NATIONAL AUDIT OFFICE OF LITHUANIA

To the Seimas of the Republic of
Lithuania

OPINION ON THE STRUCTURAL ADJUSTMENT TARGET SET BY THE DRAFT LAW ON THE APPROVAL OF FINANCIAL INDICATORS OF THE STATE BUDGET AND MUNICIPAL BUDGETS AND ON THE NEED FOR ADDITIONAL MEASURES (IN MONETARY TERMS) TO FULFIL THIS TARGET

15 November 2016, No. Y-10
Vilnius

Implementing the functions of the budget policy monitoring authority set out in the Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty and pursuant to paragraph 2 of Article 9(6) of the Republic of Lithuania Law on National Audit Office, within 20 working days every time after the Government of the Republic of Lithuania presents to the Seimas of the Republic of Lithuania a Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets (amendment thereof) for the Year concerned, the National Audit Office of Lithuania (hereinafter referred to as the independent fiscal institution) shall submit to the Seimas an opinion on the structural adjustment target set by the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for a certain year, and on the need for additional measures (in monetary terms) to fulfil this target.

Article 6, paragraph 6 of the Constitutional Law on the Implementation of the Fiscal Treaty sets out that the structural adjustment targets as well as their guidelines for remaining years of the medium term shall be proposed by the Government to the Seimas, and the Seimas shall set them only for the year preceding which the actual or expected structural general government sector deficit is higher or actual or expected structural general government sector surplus is lower than the medium-term objective.

In the overview of the Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2017, the Government indicated that the expected structural general government deficit for 2016 would be 0.9 percent of the GDP, which is lower than the medium-term objective; therefore, the structural adjustment target has not been set. The independent fiscal institution has assessed whether there were valid reasons not to set this target.

According to the independent fiscal institution, the expected structural general government deficit for 2016 would be 0.7 percent of the GDP and is below the medium-term objective (deficit of 1 percent of the GDP); therefore, there were valid reasons not to set the structural adjustment target, when preparing the Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2017.

Performing the monitoring of the rules set out in the Constitutional Law on the Implementation of the Fiscal Treaty, based on the principles recommended to the independent fiscal institutions by the Organisation for Economic Cooperation and Development and best practices of such institutions in the European Union, the independent fiscal institution carried out the assessment of general government financial indicators for 2017 and submits its opinion to the Seimas:

Regarding compliance with the rules of fiscal discipline set out in the Constitutional Law on the Implementation of the Fiscal Treaty

1. According to the independent fiscal institution, the compliance with the surplus general government rule is not taken into account when preparing the Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2017. According to this rule, in 2017, the structural general government deficit should decrease by at least 0.1 percent of the GDP compared to the expected structural general government deficit for 2016. The Government expects the deficit of 0.9 percent of the GDP for 2016 and forecasts the deficit of 1.3 percent of the GDP for 2017. This means that not only the structural general government deficit is not decreasing in 2017; its deviation from the medium-term objective (deficit of 1 percent of the GDP) might be observed.
2. When preparing general government draft budgets for 2017, the spending growth limitation rule for the general government is not applied for valid reasons: one of the escape clauses provided for in the Constitutional Law on the Implementation of the Fiscal Treaty occurred.
3. The Republic of Lithuania Draft Law on the Approval of Indicators of the State Social Insurance Fund Budget for 2017 is prepared in accordance with the rule for the budgets assigned to the general government, since the structural surplus of the fund's budget for 2017 has projected.

Regarding the medium-term budgetary framework

4. In Lithuania, the medium-term budgetary framework is only formal. The three-year planned indicators of consolidated revenue and expenditure of the state budget and municipal budgets approved by a resolution of the Seimas as well as medium-term fiscal indicators of stability programmes approved by a resolution of the Government are merely indicative figures, which only describe (rather than prescribe) the likely development of the three-year

indicators. To enhance the fiscal discipline, planning of the government sector expenditure for a period exceeding one year should be more binding.

Regarding transparency of the draft accompanying documents

5. For several consecutive years, the documents submitted to the Seimas together with the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets fail to include the information that has to be submitted under the Republic of Lithuania Law on Budget Structure, i.e., information on the medium-term general government financial indicators as well as projections of all the main items of the general government expenditure and revenue, including sub-sectors, and the foreseeable fiscal risks as well as the assessment thereof.
6. The independent fiscal institution has pointed out for years that the information presented in the documents accompanying the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets is incomplete, inconsistent, lacks structure, user-friendliness and coordination.

Regarding the state budget formation

7. The system of the state budget formation process in Lithuania lacks the key features of a performance-oriented budgeting. The Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2017 can be described as an input budget, which is in many cases focused on an intermediate product rather than on the result. The budget shows the amount of funds allocated to the managers of appropriations for three types of expenditure: wages, acquisition of assets and other expenditures. The presentation form of the draft budget does not link the taxpayers' money to the objectives and results pursued by the managers of appropriations; therefore, there are no prerequisites for the public to be involved in the budget governance, and to greater incentives to pay taxes and request to achieve more ambitious goals during the planned period.

The analysis underlying this opinion is presented in the report on the assessment of general government financial indicators for 2017, which is submitted to the Seimas together with the opinion.

It should be noted that the independent fiscal institution does not have the mandate to assess policy proposals, for example, validity of costs of the structural reforms being implemented and the impact of these reforms on public finances; soundness or the need of new taxes introduction or change the existing tax rates; the need to increase or reduce expenditure. Accordingly, the independent fiscal institution does not submit proposals on measures to be taken to ensure compliance with the excessive general government rule.

Auditor General Arūnas Dulkys