

OPINION ON THE STRUCTURAL ADJUSTMENT TARGET

28 October 2022 No BPE-9

Vilnius

The National Audit Office, implementing its functions of budget policy monitoring authority (hereinafter – Fiscal Institution in the NAO), submits its opinion on the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2023 (hereinafter – the draft budget) to the Seimas.

The tense geopolitical situation and energy crisis are leading to a worsening public finance situation. Facing a great rise in electricity and gas prices, support measures for the population and businesses are foreseen in the draft budget for 2023. International organisations recommend applying temporary measures targeted at the most vulnerable groups in society. According to the assessment by the Fiscal Institution in the NAO, the biggest part of the energy related measures foreseen in the budget are not well targeted. Long-term measures are sought to be adopted based on the policymakers' decisions would continue to contribute to the rise of long-term expenditure not covered by revenue. Rising interest rates will make it more expensive to finance deficits and refinance existing liabilities, risks to economic developments remain significant, so it is crucial that decisions to increase spending and reduce revenues are justified.

THE STIMULUS OF ECONOMY DURING THE CURRENT CIRCUMSTANCES IS NECESSARY, HOWEVER, AS THE INTEREST RATES INCREASE, THE IMPLEMENTED MEASURES SHOULD BE MORE TARGETED

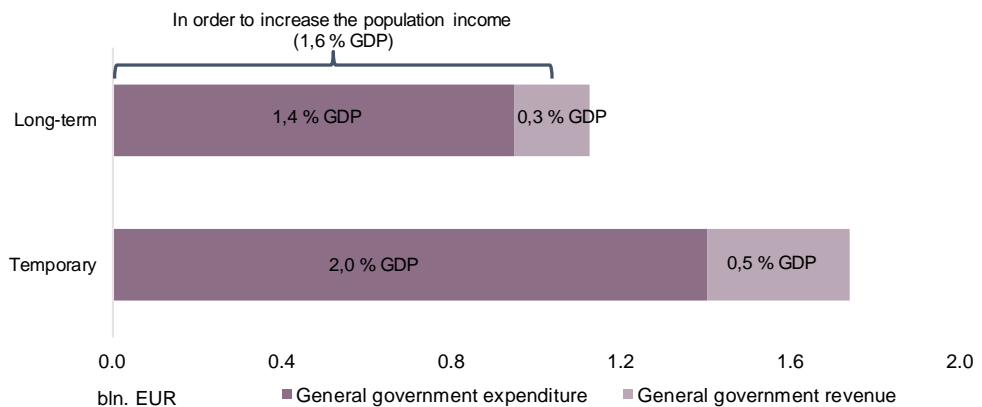
- **The prepared support measures deviate from the principles recommended by international organisations**
- **The general government deficit foreseen in the draft budget for 2022–2023 is close to the one projected by the Fiscal Institution in the NAO, however, there are risks for its increase**
- **As the expenditure not covered by the long-term revenue increases, specific measures are needed in seeking the decrease in general government deficit in 2024–2025**
- **Increasing interest rates lead to a more expensive deficit financing**
- **If the fiscal discipline rules are not applied, a strong stimulus of the country's economy is foreseen in 2023**

THE PREPARED SUPPORT MEASURES DEVIATE FROM THE PRINCIPLES RECOMMENDED BY INTERNATIONAL ORGANISATIONS

International organisations recommend short-term measures targeted towards the most vulnerable groups in society. The IMF notes that broad-based, not targeted support measures (e.g., price regulation, subsidies, or tax cuts) are costly and inefficient. Moreover, they do not contribute to reducing the aggregate demand for these resources and consequently accelerates price growth. The OECD notes that such measures distort the market, do not encourage effective and rational use of such energy resources. European Commission (EC) shares the same opinion by claiming that support measures should be temporary and oriented to the most vulnerable groups. The European Fiscal Board notes that the conventional stimulus of domestic demand complicates the task of the European Central Bank (ECB) to keep rising inflation in check by increasing the interest rates¹.

Due to the foreseen measures, long-term liabilities not covered by sustainable revenue sources account for more in 2023 than on average in 2017–2021. As geopolitical tension and high energy prices persist, not only temporary expenditure measures are planned in the draft budget for 2023, but long-term expenditures continue to grow and nearly all of them are dedicated to increase the revenue of the population (Figure 1). Besides that, long-term measures, reducing the general government sector revenues, are also foreseen. Based on the assessment of the Fiscal Institution in the NAO, additional financial resources for the long-term measures will account for approximately 40% in the common discretionary² measures structure of 2023. (Annex 1).

