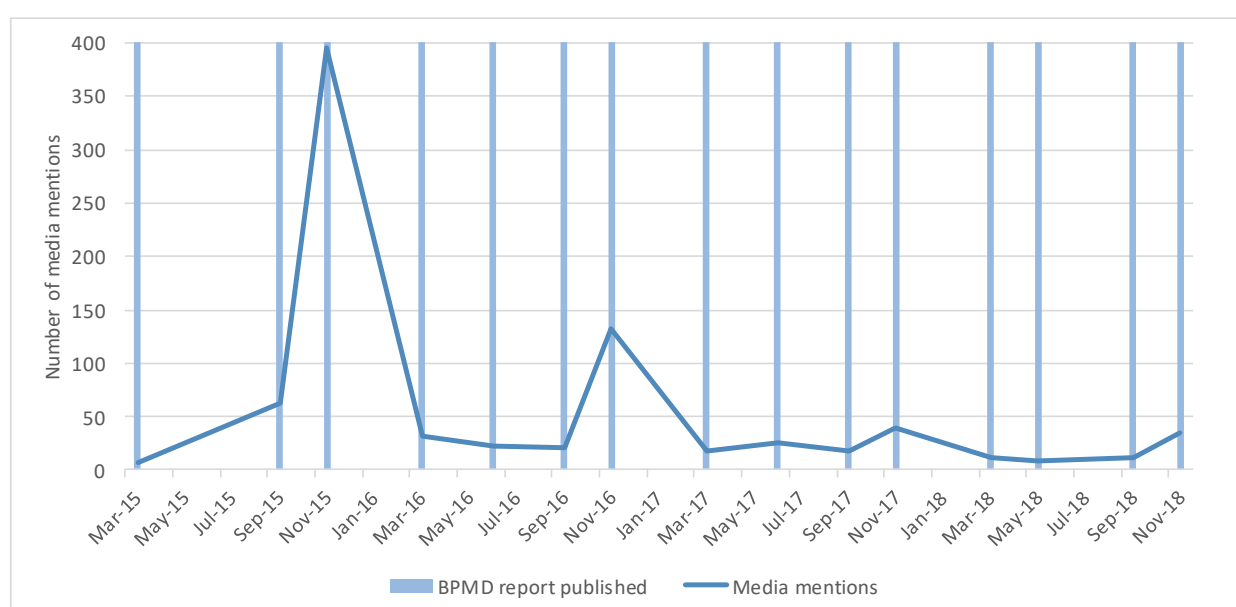
131. Journalists with an interest in the BPMD are mainly found in specialised economics and business media which is an important, if very small, constituency. This group of stakeholders report that the BPMD has helped them to find and better understand fiscal data. The work of the BPMD has contributed to richer coverage of issues in the public

finances, such as the debates on Lithuania's surplus and long term sustainability planning. They also praise BPMD graphics which are regularly picked up in their articles.

132. Overall, online media coverage of the BPMD's work is significantly higher than that of print, radio, or television. This is likely partly a reflection of the current media environment. In line with global trends, the popularity of print media in Lithuania is on the wane, with the number of Lithuanian print newspapers sharply decreasing in recent years and some former print titles relocating online.

