NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

To: the Seimas of the Republic of Lithuania

OPINION ON THE COMPLIANCE OF THE UNUSUAL EVENT WITH THE DEFINITION OF EXCEPTIONAL CIRCUMSTANCES

26 March 2020 No BPE-1

Vilnius

The National Audit Office of the Republic of Lithuania, implementing its functions of the budget policy monitoring institution (hereinafter referred to as the Fiscal Institution) and in accordance to the Article 7(2) of the Constitutional Law on the Implementation of the Fiscal Treaty submits its opinion on the compliance of the unusual event with the definition of exceptional circumstances as a result of the notice No (5.52E-04)-6K-2001650 “On the Initiation of Exceptional Circumstances” of the Ministry of Finance of the Republic of Lithuania, which was submitted to the Fiscal Institution on 20 March 2020.

Under Article 7(1) of the Law in question, exceptional circumstances are established in accordance with the provisions of the Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. Following this Regulation, exceptional circumstances are defined as “<…> an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government or in case of severe economic downturn for the euro area or the Union as a whole, provided that this does not endanger fiscal sustainability in the medium-term.”

As a result of the European Commission’s and the Council’s announcement that the COVID-19 pandemic can be considered as “an unusual event outside the control of the Member State concerned”, the ministers agreed to the proposal of the European Commission to activate the general escape clause of the Stability and Growth Pact. The above-mentioned proposal was approved in the Economic and Financial Affairs Council meeting on 23 March 2020. It provides flexibility for the Member States to take crisis management measures and therefore to deviate from the budgetary requirements that would be usually applied in accordance with the European fiscal framework in the medium term. Based on the national fiscal discipline rules under Article 7(2) of the Constitutional Law, the possibility to initiate the establishment of exceptional circumstances is also intended in Lithuania.

After assessing[1] the Economic Development Scenario, published by the Ministry of Finance on 20 March 2020, the information stated in the beforementioned notice, conditions of exceptional uncertainty indicated in it which arose not out of decisions of Government of the Republic of Lithuania but due to the external environment, and the plan for economy stimulation and mitigation of the negative effects of COVID-19 virus, approved on 16 March 2020 by the Protocol No 14 of the meeting of the Government, it can be stated that the current or/and foreseeable situation in Lithuania complies with the definition of the term unusual event and allows establishing exceptional circumstances.

According to the Regulation, the deviation of fiscal indicators may be left out in case of an unusual event, provided that it does not endanger fiscal sustainability in the medium term. Due to exceptional circumstances and in order to respond to the rising challenges, the beforementioned plan for mitigating negative effects is introduced to reduce the expected negative effects of the economic downturn in Lithuania. The foreseen measures should be applied to maintain economic stability in the medium term. Due to existing exceptional circumstances, it is expected that the general government sector balance indicator that is not lower than 0.2% of GDP for 2020, as established in the Law of the Republic of Lithuania No XIII-2695 on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2020 of 17 December 2019, might not be fulfilled.

Under Article 7(2) of the Constitutional Law, the Fiscal Institution endorses that the unusual event complies with the definition of the term exceptional circumstances.

We note that, following Article 7(3) of the Constitutional Law on the Implementation of the Fiscal Treaty, the Ministry of Finance shall publicly announce, at least quarterly, the updated Economic Development Scenario (until exceptional circumstances are cancelled), while the Fiscal Institution shall submit its opinion on the endorsement of Economic Development Scenario to the Seimas.

Auditor General — Arūnas Dulkys

[1] Under Article 9(6)(3) of the Law on National Audit Office of the Republic of Lithuania, on 26 March 2020, the Fiscal institution submitted its opinion on the endorsement of the Economic Development Scenario for 2020–2023.