Figure 1. A significant part of the planned measures negatively impacting the general government balance in 2023 are long-term



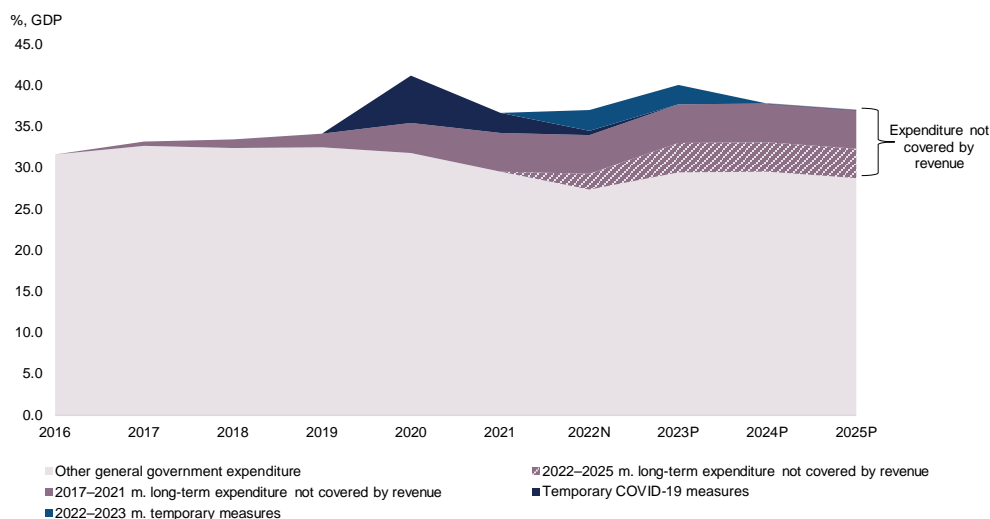
Source: draft budget of Lithuania for 2023, calculations by the Fiscal Institution in the NAO

¹ Assessment of the fiscal stance appropriate for the euro area in 2023. Internet access: https://ec.europa.eu/info/system/files/efb_assessment_of_euro_area_fiscal_stance.pdf.

² In the discretionary measures, changes of the funds allocated for them are included, rather than their total cost in a specific year.

Based on the assessment of the Fiscal Institution in the NAO, according to the information specified in the draft budget, the amount of long-term expenditure not covered by revenue will increase by EUR 1,153.3 million (or 1.6% of GDP) in 2023. It should be noted that such expenditure on average accounted for 0.9% of GDP during 2017–2021 period (Figure 2). Additional revenue measures are needed in the future to ensure that the structural deficit does not grow and deviate from the medium-term objective and that the debt-to-GDP ratio is sustainable.

Figure 2. The composition of the general government expenditure presented in the draft budget indicates a faster than usual increase in long-term expenditure not covered by revenue in 2023

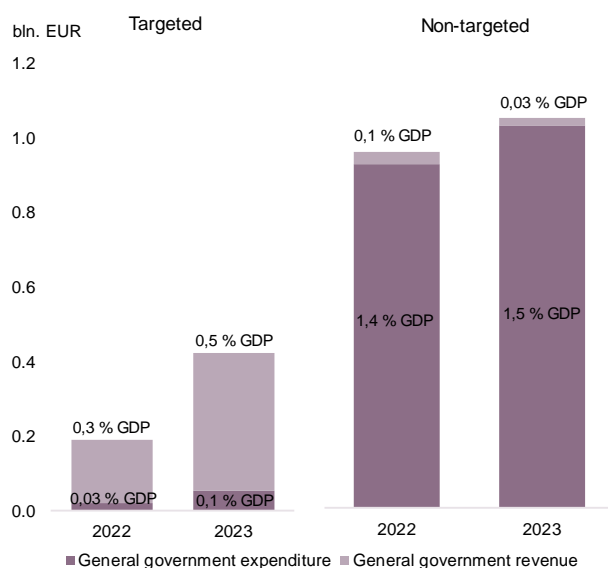


Source: calculations by the Fiscal Institution in the NAO

Of the total temporary measures foreseen in the draft budget for 2023, around 83% of them are related to energy prices mitigation, 13% – to safety, and the rest of measures account for 5%. Due to this reason, the Fiscal Institution in the NAO carried out the analysis of the measures oriented to the mitigation of energy prices. In the analysis, measures were divided into targeted and non-targeted. Targeted measures are measures that are intended for a particular group of population or businesses. It should be noted that the attribution of measures to the target group does not mean that the Fiscal Institution in the NAO considers them to be justified measures. Long-term measures aimed at increasing the income of the population have not been analysed, as it is difficult to measure the part by which the income of the population would be increased in the absence of the crisis.

Only one third of temporary energy price mitigation measures in 2023 are targeted, as the Fiscal Institution in the NAO assesses. 29% of the financial resources are foreseen for targeted measures and 71% for non-targeted. The planned expenditure measures aim at subsidising the population and businesses affected by the severe increase in gas and electricity prices. The revenue measures envisaged consist mainly of tax deferrals and exemptions. Revenue measures are more targeted than expenditure measures (Figure 3). Overall, around 2% of GDP in 2023 is earmarked for temporary measures to mitigate the impact of energy prices.