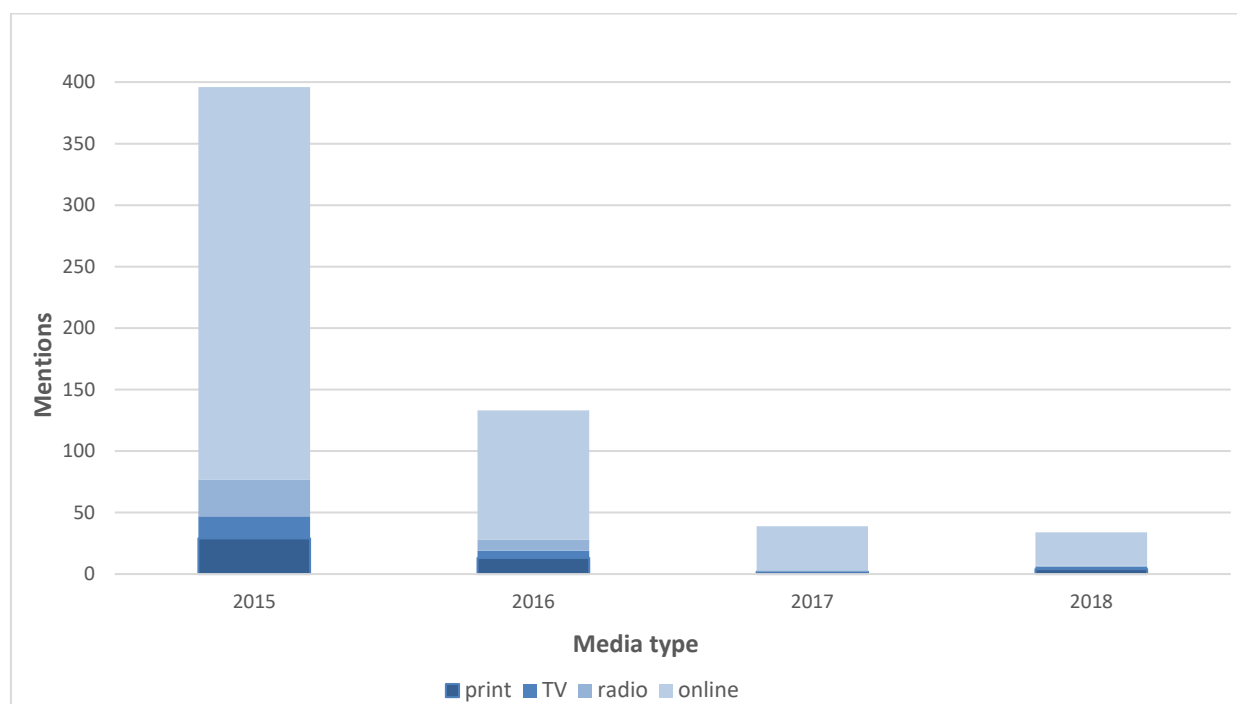
133. Online coverage may be higher than other media but it has also been declining, contributing to the significant fall in total media mentions across all different forms of media around key reports. For example, total media mentions for the report which consistently receives the highest coverage – the opinion on the draft budget – dropped from 396 in 2015 to 34 in 2018 (see figure 4.2).

Figure 4.1. BPMD media coverage and report publications 2015-2018



Note: Data includes national, regional and specialised press, radio, television and digital press coverage.

Source: Authors, based on information provided by the BPMD.

Figure 4.2. BPMD media mentions on Opinion on Draft Budget 2015-2018

Source: Authors, based on information provided by the BPMD.

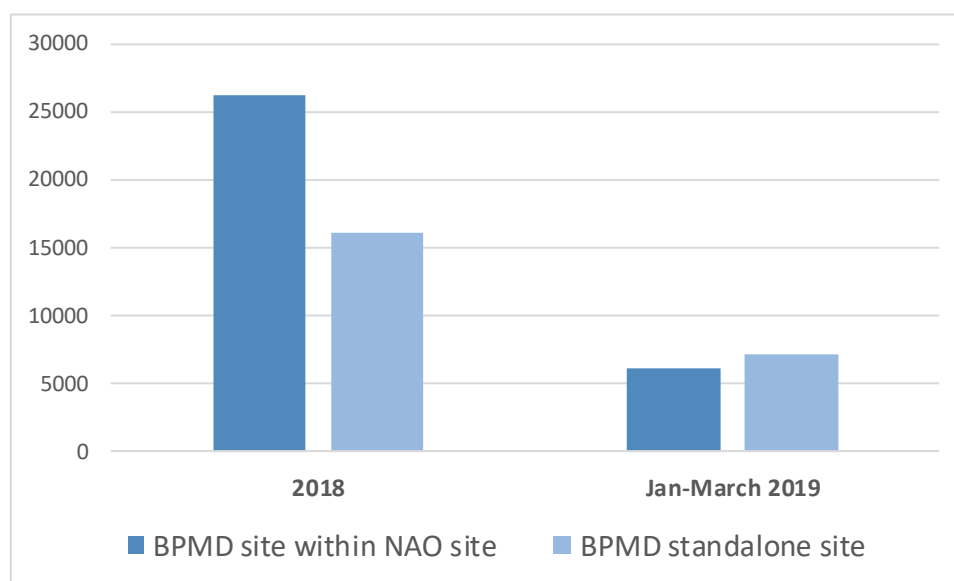
4.2.2. Web traffic and social media

134. The BPMD's website is a key communication tool¹⁷. All of its opinions and reports are published on the website. The BPMD always publishes material alongside its reports for non-technical stakeholders, such as infographics or short summaries of its key messages and stakeholders praise this user-friendly content.

