NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

ASSESSMENT OF STABILITY PROGRAMME OF LITHUANIA FOR 2019

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SUMMARY

Key messages from the Assessment of the Stability Programme of Lithuania for 2019:

- Surplus of social security funds led to positive 2018 general government balance. In 2018, general government revenue grew at a faster pace than expenditure. This led to 92.4 million Euros higher surplus than in 2017.
- The level of general government revenue and expenditure in 2018 is different from the projections. According to the projections made by the Ministry of Finance and fiscal institution in October 2017, the level of general government revenue was forecasted to constitute around 37.0 % of the GDP, while the level of expenditure was projected to be around 36.5 % of the GDP. According to the actual indicators, the level of government revenue in 2018 is 34.7 % of the GDP, while the level of expenditure composes 34.0 % of the GDP. The European Union assistance and support from other countries were 256.7 million Euros or 32 % less than projected, which is the main factor leading to the difference between projections and actual data.
- In 2018, the impact of tax administration improvement on the revenue is lower than expected. Although the economy grew at a faster pace than projected, there was no windfall revenue in major taxes and social security contributions. The decomposition of factors influencing the impact of errors in tax plans by the fiscal institution indicates that the 91 million Euros revenue from personal, corporate income, and value-added tax was due to faster than projected economic growth rather than the improvement of tax administration.
- The main factor leading to 126.1 million Euros better general government surplus in 2018 than projected by the fiscal institution is the representation of expenditure on arms and military stocks on an accrual basis.
- Moreover, the 2018 general government balance was better than the fiscal institution projected because of underspent state budget expenditure on a cash basis. Expenditure plan was not executed by more than 100 million Euros or around 2 % for the third year in a row. Social benefits, co-financing and other expenditure were underspent. It should be noted that the need for temporarily unused co-financing funds will increase in the run-up to use of the European Union assistance and support from other countries.

- Municipal budgets have not executed an expenditure plan on social benefits for the fifth year in a row. In 2014-2018 it has not been implemented by 44.1 million Euros or 16.6 % on average. This shows that the relationship between the planning of municipal budgets expenditure and the rights of their use should be reviewed.
- The general government balance indicator was 30.1 million Euros better than planned by the Ministry of Finance, but accumulated funds in financial reserves were 38.3 million Euros lower than planned. At the end of 2018 the level of accumulated funds in the Reserve (Stabilization) Fund, in the National Health Insurance Fund, Guarantee Fund and Long-term Work Benefits Fund amounted to 497.7 million Euros or 1.1 % of the GDP.
- Debt refinancing and lower than planned general government expenditure have a positive impact on government debt dynamics. General government and its sub-sectors debt declined in 2018 compared to the post-crisis period and makes 34.2 % of the GDP.
- In the view of the fiscal institution, the fiscal discipline rules were complied with in 2018, with the exception of the expenditure growth limitation rule. In order to calculate the arithmetic average of the general government balance over the five years, the fiscal institution has pursued a consistent approach: it has used the period of 2013-2017, the same was used for the *ex-ante and interim* evaluation of the compliance with the expenditure growth limitation rule. As this arithmetic average was negative, expenditure growth had to be limited in 2018.
- In 2018 the budgets of the State Social Insurance Fund and of all municipalities complied with the requirements of the rules for the budgets attributable to the general government sector as laid down in the Constitutional Law on the Implementation of the Fiscal Treaty.
- The fiscal institution projects the general government balance to be at 0.1 % surplus in 2019, whereas a deficit of 0.2 % of the GDP is projected in 2020. The balance of risk factors for the general government balance indicator for the period 2019-2020 is negative.
- The state budget balance and automatic debt dynamics are the main drivers of the annual changes in the general government debt. The growth of general government debt has been modest over the last few years and stood at around 40 % of the GDP. In the medium term, general government debt will be reduced by the economy that is likely to grow faster than the average interest rate.
- The favourable position of the Lithuanian business cycle in 2019-2020 warns of the need for a neutral fiscal policy. According to the fiscal institution's assessment, Lithuania's fiscal policy continues to improve its stance but remains pro-cyclical.