Figure 3. Most of the expenditure measures to mitigate the impact of energy prices in 2022–2023 are non-targeted and the revenue measures are targeted



Source: the draft budget of Lithuania for 2023, calculations by the Fiscal Institution in the NAO

The application of the VAT exemption until first half of 2023 to catering, cultural, recreational, sports and performers services would be poorly justified. The VAT exemption for these activities was introduced on the basis of the negative impact of COVID-19, where restrictions prevented these businesses from carrying out their activities. The Fiscal Institution in the NAO considers such an exemption targeted, as it targets a certain sector, nonetheless, it is not sufficiently justified. In the case of both direct support to businesses and indirect support measures to increase the income of the population, the extension of this exemption for a further half year seems to be excessive. Such exemptions infringe the principle of fiscal neutrality as they distort competition and therefore require appropriate justification for their introduction and maintenance. Such a decision is also contrary to the recommendations of the International Monetary Fund (IMF)³ and the Organisation for Economic Cooperation and Development (OECD)⁴ to reduce tax exemptions.

Proper implementation of investments aimed at reducing long-term energy consumption is crucial. A non-target measure of the highest scope (1.5% of GDP) is the subsidy for sharp increase in gas and electricity prices for businesses and the consumers. This measure is very expensive for the budget, not linked to the most vulnerable groups or to past consumption. However, in order to help the consumers to amortise the increased prices, a temporary measure of this kind is justified. Moreover, due to the introduction of partial compensation, as a result of the increased price, part of the consumers may seek to save energy. In the opinion of the Fiscal Institution in the NAO, it is crucial that this measure be combined with other measures targeted at reducing long-term energy consumption without leaving aside climate change mitigation goals. For example, in order to achieve a long-term and sustainable result in saving energy resources, it is worth spending significantly more to improve energy efficiency. Based on

³ Internet access: <https://www.imf.org/en/Publications/CR/Issues/2022/07/27/Republic-of-Lithuania-2022-Article-IV-Consultation-Press-Release-and-Staff-Report-521360>.

⁴ Internet access: <https://finmin.lrv.lt/lt/naujienos/ebpo-politine-misija-ministre-g-skaiste-su-ekspertais-aptare-preliminarias-rekomendacijas-lietuvai>.

the table⁵ of discretionary expenditure measures to achieve this objective, the Fiscal Institution in the NAO estimates that approximately EUR 25 million more has been allocated in 2023 compared to 2022. The information provided in the draft budget does not provide for a proper assessment of whether such matching of measures will be achieved. Part of these objectives are expected to be financed from the European Union's funds, however, there are risks to its implementation.

Investment is expected to accelerate due to the use of European Union funds, which implementation is usually lower than planned. The implementation of the EU fund from the 2014–2020 financial perspective currently accounts for 75%. Usually, around 40% of the support is used by the general government and 60% - by other sectors. The use of EU funds by the general government in 2018–2021 amounted to 70% of the plan. As a significant part of the investment is planned from EU funds, there is a risk that the level of investment presented in the draft budget will be lower due to the generally lower implementation of the EU plan. The European Commission⁶ points out that medium-term fiscal plans should promote and maintain nationally financed high-quality public investment, and the OECD⁷ also stresses the need to increase public investment in targeted research and development and green infrastructure.

In order to increase transparency regarding the measures and their selection, more detailed information is missing in the material provided with the draft budget. Discretionary revenue and expenditure measures for general government according to the ESA2010 classification could also be presented with the draft budget for the year in question and not only in the material to be submitted to the European Commission later on⁸. This would allow interested parties to familiarise themselves with the measures submitted over a longer period of time and to assess in more detail their impact on the forecasts of general government finances. It could also be accompanied by more detailed information on the reasons for the selection of specific support measures and on the assessment of alternative measures. For example, why electricity price compensation was decided to be applied for all consumers without linking them to electricity consumption of different groups. If such calculations were published, discussions in the public could be more comprehensive and productive, focusing on making more effective proposals.

THE GENERAL GOVERNMENT DEFICIT FORESEEN IN THE DRAFT BUDGET FOR 2022–2023 IS CLOSE TO THE ONE PROJECTED BY THE FISCAL INSTITUTION IN THE NAO, HOWEVER, THERE ARE RISKS FOR ITS INCREASE

The economic development projected for the country in 2023 is accompanied by exceptional uncertainty. The September economic development scenario underlying the country's draft budget for 2023 projects real GDP growth to slow to 1.4 % in 2023. When approving this scenario, the Fiscal Institution in the NAO noted⁹ that as global economic growth slows down and the tense in the geopolitical situation persists, the country's economic development will depend on a number of risk factors. The challenges in the

⁵ Internet access: https://economy-finance.ec.europa.eu/system/files/2022-10/2023_dbp_lt_lt.pdf.

⁶ 02/03/2022 Communication from the Commission to the Council. Internet access: https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf.

⁷ OECD. Internet access: <https://www.oecd.org/economy/lithuania-economic-snapshot/>.

⁸ Internet access: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2023_en.

⁹ On 20/09/2022, the Fiscal Institution in the NAO published an opinion on the endorsement of the economic development scenario No BPE-8. Internet access: <https://www.valstybeskontrolė.lt/EN/BudgetPolicyMonitoring>.

field of energy in Europe and the record high prices of energy resources can have a stronger than expected impact on production volumes and the labour market both in Europe and Lithuania. It is possible that the Lithuanian economy could shrink in 2023. The interest rates increased by the ECB may reduce domestic demand more than expected. However, the decisions taken by the governments of the EU Member States and the structural changes and interventions considered by the EC, addressing high energy prices, can have a positive impact on the economic development of the Community as a whole. According to the IMF and OECD forecasts published in October, Lithuania's real GDP growth is expected to remain positive in 2023 and reach 1.1% and 1.3% respectively.