135. As part of its effort to strengthen its brand, the BPMD set up its own separate website in 2016, but it also still maintains its own pages within the NAO website. At this stage there are no doubt efficiencies to be gained by having the NAO website link directly to the separate BPMD website rather than maintaining two separate versions. Web analytics must now track visits to both websites. Although there is not a long period for comparison, the number of visitors to the separate BPMD website has grown rapidly and data from the first quarter of 2019 shows the BPMD's standalone website as having more visits than the BPMD site within the NAO website for the first time.

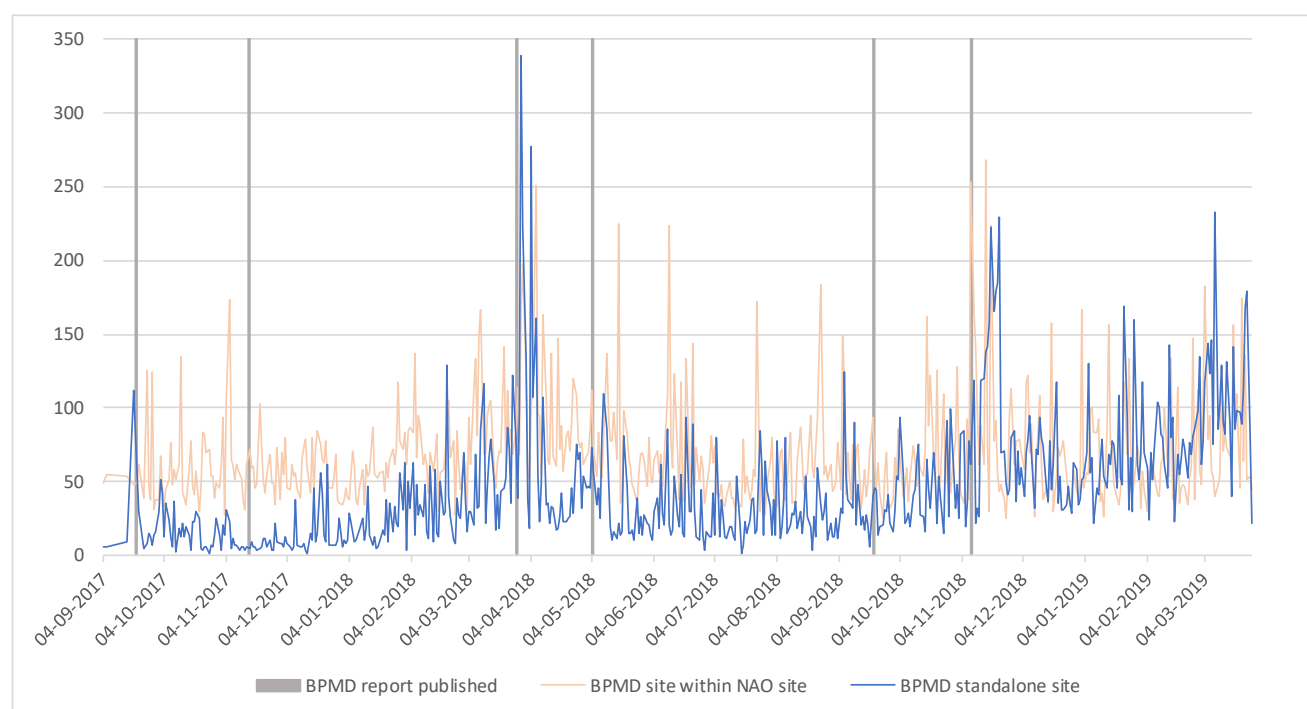
¹⁷ See, www.ifi.lt

Figure 4.3. Visits to BPMD Websites



Source: Authors, based on information on page visits provided by the BPMD.

Figure 4.4. BPMD and NAO web sessions and BPMD reports released 2016-2019



Source: Authors, based on information provided by the BPMD.

