NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

SUMMARY

ASSESSMENT OF THE STABILITY PROGRAMME OF LITHUANIA FOR 2021

12 May 2021

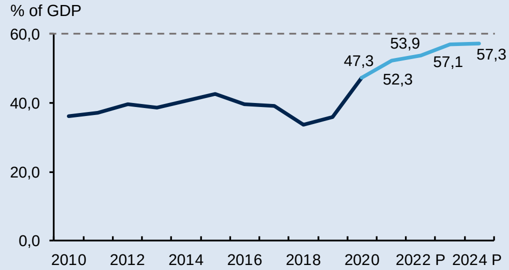
No. BPE-2

FOCUS ON THE YEARS 2021–2024

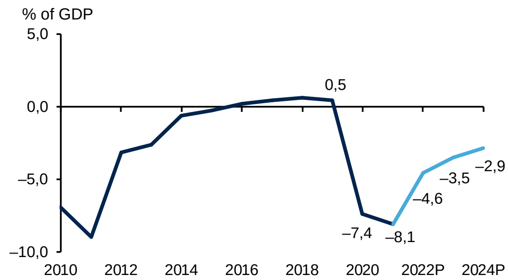
Fiscal policy

Lithuania‘s fiscal policy is projected to remain **counter-cyclical** in 2021.

Lithuania‘s general government **debt** will grow



Lithuania‘s general government **deficit** will decline



3.2% of GDP

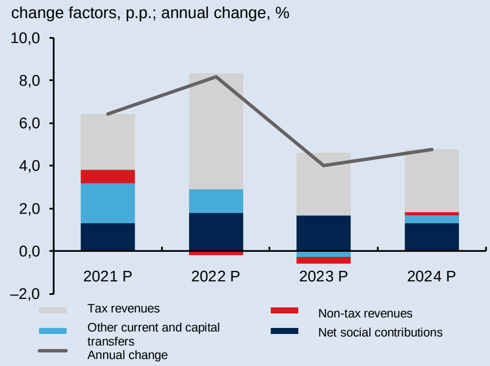
will be reached by fiscal reserves in 2021

Compliance with **fiscal discipline rules**

Rules of fiscal discipline	2020 *(ex-post)*
Surplus of GG rule	not applicable*
GG‘s expenditure growth limitation rule	not applicable**
Rules of GG budgets, of which:	
SSIF	✓
NHIF	✓
Local government sub-sector	not assessed

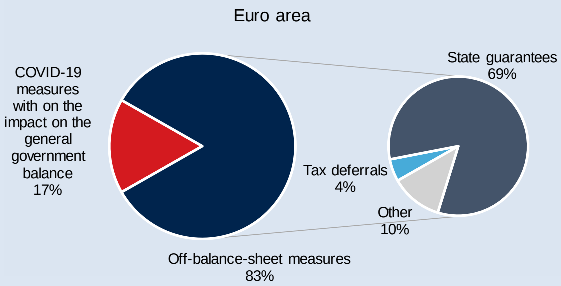
✓ – the rule is complied with,
* – not applicable due to exceptional circumstances,
** – circumstances of non-application of the rule under the Constitutional Law have arisen

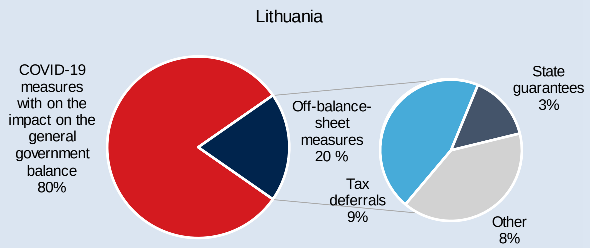
General government **revenues**



GG‘s revenues are projected to grow, with the highest growth in 2022 (8.2%). The main contributor to growth will be tax revenues (5.5 p.p. in 2022 and around 3 p.p. from 2023 onwards).

COVID-19 measures by the impact on general government balance, 2020





- State aid has contributed to a reduction in bankruptcies, however, there is a risk of an increase in number of “zombie companies”;
- The strategy for debt management should be given an appropriate place in the hierarchy of legislation of fiscal discipline (fiscal framework).

GG – general government; projections prepared by the National Audit Office implementing the functions of the Fiscal Institution. It should be noted that the projections for the GG‘s balance indicators are subject to change depending on various risk factors.

INTRODUCTION

The National Audit Office of the Republic of Lithuania, implementing its functions of budget policy monitoring institution (hereinafter – Fiscal Institution in the NAO), is responsible for the monitoring of the compliance with fiscal discipline rules established in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania[1], as well as for monitoring the implementation of the assignments and is authorised to prepare and present independent opinions to the Seimas of the Republic of Lithuania on the compliance with fiscal discipline rules and macroeconomic developments.

Fiscal discipline helps to manage public finances prudently by turning a share of revenues in good times into reserves that can be used in difficult times to mitigate the effects of the business cycle, to help preserve and create jobs, to maintain stable levels of social benefits, and to prevent temporary cyclical revenues from being converted into recurrent expenditure. 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 the Member States to deviate from the requirements for the general government budgets. The *ex-post* assessment of the 2020 GG budgets with regard to fiscal discipline rules established in the Constitutional Law took into account the limitations of fiscal discipline rules application. In Lithuania, the announcement of exceptional circumstances[2] allows for disregarding the rule of the GG surplus.

In the event of a prolonged COVID-19 pandemic, it should be noted that the situation is unlikely to be the same as before the pandemic and its impact is expected to be long-lasting: consumer habits will change, some companies might have to adjust their business to market changes. It should be noted that there is a challenge in ensuring a more favourable response of Lithuania's public finances to the COVID-19 pandemic at a time when the topics of an ageing population and climate change are becoming increasingly relevant.

The National Audit Office of the Republic of Lithuania, implementing its functions of budget policy monitoring institution carried out the assessment of the Stability Programme of Lithuania for 2021. The assessment has been prepared by taking into account the uncertainty remaining due to the spread of COVID-19. The information available until 3 May 2021 was used in the assessment.[3] The analysis is based on the Economic Development Scenario provided by the Ministry of Finance of the Republic of Lithuania relevant at the time of the assessment.[4] Taking into account the current situation, the analysis of the fiscal policy challenges for 2021–2024 has been included in the assessment.

[1] Constitutional Law on the Implementation of the Fiscal Treaty. Internet access: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6be2c020699a11e48710f0162bf7b9c5.

[2] Opinion on the Compliance of the Unusual Event with the Definition of Exceptional Circumstances, 26/03/2020, No. BPE-1.

[3] The GDP data of the Lithuanian Department of Statistics of 01/03/2021 has been used.

[4] The Economic Development Scenario prepared by the Ministry of Finance and published on 19 March 2021 was used in the assessment of the Stability Programme 2021. Internet access: https://finmin.lrv.lt/uploads/finmin/documents/files/Ekonomikos_apzvalga_2021_kovas.pdf.

The objective of the performed assessment is to present the opinion on:

- the general government balance indicator and debt level of 2020;
- the *ex-post* assessment of the compliance with fiscal discipline rules in 2020;
- the general government balance indicator and debt level projections for 2021–2024, as well as on risk factors;
- the fiscal policy stance for 2021–2024.

During the period of exceptional uncertainty, the situation of the public finances may also change as the Government introduces new financial measures to mitigate the effects of COVID-19.