Pressure on the adoption of additional expenditure measures and risks to more sluggish economic development may lead to a worse-than-expected situation of public finances.

The Fiscal Institution in the NAO projects that the general government deficits for 2022–2023 will be close to those foreseen in the draft budget and account for 1.9 % and 4.9 % of GDP respectively. Negative risks could also lead to a higher deficit in 2023. Such risks relate to decisions on certain additional measures not covered by additional sources of revenue for a longer period of time. For example, some of the support measures in the draft budget for 2023 are provided for the first half of 2023, amounting to around EUR 430 million. Furthermore, geopolitical tensions in the region and its escalation may contribute to increased need of spending on national defence and security. The Fiscal Institution in the NAO estimates that if these risks materialise, it is likely that they would increase the deficit to 6% of GDP and the debt to 44.0% of GDP in 2023. It cannot be excluded that the economic development would be slower than projected in the Economic Development Scenario of September due to the changes in the economic environment, which would create pressure on additional expenditure and would reduce the revenue of the general government.

AS THE EXPENDITURE NOT COVERED BY THE LONG-TERM REVENUE INCREASES, SPECIFIC MEASURES ARE NEEDED IN SEEKING THE DECREASE IN GENERAL GOVERNMENT DEFICIT IN 2024–2025

Due to possible additional decisions to reduce the revenue of the general government, the Fiscal Institution in the NAO estimates that the level of revenue in 2024–2025 is likely to be lower. The recommendations of international organisations (EC, IMF, OECD) to Lithuania stress the need to strive for a reduction in labour taxation. This is partly done now by adjusting the tax-exempt income (TEA), which reduces the revenue collected from personal income tax. Under the Fiscal Institution in the NAO assumption that the TEA would be further increased in 2024–2025, personal income tax revenues would be similar to the 2023 level. The extension of the VAT exemptions earmarked in the draft budget would also reduce the revenue received from it. For the period 2024–2025, general government revenue is projected to be up to 1% of GDP lower than provided in the draft budget for 2023 with an applied technical assumption (Annex 2, Table 1). The Fiscal Institution in the NAO estimates that additional revenue-increasing measures are needed to achieve the expected revenue growth for the period 2024–2025.

Recently, one-off measures have contributed to an increase in revenue levels and may therefore be lower than projected in the future. Various one-off measures contributed to the high level of general government revenues in 2021 and likely in 2022. A favourable economic cycle, strong macroeconomic indicators, one-off indirect measures (e.g., State support to businesses and the population during COVID-19, a possible decrease in shadow due to eligibility for State support) led to higher than usual income of the general government. Without these one-off measures, revenues would be lower. If risks due to

slower economic development materialised, this would lead to a lower revenue collection in 2024–2025. The economic situation could affect companies' profits and trade turnover in a negative direction, contributing to lower income from profits and value added taxes. VAT revenues could increase because of higher-than-expected price levels, however this could slow private consumption. Slower wage growth would reduce revenue collected from personal income tax.

Increasing liabilities on social benefits, compensation of employees and strengthening the country's defence will lead to growth in general government expenditure over the medium term. Considering the commitments and the tendency to increase them discretionary, the Fiscal Institution in the NAO projects that in this case the cost of compensation of employees in the medium term would not decrease, reaching around 11.2% of GDP in 2024–2025 (Annex 2, Table 1). Growth should largely be supported by liabilities to raise wages for employees in the field of health¹⁰ and education¹¹ by 2025. In addition, taking into account demographic trends and the analysis¹² carried out, the Fiscal Institution in the NAO do not indicate a medium-term decline in the number of employees in these areas. In the interests of competitiveness with the private sector and taking into account inflation dynamics¹³, the wages of other public sector employees are also likely to increase. There will remain a strong need for other long-term expenditures, especially those related to defence or population ageing. The projected increase in long-term liabilities (e.g. indexation of pensions, increases in basic amounts that determine the level of allowances and benefits) at a higher rate than GDP growth will not lead to a decrease in the ratio of expenditure on social benefits to GDP. For example, in 2023, there is the plan to index the individual component of the social security pension by an additional 5.8% in anticipation of SSIF surplus. The direction to increase the link between old-age pension social security contributions and benefits is right, but it forms long-term liabilities that will have to be covered by revenue.