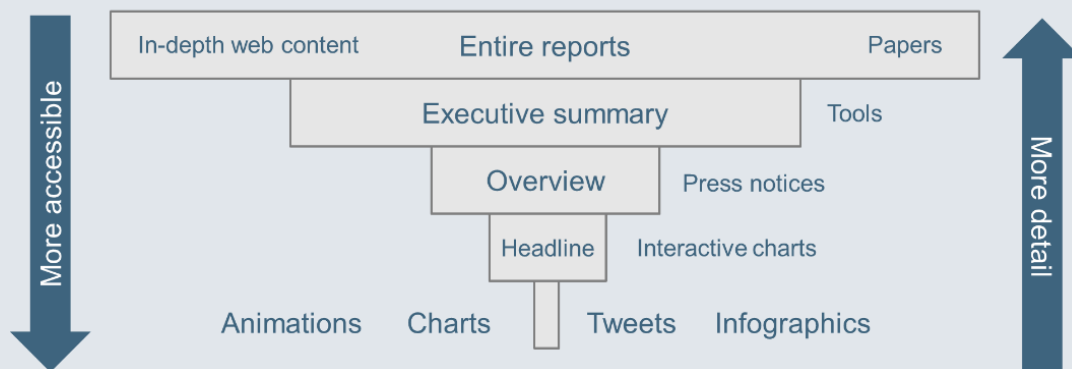
136. The BPMD does not have a separate social media presence which somewhat limits its ability to track its effectiveness on social media. Nevertheless the BPMD noted that it finds social media to be more effective in disseminating messages than traditional media

and that social media is used in part to drive visitors to the BPMD website. The NAO, which may also post about the BPMD, has a social media presence on Facebook (2,240 followers), LinkedIn (194 followers) and Twitter (220 followers).¹⁸ This is in contrast to many peer IFI institutions, even those with conservative social media strategies, which have successfully used Twitter to communicate key messages augmented by “killer” charts, animations or infographics.

137. An effective and efficient communications strategy relies on frequent evaluations of the types of content that garner the most engagement. For example, the OBR uses a range of free yet powerful tools to track how well the OBR’s communications and reports have performed. These include: analytics; Google analytics; Twitter analytics; downloads; direct feedback and surveys. The BPMD should continue to develop ways to enhance tracking of their communications.

Box 4.1. Converting analysis into content for different audiences on digital communications channels: UK Office for Budget Responsibility

In order to shape analysis into content, the OBR uses a tier system whereby content in a large amount of detail is produced for those who have the time and knowledge to read it, and short, simplified or snappy information is produced or repackaged, for those who do not have the time, or who just have a general interest. The message is the same but presented in varied ways.



As a practical example, for the OBR’s flagship forecast report at the top would be the 250 page document, then the executive summary which highlights key messages in roughly 10 pages, and then the overview that translates these messages to roughly 2 pages. From this overview, OBR takes snippets of information and creates a “hero” or headline for the website’s home page. Then OBR picks out main messages to show in animations, chart, tweets with quotes from the report or infographics.

Source: Authors, based on information provided by the UK OBR.

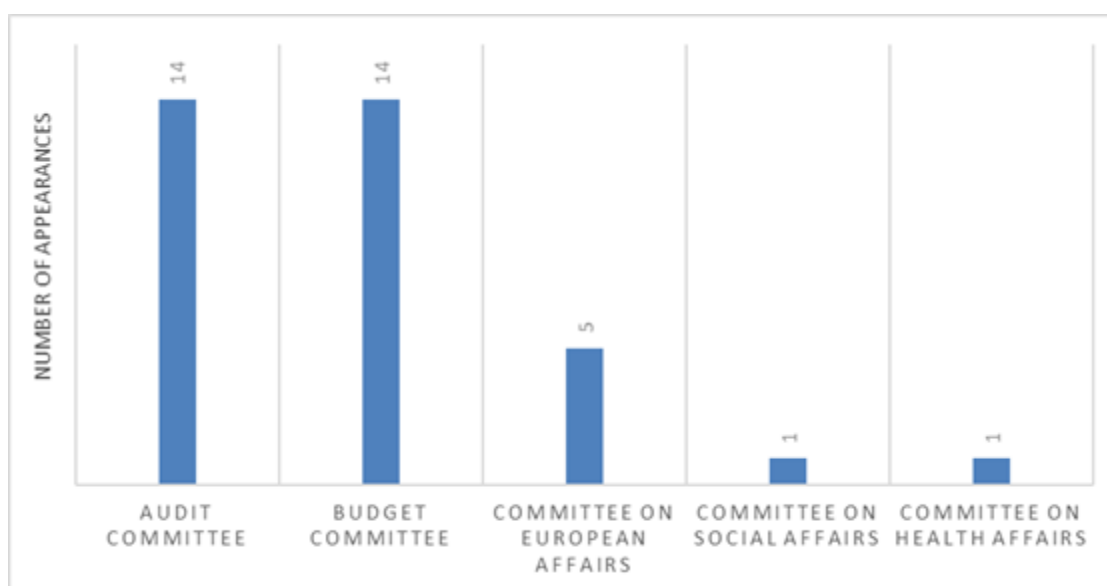
¹⁸ Followers as of beginning September 2019.

