NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

MEDIUM-TERM GENERAL GOVERNMENT DEBT PROJECTIONS

27 August 2020

No Y2D-323

SUMMARY

- A decline in the general government debt has been observed in recent years; however, the debt increased significantly in the second quarter of 2020.
- Due to high uncertainty, projections of international institutions assessing Lithuania's debt level range between 50% and 60% of GDP in 2020.
- Following the approval of the Stability Programme of Lithuania for 2020, the economic policy measures adopted by the Government are further increasing the level of the general government debt.
- Though the contraction of Lithuania's economy was smaller than expected in the first half of 2020, but there is a risk that GDP may fall even lower while the need to increase government debt remains in the second half of 2020.
- Debt scenarios for 2020–2025 have been developed using different combinations of indicators of real GDP, the general price level in the country, and the general government balance.
- According to the most likely or baseline scenario, government debt is likely to keep on growing, albeit at a slower pace, with the economic recovery projected in 2021.
- General government debt projections under different scenarios show that the second wave of COVID-19 and insufficient reduction of general government deficit would bring the debt close to the 60% of GDP threshold in the medium term.
- If general government deficit declines in a more rapid manner than according to the baseline scenario, the debt would likely stabilise after reaching 50% of GDP.
- The compliance with the fiscal discipline rules alone does not ensure a reduction in the general government debt in the medium term.

- The need to define an optimal debt level and to accumulate fiscal reserves remains relevant.
- As the economy recovers from the COVID-19 pandemic, it is essential to increase fiscal space, to prepare for future shocks.
- The fiscal discipline rules are not applied under exceptional circumstances. However, their cancellation will require a return to the requirements for general government indicators.
- The deterioration of public finances and the inevitable future growth of expenditure due to demographic changes pose important challenges to the Government.