KEY MESSAGES FROM THE REPORT ON THE SUSTAINABILITY OF THE GENERAL GOVERNMENT FINANCES FOR 2017

- The Report on the Sustainability of the General Government Finances for 2017 is based on the latest demographic projections, macroeconomic projections updated accordingly, and in line with changes in the pension system adopted with social model in 2016. Other documents, such as the Stability Programme of Lithuania for 2017 and the assessment of this program by the European Commission do not cover all the latest information.
- Three scenarios are considered during the period of 2017–2047: the baseline, corresponding with demographic projections EUROPOP2015 published by Eurostat; optimistic, based on assumption of net migration decreasing in half comparing with EUROPOP2015 assumption; and pessimistic, according to which assumed life expectancy is reduced. In addition, an assessment of the sensitivity analysis of financial sustainability with respect to the medium-term objective and interest rate assumptions is presented.
- Aging related general government expenditure for the health care and long-term care, education and pensions will increase by 1.2% of GDP till 2047, comparing to 2016. In order to finance these commitments, it is necessary to increase relative general government revenue.
- The pension system, after the adopted changes of the social model come into force, will have an important element – an automatic stabilization mechanism according to the demographic situation. This means that the expenditure for pensions will not exceed the revenue.
- Pension system reform approved in 2016 will reduce general government expenditure for pensions: it is projected that in 2047 they will be less by 0.4% of GDP than in 2016.
- Public debt will reach 45.7% of GDP in 2047. Assessing according to the financial sustainability criterion set in the Law on Fiscal Discipline (60% of GDP), such a projected level of debt does not endanger the sustainability of the general government finances in the long run. The debt criterion is the same to all Member States of the European Union, regardless of the size of their economy and openness, meanwhile calculations on the level of debt sustainability for the Lithuanian general government finances have not yet been performed.
- Main reasons for general government debt sustainability improvement, comparing to assessment of 2016 are decreased projected expenditure for pensions as a result of the adopted pension indexation rule and a significant impact also has the revised long-term interest rate assumption.
- Changes in the pension system are prerequisites for the sustainability of the general government finances, as the indexation of pensions in accordance with the growth of multi-annual wage fund will function as an automatic stabilization mechanism. The analysis of three demographic scenarios shows that the existing and projected situation in the labour market and the growing number of older people will lead to very low income replacement rates: the average income replacement rate from SODRA and private pension funds

will amount about 27% in 2047. It will have a negative impact on social sustainability; therefore will require additional political decisions. This will have a negative impact on the sustainability of the general government finances, respectively. In assessing the pension system reform, the International Monetary Fund, which recommended that Lithuania would make appropriate further decisions in order to ensure social sustainability, also noted this.

- The analysis of the sensitivity of the general government finances sustainability reveals that if the medium-term objective during the period between 2017 and 2047 will be to maintain a structural government deficit of 1% of GDP, the debt level would decrease up to 33.9% of GDP in 2047. By setting a medium-term objective of 0.5% of GDP for structural deficit, the debt level would decrease up to 23.7% of GDP in 2047.
- There are often attempts to deny long-term projections and warnings on the sustainability of the general government finances, saying that the underlying assumption for net migration is over-pessimistic and that immigration will increase in the future. The scenario of net migration decreasing in half shows that the sustainability of the general government finances will not improve, since if there is an increase of population, the expenditure for health, education and pensions will increase as well, and income replacement rate from SODRA and pension funds will not increase substantially. Low income replacement rates will pose a risk to the sustainability of the general government finances.
- An assessment of the public net worth or net assets has been presented in the Report on Sustainability of the General Government Finances for 2017 for the first time. The indicator of net assets shows the overall state of the public finances – not only how much money is spent and revenue is collected (deficit or surplus), but also how much assets the public has and how many liabilities it has accumulated, including the contingent ones.
- The net asset value amounted 42.7% of GDP in 2015. In assessment of 2012–2015 changes in the public sector's net assets, a clear downward trend is visible; net worth of the public sector has decreased in half over the analysed period from 32 billion euros to 16 billion euros. This was affected by a decrease in public assets by 8% and increase in liabilities by 22%. Contingent liabilities, such as expenses for the decommissioning of the Ignalina Nuclear Power Plant, obligations to international organizations, public guarantees and others had a significant impact. Contingent liabilities amounted 20% of GDP in 2015.
- Taking into account assessment of implicit liabilities, such as future liabilities to pensioners, the public net worth for 2015 is negative and amount 3 billion euros or 8% of GDP.
- The value of the net assets can significantly change if the public property managers take into consideration the comments systematically made by the National Audit Office on the accuracy of the data of the national financial statements,.