4.2.3. Parliamentary debate

138. By informing the parliamentary debate, IFIs can strengthen the legislature's ability to hold the government to account. While the vast majority of OECD IFIs appear before parliamentary committees, the BPMD stands out as highly engaged. This has been facilitated in part by the NAO's already strong relationship with and good reputation in the Committee on Audit and with other Seimas committees.

139. The NAO leadership and senior staff of the BPMD typically appear before parliamentary committees when an opinion or report is submitted to the Seimas – averaging around 8-10 appearances annually. The main committees using the BPMD's work are the Committee on Audit (which is responsible for covering the work of the NAO) and the Committee on Budget and Finance and the BPMD will typically appear before these committees 3-5 times annually. Committee stakeholders widely praised the BPMD's work and the engagement of the leadership of the BPMD and the NAO. They appreciated the BPMD's self-initiated work, noting that the report on long-term sustainability was a relevant and important contribution to the parliamentary debate on pensions. However, they noted that a stronger media presence would push parliamentarians to pay closer attention to the work of the BPMD.

Figure 4.5. Total appearances before parliamentary committees: Nov. 2014-Nov. 2018



Source: Authors, based on information provided by the BPMD.

140. With the support of the BPMD, parliament now takes a more whole of year approach to the budget and fiscal policy. Previously the parliamentary debate focused on the draft budget, starting in late October and ending in early December. Now parliamentary debate also takes place in the spring, with the BPMD's opinion on the endorsement of the economic scenario in March and the opinion on the Stability Programme in May. Debate continues in the autumn with the revised economic scenario and then the draft budget, peaking in November/early December.

141. Yet similarly to the media, parliamentary stakeholders do not always distinguish between the BPMD and the NAO functions. The BPMD has attempted to raise awareness

of its work by, for example, organising a conference within parliament on its long-term sustainability report. While such conferences are useful outreach tools, turnout among parliamentarians was very low. The BPMD may wish to consider additional outreach activities, perhaps after the election period as part of the induction process to ensure that a wider range of parliamentary stakeholders are aware of their role.

142. While just over half of OECD parliaments now have specialist analytical support on the budget, the Seimas does not. This highlights the importance of the role that the BPMD can play in helping the Seimas improve budgetary oversight, but may also hamper parliamentarians' ability to engage with the more technical aspects of the BPMD's work.

4.3. Improved financial management and transparency gains

143. The BPMD has been successful in pushing for greater fiscal transparency. In particular, its recommendations have helped bring about the first IMF "Fiscal Transparency Evaluation of Lithuania"¹⁹ and the publication of a new "Budget at a Glance" for citizens by the Ministry of Finance.²⁰

144. The BPMD provides a new source of information for a range of stakeholders, enriching their discussions and analysis – parliament, commercial banks, academics, and international organisations, etc. As noted above, parliamentary committees regularly use the BPMD's work in their deliberations, taking a more whole of year approach to the budget and fiscal policy. Commercial banks now use the work of the BPMD as a benchmark for their own forecasts, including on specific aspects like structural balance or long-term debt levels.

145. The creation of the BPMD has fostered discussions on fiscal data across government stakeholders. Through its ongoing dialogue with the Ministry of Finance, the BPMD has pushed for improvements in how government information and data, and the budget documents, are presented, although stakeholders called on the BPMD to continue to push for better presentation of government data online.

146. The BPMD's self-initiated work on long-term fiscal sustainability fills the gap left when the Ministry of Economy stopped publishing long-term forecasts eight years ago and has contributed to the pension reform debate in parliament.

147. There are also signs that the BPMD has encouraged prudent behaviour by warning on risks to compliance with fiscal rules. The BPMD notes that the MoF uses its warnings on compliance when arguing in parliament against budget increases. *Ex post* analyses have shown that fiscal rules were complied with in both 2016 and 2017 where the BPMD had identified risks to compliance, although other factors may also have played a part, such as the general government balance being better than forecast because of less expenditure on co-financing of EU investments due to slow absorption of the EU funds.

¹⁹ The IMF report concluded that fiscal forecasting and budgeting practices meet good or advanced practice in most areas, although there was some room for improvement, particularly around reporting on fiscal risks.

