NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

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) NECESSARY TO FULFIL THIS TARGET

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Article 6(6) and (7) of the Constitutional Law on the Implementation of the Fiscal Treaty sets out that 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. Structural adjustment targets shall not be set for the year of exceptional circumstances.

On 26 March the National Audit Office, performing the functions of the budgetary policy monitoring institution (hereinafter Fiscal Institution), issued an opinion confirming that the situation in Lithuania corresponds to the definition of an unusual event, therefore, it is possible to set exceptional circumstances. In response to the impact of the COVID-19 pandemic on the economy and general government finances, the application of fiscal discipline rules has been temporarily narrowed over the period 2020–2021. The general escape clause of the Stability and Growth Pact has been activated at the level of the European Union, allowing countries to deviate from the requirements for the general government budgets.

In its overview of Draft Financial Indicators of the State and Municipal Budgets for 2021, the Government indicated that in 2020, a structural deficit of the general government will amount to 8.4% of GDP, however, due to the exceptional circumstances there is no reason to set the structural adjustment target, as the structural adjustment targets are not set for the years of exceptional circumstances.

In carrying out the monitoring of compliance with the rules set out in the Constitutional Law on the Implementation of the Fiscal Treaty and on the basis of the principles recommended to independent fiscal institutions by the Organisation for Economic Cooperation and Development, the Fiscal Institution has carried out an assessment of the general government financial indicators for 2021 and submits its opinion to the Seimas.

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

1. Under exceptional circumstances, the surplus general government rule for the years 2020–2021 is not applied reasonably. Following the European Commission's announcement that the general escape clause of the Stability and Growth Pact will still be valid in 2021, it is assumed that the exceptional circumstances in 2022 will no longer be in effect and the rules of fiscal discipline will be applied in full.

2. The expenditure growth limitation rule in 2020 and 2021 is not applied reasonably due to the negative output gap projected by the Ministry of Finance of the Republic of Lithuania for the mentioned period.

3. The State Social Insurance Fund Budget, unlike the Compulsory Health Insurance Fund, in 2020 is likely to meet the requirements of rules for the budgets attributable to the general government. In 2021, draft budgets of the State Social Insurance and Compulsory Health Insurance Funds were prepared in compliance with the rules for the budgets attributable to the general government.

Regarding public debt

1. Under exceptional uncertainty conditions, the general government debt, is approaching 60% of GDP threshold set in the EU Stability and Growth Pact and the Law on Fiscal Discipline of the Republic of Lithuania. The Fiscal Institution projects the general government debt level may reach 47.2% of GDP in 2020 and in 2021 grow further and amount to 50.7% of GDP.

2. It should be noted that the balance of risk factors remains negative: the general government debt-to-GDP ratio may grow due to higher than projected general government deficit, lower nominal GDP or lower credit ratings of Lithuania. During the economic recovery, it is important not only to stabilise the increase in the general government debt but also to set the direction of its reduction. While the State's economy shows a faster-than-expected recovery, the prevailing conditions of exceptional uncertainty highlight the importance of responsible fiscal policy.

The analysis justifying this opinion is presented in the report "An assessment of the General Government Financial Indicators for 2021", which together with the opinion is submitttted to the Seimas.

Auditor General Mindaugas Macijauskas