INCREASING INTEREST RATES LEAD TO A MORE EXPENSIVE DEFICIT FINANCING

Without additional sources of revenue, the government debt-to-GDP ratio is expected to increase over the medium term. Based on the IMF methodology¹⁴, the Fiscal Institution in the NAO projects this indicator to be close to the level projected in the draft budget for 2023 in 2022–2023, reaching 39.0 and 42.8% of GDP respectively. However, the long-term liabilities assumed will lead to debt growth to 44.7 % of GDP in 2025 (Annex 2, Table 2). The debt-to-GDP ratio will increase most over the medium term by the primary GG deficit, but its impact will be mitigated by real GDP growth and negative real interest rates driven by the accelerated inflation (Figure 4). In 2023, the primary GG deficit is projected to

¹⁰ Collective agreement on wage increases for health care workers in 2022–2024: Internet access: <https://sam.lrv.lt/uploads/sam/documents/files/%C5%A0akos%20kolektyvin%C4%97%20sutartis.pdf>.

¹¹ Lithuania's collective agreement for education and science envisages a 10.0% increase in wages for 2023–2024. Internet access: <https://www.svietimoprofsajunga.lt/wp-content/uploads/2021/11/2017-m.-lapkricio-22-d.-Lietuvos-svietimo-ir-mokslo-sakos-kolektyvines-sutarties-pakeitimas.pdf>.

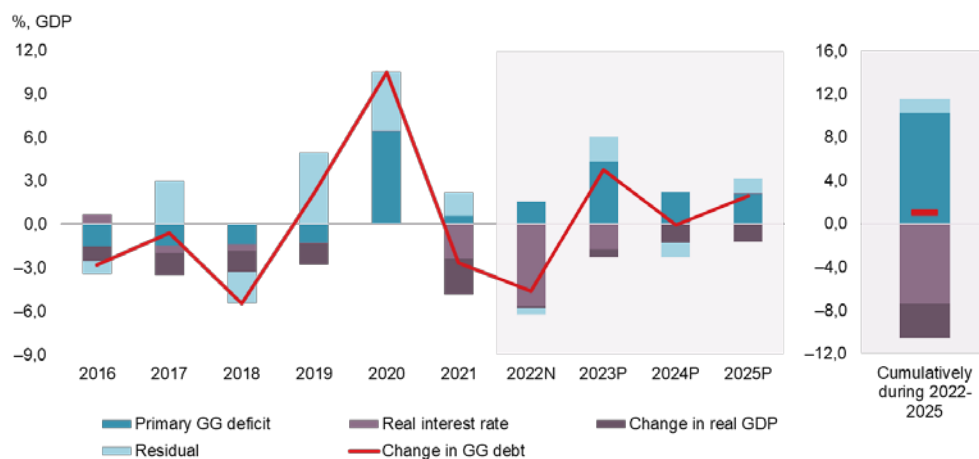
¹² Analysis by the Research and Higher Education Monitoring and Analysis Centre, 2019. Internet access: <https://strata.gov.lt/images/tyrimai/Sveikatos%20specialistu%20poreikio%20tyrimas.pdf>.

¹³ The IMF notes that public sector wages are expected to rise against a high background of inflation. 12/10/2022 Fiscal Monitor. Internet access: <https://www.imf.org/-/media/Files/Publications/fiscal-monitor/2022/October/English/text.ashx>.

¹⁴ IMF explanatory note Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries, 9 May 2013. Internet access: <https://www.imf.org/external/np/pp/eng/2013/050913.pdf>.

increase debt by 4.3% of GDP through financial support measures for the population and businesses. Meanwhile, favourable automatic debt dynamics¹⁵ will reduce the growth of this indicator by 2.3% of GDP. It should be noted that early accumulation for the redemption of Eurobonds issuance will contribute to debt growth in 2023.

Figure 4. The primary general government deficit will contribute the most to the increase in the government debt-to-GDP ratio in 2022–2025.



Source: calculations by the Fiscal Institution in the NAO

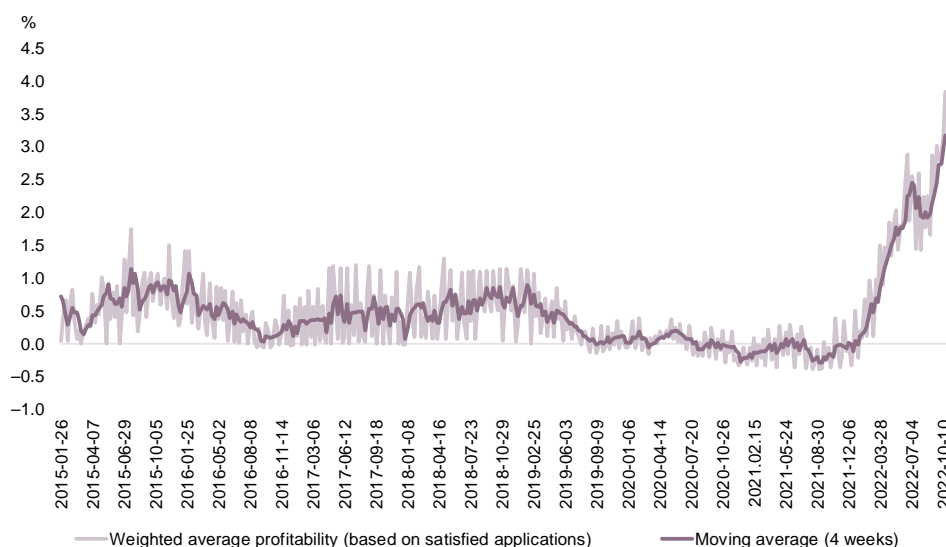
Rising interest rates will increase public debt management costs over the medium term.

