



NATIONAL AUDIT  
OFFICE OF LITHUANIA

SUMMARY

# ASSESSMENT OF LITHUANIA'S STABILITY PROGRAMME FOR 2022

6 May 2022

No. BPE-4



# KEY MESSAGES:

## Focus on the years 2022–2025:

- The medium-term projections for the general government balance set in Lithuania's Stability Programme for 2022 do not take into account part of the liabilities taken. Under the assessment of the National Audit Office, implementing the function of the fiscal institution, no concrete measures are foreseen to ensure the reduction of the expenditure level projected in Lithuania's Stability Programme for 2022 for the period 2023–2025.
- The decrease of the structural general government deficit is foreseen to be achieved by projecting net expenditure growth of 0.0%, 3.0% and 4.2% in 2023, 2024, and 2025 respectively. The increase in these expenditures in the medium term will be largely driven by social benefits and compensations of employees. The impact of the share of capital expenditure is projected to be negative in 2023. In the medium term, investment dynamics are found to be incompatible with the European Commission's recommendations for boosting national investment.
- The projections for general government expenditure on social benefits are found to be incompatible with the budget expenditure plan for the State Social Insurance Fund for 2022–2025. This budget foresees that pension indexation is faster than the growth of general government expenditure on social benefits.
- The 2022 Stability Programme's projections for corporate income tax are found incompatible with the projected development of the output gap. The projections for the tax-to-GDP ratio are rising in the medium term, while the output gap is projected to be negative.
- Under the assessment of the National Audit Office, implementing the function of the fiscal institution, the general government debt-to-GDP ratio will increase steadily over the medium term in the absence of additional sources of revenue. The indicator will be increased by the primary deficit but mitigated by favourable dynamics in real GDP and interest rates.
- In the medium term, the cost of managing general government debt is likely to increase as interest rates rise. Rising inflation expectations, the anticipation of ECB's interest rate hikes and the end of the asset purchase programme are making euro area government securities less attractive to investors, thus increasing their yields. As interest rates rise, Lithuania may have to replace its existing cheap issues of government securities with more expensive ones when refinancing GG's debt.
- According to the assessment of the National Audit Office, implementing the functions of fiscal institution, excluding the impact of one-off measures, Lithuania's fiscal policy is projected to be pro-cyclical in 2022 and may change its direction and become neutral in 2023. However, uncertainty about the country's economic development has increased in the event of the war in Ukraine.

## Focus on 2021:

- The actual deficit of 1.0% of GDP in 2021 was due to lower-than-targeted expenditure, largely as a result of lower expenditure need for COVID-19, and higher-than-targeted revenues. In 2021, revenue growth was the fastest since 2007 and the ratio of revenue

growth to GDP was the highest since 1999, though, this is the result of one-off measures, a favourable economic cycle, and a low comparative base.

- In 2021, Lithuania's stronger-than-expected economic growth resulted in a higher-than-expected accumulation of funds in fiscal reserves.
- In 2021, the growth of general government debt decelerated significantly and the debt-to-GDP ratio decreased to 44.3% of GDP.
- In a context of exceptional uncertainty, the application of the fiscal discipline rules has been temporarily narrowed from 2020. In this context, the *ex-post* assessment justifies the non-application of the rules on general government surplus and on expenditure growth limitation. In 2021, the budgets of the State Social Insurance Fund and Compulsory Health Insurance Fund were implemented in line with the requirements of the general government budget rules.

# INTRODUCTION

The National Audit Office, implementing its functions of a budget policy monitoring institution (hereinafter – Fiscal Institution in the NAO), is responsible for monitoring the compliance with fiscal discipline rules (hereinafter – FDR) established in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania<sup>1</sup> (hereinafter – CL), 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.

In accordance with the new version of the Law on National Audit Office<sup>2</sup>, which entered into force on 1 July 2021, the Fiscal Institution in the NAO submits a report on the assessment of Lithuania's Stability Programme to the Seimas within 7 working days after the Government submits to the Seimas the draft Stability Programme of Lithuania of a certain year.

Lithuania's Stability Programme for 2022 (hereinafter – SP2022) was submitted to the Seimas by the 27/04/2022 Resolution of the Government<sup>3</sup>. Fiscal Institution in the NAO must submit its assessment of the SP2022 to the Seimas no later than 06/05/2022, inclusive.

The Fiscal Institution in the NAO carried out an independent assessment of the Stability Programme of Lithuania for 2022. The information available until 20 April 2022 was used in the assessment. The analysis is based on the Economic Development Scenario published by the Ministry of Finance on 31 March 2022, which was relevant at the time of the assessment.<sup>4</sup>

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

- general government balance indicator and debt level of 2021;
- *ex-post* assessment of the compliance with fiscal discipline rules in 2021;
- general government balance and debt level projections for 2022–2025, as well as on risk factors;
- the fiscal policy stance for 2022–2025.

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<sup>1</sup> Constitutional Law on the Implementation of the Fiscal Treaty.

Internet access: <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6be2c020699a11e48710f0162bf7b9c5>.

<sup>2</sup> Law on National Audit Office, Article 8(7)(6).

<sup>3</sup> „On the Lithuania's Stability Programme”.

Internet access: <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/d9946579c62a11ecb69ea7b9ba9d787b>.

<sup>4</sup> Internet access: [https://finmin.lrv.lt/uploads/finmin/documents/files/ERS\\_aprasymas\\_2022\\_kovas.pdf](https://finmin.lrv.lt/uploads/finmin/documents/files/ERS_aprasymas_2022_kovas.pdf).