²⁰ See, <https://finmin.lrv.lt/en/>

4.4. Conclusions and recommendations

148. The BPMD has been instrumental in pushing for greater fiscal transparency. In particular, its recommendations have helped bring about the first IMF “Fiscal Transparency Assessment of Lithuania” and the publication of a new “Budget at a Glance” for citizens.

149. Stakeholders report that the work of the BPMD has brought about increased public and parliamentary debate around fiscal issues. The BPMD successfully engages with key parliamentary committees and with the support of the BPMD, parliament now takes a more whole of year approach to the budget and fiscal policy.

150. The BPMD has been less successful in engaging with the media, and media coverage of the BPMD’s work has been declining. The BPMD should work to increase its media presence, for example reinstating press conferences for key reports. More generally, the BPMD should seek to broaden the general public’s understanding of the BPMD’s role and functions, why it was established, and how it contributes to the democratic debate on the budget and public finances. Media presence is one tool to increase public awareness.

151. The BPMD still lacks a clear public identity and visibility, and stakeholders often fail to distinguish between the BPMD and the NAO functions. Similarly, the leadership arrangements lack clarity for many stakeholders. The institution’s impact could be further strengthened by developing a clearer branding in its communications distinguishing its function from the NAO.

152. The BPMD’s online communications are continuing to develop and there is a positive trend in terms of increasing engagement online. An effective and efficient communications strategy relies on frequent evaluations of the types of content that garner the most engagement. The BPMD could benefit from better tracking of web and media monitoring and other communications related performance indicators, as well as other metrics used by peers such as tracking information requests. Efficiencies may be gained by having the NAO website link directly to the separate BPMD website rather than maintaining two separate versions.

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Annex A. Review team and acknowledgements

The review team would like to thank the Auditor General and staff of the BPMD, as well as the many individuals who agreed to be interviewed for the review, for their frank and candid discussions of all issues during the review process (see Annex B).

The review team would like to thank Andrew Blazey, Deputy Head of the Budgeting and Public Expenditures Division, OECD, and Michal Horvath, Lecturer in Economics, University of York, and founding Member of the Council for Budget Responsibility (CBR), Slovak Republic, for their thoughtful comments.

The review team would also like to acknowledge the valuable contributions to the drafting of the report of Emeline Denis, Junior Policy Analyst, Budgeting and Public Expenditures Division, Directorate for Public Governance, OECD.

Review team

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Stephen Farrington has been Chief of Staff at the Office for Budget Responsibility since October 2018. Prior to that he worked at HM Treasury for over 15 years, where he was Deputy Director of Economics and led the Treasury's analytical work on Brexit. He has worked on a wide range of macroeconomic and fiscal issues, including overseeing the Treasury's analytic contribution to the Scottish independence referendum, head of economic forecasting at the newly created OBR, fiscal stimulus stabilisation in the financial crisis, and the 'Five tests' assessment of the case for UK membership of EMU. He has been a technical adviser to the International Monetary Fund's Fiscal Affairs Department since 2017.

Povilas Lastauskas is a Director of Center for Excellence in Finance and Economic Research at the Bank of Lithuania and a research fellow at Vilnius University. He serves as an editor of the Baltic Journal of Economics, Board member of Baltic Economic Association, investigator of a few research grants on structural reforms, labour markets and shocks transmission across economies. Povilas manages a new undergraduate degree "Quantitative Economics" at Vilnius University as well as teaches econometrics, statistics, and policy evaluation courses. He was previously a part of ECB taskforce on structural reforms in Euro area, Principal Economist at the Bank of Lithuania, college lecturer, Director of studies and official fellow at the University of Cambridge.

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Annex B: Interview list

The review team would also like to thank all those who have contributed evidence and insights to this review, in particular individuals from the following institutions and groups who met with the review team during its mission to Vilnius in April 2019:

- Bank of Lithuania
- BPMD Advisory Panel Members
- BPMD
- Commercial Banks, including:
 - Swedbank
 - Luminor
 - SEB
- European Commission – DG ECFIN Country Desk
- IMF country desk
- Journalists from Verslo Žinios
- Ministry of Finance, including:
 - Vice Minister (Miglė Tuskienė)
 - Budget Department
 - Fiscal Policy Department
 - State Treasury Department
- Ministry of Economy and Innovation – Economic Development Division
- National Audit Office
- The Office of the Government of Lithuania
- S&P Global Ratings Agency
- Seimas (Committee on Audit and Committee on Budget and Finance)
- Statistics Lithuania
- Vilnius University (Institute of International Relations and Political Science)

www.oecd.org/gov/budgeting