The current price hike has prompted the world’s central banks to revise interest rates upwards, which means more expensive borrowing for governments. As of 19 October 2022, the Lithuanian Government’s 10-year bond yield is above 4% and on 3 January 2022 it was 0.5%¹⁶. Increasing borrowing is also observed in Lithuania’s domestic market (Figure 5). As inflation expectations rise and the ECB raises interest rates, euro area government securities (GSs) are becoming less attractive to investors, resulting in higher yields. In the wake of the war in Ukraine, the yield of the Lithuanian Government securities is further increased by the increased geopolitical risk in the region.

¹⁵ If the projected real interest rate is higher than real GDP growth, automatic debt dynamics are positive and increase debt. Conversely, if the economy is growing faster than the expected real interest rate, this dynamic is negative and reduces debt.

¹⁶ Internet access: www.tradingeconomics.com.

Figure 5. The weighted average yield (based on successful applications)* of auctioned issues of Lithuanian Government securities is rising rapidly



* GSs traded in the GSs auctions: Treasury bills of the Republic of Lithuania (duration not exceeding one year), bonds and Eurobonds of the Government of the Republic of Lithuania (duration exceeding one year). The duration of the GSs traded in the auctions varies and therefore contributes to fluctuations in weighted average yield.

Source: the Ministry of Finance, calculations by the Fiscal Institution in the NAO

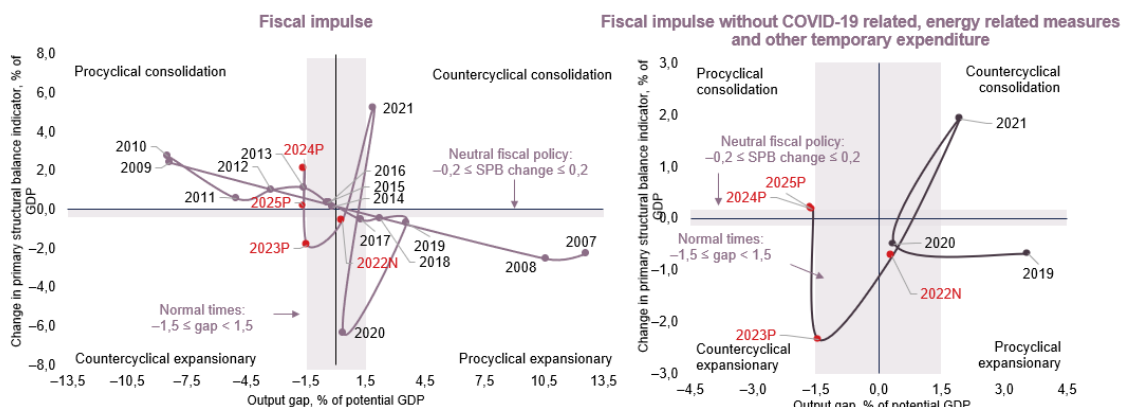
Lithuania, which became part of the euro zone, was able to refinance expensive issues of Eurobonds at a lower cost. Over time, these issues reduce in number. For example, in February 2022, the Ministry of Finance redeemed the last US dollar-denominated issue of Eurobonds at an annual interest rate of 6.625%¹⁷. In the medium term, with rising interest rates and refinancing of GG debt, available low-cost GSs issues may need to be replaced by more expensive ones. This would mean higher GG debt management costs. The issue of EUR 700 million Eurobonds with a coupon of 3.375% is expected to be redeemed in 2024. Meanwhile, the issue of EUR 970 and EUR 750 million is planned to be redeemed in 2025, with coupons amounting to 0.25% and 1.25% respectively. The Fiscal Institution in the NAO projects that expenditure on GG debt interest payments will increase from EUR 201 million (0.3% of GDP to almost EUR 700 million (0.9% of GDP) in 2025.

WHILE THE FISCAL DISCIPLINE RULES ARE NOT APPLIED, A STRONG STIMULUS OF THE COUNTRY'S ECONOMY IS FORESEEN IN 2023

Excluding the impact of COVID-19 related, energy price mitigation and other temporary measures, fiscal policy stimulates the economy in 2022–2023. As the Fiscal Institution in the NAO projects a positive output gap, an annual change of –0.6% of GDP in the structural primary balance (SPB) of the GG in 2022 is projected (Annex 2, Table 3). This reflects that the fiscal policy is in a pro-cyclical stimulus area. Meanwhile, a negative change in SPB (–1.8% of GDP) in 2023, when the economy is below its potential, implies a countercyclical, stimulating fiscal policy stance. As one-off factors include not only COVID-19-related measures but also the mitigation of the rise in energy prices and other temporary measures, the fiscal stimulus for 2022–2023 remains stimulating (Figure 6). However, the current uncertainty about economic development makes the assessment of the economic cycle more difficult.

¹⁷ Internet access: <https://finmin.lrv.lt/lt/naujienos/lietuva-ispirko-paskutine-jav-doleriu-euroobligaciju-emisija>.

Figure 6. The fiscal impulse for 2022–2023 is stimulating the economy both by incorporating and excluding temporary factors



* Other one-off measures: assistance to Ukrainian people fleeing Russian military actions, installation of physical barriers and safety systems at the Lithuania-Belarus border, maintenance of Lithuanian railway infrastructure.

Source: Statistics Lithuania, Ministry of Finance, Fiscal Institution in the NAO

With exceptional uncertainty prevailing, the application of fiscal discipline rules remains temporarily narrowed. In Lithuania, exceptional circumstances were first announced in March 2020, following the outbreak of the COVID-19 pandemic. On 20 September 2022, the Fiscal Institution in the NAO issued an opinion on the compliance of the situation with the definition of exceptional circumstances, in which it approves the lifting of exceptional circumstances initiated by the Ministry of Finance due to the COVID-19 pandemic and the compliance of the geopolitical situation in 2022 and its potential negative impact on the financial position of the general government with the definition of exceptional circumstances.

In view of the narrowed application of the rules on fiscal discipline, the general government budgets for 2022–2023 will comply with the requirements set out in the Constitutional Law (Table 1)¹⁸. The rules for limiting the growth of surplus GG and GG expenditure do not apply in periods of exceptional circumstances. The estimated structural budget balance of the SSIF in 2022 and 2023 will be 0.7% and 0.5% of GDP respectively. The budget of the SSIF complies with the requirements of Article 4(3) of the Constitutional Law (CL), as a positive structural balance is expected. The estimated structural budget balance of the CHIF in 2022 and 2023 will be 0.0% and 0.1% of GDP respectively. According to Article 4(2) of the CL, the budget of this fund needs to be planned in such a way that it is either surplus or balanced on the basis of the structural balance indicator. The compliance of municipal budgets with fiscal discipline rules will be assessed in the first half of 2023.

Table 1. Compliance with fiscal discipline rules in 2023

Fiscal discipline rules	2022	2023
Surplus GG rule	not applicable	not applicable
GG's expenditure growth limitation rule	not applicable	not applicable
Rules for GG budgets, which include the ones of:		
The State Social Insurance Fund	✓	✓
The Compulsory Health Insurance Fund	✓	✓
Local Government Subsector	not assessed	not assessed

✓ – the rule is complied with, ✗ – risk of non-compliance

Source: calculations by the Fiscal Institution in the NAO

¹⁸ A detailed assessment of compliance can be found on the web page in the MS Excel workbook accompanying this opinion. Internet access: <https://www.valstybeskontrolė.lt/LT/BiudzetoStebesena>.

Structural adjustment targets are not set for the year of exceptional circumstances.

The National Audit Office of the Republic of Lithuania, in its capacity as the budget policy monitoring institution responsible for monitoring the compliance with the rules of fiscal discipline laid down in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, carried out an 07/10/2022 assessment of the draft to the Law on the Approval of Financial Indicators of the 2023 State Budget and Municipal Budgets submitted to the Seimas and prepared an opinion. Pursuant to Article 4(1) of the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania and Article 8(7)(2) of the Law on National Audit Office, the National Audit Office submits its opinion to the Seimas of the Republic of Lithuania.

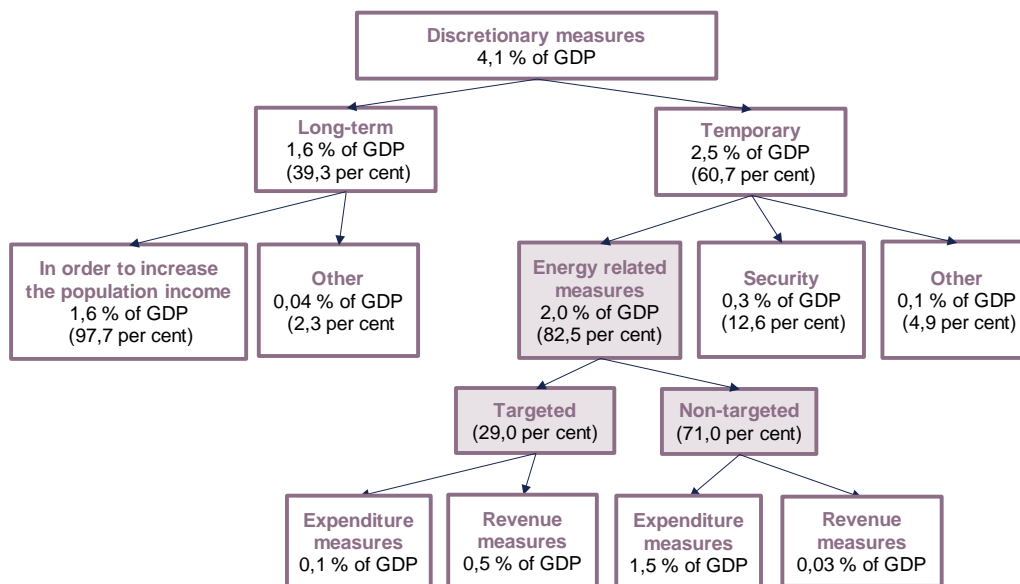
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ANNEXES

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 Annex 1

Discretionary Measures Scheme 2023



Source: draft budget of Lithuania or 2023, calculations by the Fiscal Institution in the NAO

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Results of calculations by the Fiscal Institution in the NAO

Table 1. Revenue and expenditure of the general government in the years 2022–2025 according to ESA 2010

Indicator, % of GDP	ESA 2010 code	2021	2022N	2023P	2024P	2025P
Total revenue	OTR	36.5	36.8	36.8	37.1	36.5
Tax revenue		21.7	21.7	21.1	21.4	21.6
Revenue from indirect taxes	D.2	12.0	11.5	11.2	11.6	11.7
Revenue from direct taxes	D.5	9.7	10.2	9.9	9.8	10.0
Net social contributions	D.61	10.6	10.1	10.0	10.3	10.1
Other revenue, of which:		4.2	5.0	5.6	5.4	4.7
Revenue from property	D.4	0.4	0.4	0.4	0.4	0.4
Total expenditure	OTE	37.5	38.7	41.7	40.1	39.4
Compensation of employees	D.1	10.7	10.6	10.8	11.2	11.2
Intermediate consumption	P.2	4.3	5.2	6.0	5.6	5.3
Subsidies	D.3	1.6	1.9	2.1	0.4	0.3
Interest costs	D.41	0.4	0.3	0.5	0.8	0.9
Social benefits	D.6M	15.0	14.7	15.3	15.4	15.4
Other expenditure, of which:		5.4	5.9	7.0	6.8	6.3
Gross fixed capital formation	P.5L	3.1	2.8	3.7	3.7	3.4
Capital transfers	D.9	0.5	0.7	1.0	0.8	0.7
Net lending (+)/net borrowing (-)	B9	-1.0	-1.9	-4.9	-3.0	-3.0

N – Expected, P – Forecast

Source: calculations by the Fiscal Institution in the NAO

Table 2. Dynamics of general government debt and its evolutionary factors

No	Indicator, % of GDP	2020	2021	2022N	2023P	2024P	2025P
1.	GG debt	46.3	43.7	39.0	42.8	42.7	44.7
2.	GG debt change (3+4+7)	10.5	-2.7	-4.7	3.8	-0.0	1.9
3.	Primary GG deficit	6.4	0.6	1.6	4.3	2.3	2.1
4.	Automatic debt dynamics (5+ 6)	0.1	-4.8	-5.8	-2.3	-1.3	-1.2
5.	Real interest rate	0.1	-2.4	-5.7	-1.8	-0.1	0.0
6.	Change in real GDP	0.0	-2.5	-0.2	-0.5	-1.2	-1.2
7.	Residual*	4.1	1.6	-0.4	1.7	-1.0	1.1

* Balance of borrowed funds included into the residual, early accumulation for the redemption of Eurobonds issuance.

Source: calculations by the Fiscal Institution in the NAO

Table 3. Cyclical situation of the Lithuanian economy and structural general government balance, 2020–2025

No	Indicator, % of GDP	2020	2021	2022N	2023P	2024P	2025P
1.	General government net lending (+)/borrowing (-)	-7.0	-1.0	-1.9	-4.9	-3.0	-3.0
2.	Oneoff and other temporary measures*	0.0	0.0	0.2	-0.2	0.0	0.0
3.	Oneoff and other temporary measures, including COVID-19 related measures, mitigating the impact of energy price increases and other** measures	-5.8	-2.6	-2.3	-2.1	0.0	0.0
4.	Output gap from potential, % p. of GDP	0.4	1.9	0.3	-1.4	-1.6	-1.6
5.	Cyclical budget component (0.399 × 4th line)	0.1	0.8	0.1	-0.6	-0.6	-0.7
6.	Structural GG balance (1 – 2 – 5)	-7.2	-1.7	-2.2	-4.2	-2.4	-2.3
7.	Structural GG balance, excluding COVID-19-related mitigation of energy price increases and other one-off measures (1 – 3 – 5)	-1.3	0.8	0.2	-2.3	-2.4	-2.3
8.	Interest	0.7	0.4	0.3	0.4	0.8	0.9
9.	Structural GG primary balance (6 + 8)	-6.5	-1.3	-1.9	-3.7	-1.6	-1.4
10.	Structural GG primary balance excluding COVID-19-related mitigation of energy price increases and other one-off measures (7 + 8)	-0.7	1.3	0.5	-1.8	-1.6	-1.4
11.	Change in the structural GG primary balance	-6.3	5.2	-0.6	-1.8	2.1	0.2
12.	Change in the structural GG primary balance excluding COVID-19-related mitigation of energy price increases and other one-off measures	-0.5	1.9	-0.7	-2.3	0.2	0.2

* Other one-off measures: assistance to Ukrainian people fleeing Russian military actions, installation of physical barriers and safety systems at the Lithuania–Belarus border, maintenance of Lithuanian railway infrastructure.

Source: Ministry of Finance*, Statistics Lithuania, calculations by the Fiscal Institution in the NAO