BUDGET MONITORING

To the Seimas of the Republic of Lithuania

ASSESSMENT OF THE FISCAL PART OF LITHUANIA'S MEDIUM-TERM FISCAL-STRUCTURAL PLAN

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Vilnius

ADDITIONAL BUDGETARY REVENUES ARE NECESSARY TO ADEQUATELY FINANCE DEFENCE WITHOUT CUTBACKS IN PUBLIC SERVICES

The National Audit Office, implementing the function of the fiscal institution (NAO FI) has carried out an assessment of the fiscal part of Lithuania's medium-term fiscal-structural plan (MTP) for the period 2025–2029[1].

In order to contribute to enhancing fiscal transparency, the NAO FI submits to the Seimas an assessment of the compliance of Lithuania's medium-term fiscal-structural plan with the EU rules on fiscal discipline. The assessment also presents the NAO FI's projections of the general government balance and debt for the period 2025–2028[2], assesses the fiscal policy stance, the *ex-post* compliance with fiscal discipline rules for 2024, provides an overview of the EU's economic governance and fiscal risks.

The MTP's net expenditure path is a political commitment that will have to be respected in future budgets. Net expenditure is general government expenditure net of interest expenditure, discretionary revenue measures, expenditure on EU programmes, national expenditure on the co-financing of EU programmes, cyclical unemployment benefits and one-off and other temporary measures. The projections produced by the NAO FI aim to show the pressures that public finances are likely to face in the medium term and the fiscal effort needed to achieve this path.

Key messages from the assessment:

- **The net expenditure path in Lithuania's medium-term fiscal-structural plan is in line with the new EU rules on fiscal discipline.**
- **Given usual budgetary decisions, NAO FI projects, that the general government deficit in 2026–2028 will be close to the Maastricht criterion threshold.**
- **Measures that increase general government revenues are needed to increase defence expenditure without cutbacks in public services.**
- **With the economy below potential, a stimulus is foreseen in 2025.**
- **According to the NAO FI's assessment, general government debt will grow faster in the period 2025–2028 than presented in the medium-term plan.**
- **In 2024, general government budgets adhered to the national fiscal discipline rules.**

[1] Available online: https://lrv.lt/public/canonical/1747051920/464696/Lietuvos%20vidutin%C4%97s%20trukm%C4%97s%20laikotarpio%20fiskalinis%20strukt%C5%ABrinis%20planas.pdf.

[2] The NAO FI's projections were prepared for the period 2025–2028, which corresponds to the adjustment period according to the European Commission's technical information. The MTP period includes 2029 due to the need to align the plan year with the political cycle.

SUMMARY

The net expenditure path in Lithuania's medium-term fiscal-structural plan (MTP) is in line with the EU's new rules on fiscal discipline. The new EU fiscal discipline rules entered into force on 30 April 2024. Each EU Member State is required to prepare a 4–7 years fiscal-structural plan instead of Stability and Convergence Programmes and National Reform Programmes. It consists of 2 parts: a fiscal part and a reform and investment part. A key element of the plan is a commitment related to the growth rate of net expenditure. The net expenditure path is left to Member States to choose, but only if it is in line with the provisions of the changed EU legislation, the sustainability conditions, and is agreed with the European Commission (EC) during the technical dialogue and must be based on plausible macroeconomic assumptions. The NAO FI assessed only the fiscal part of the MTP from the perspective of EU fiscal discipline rules.

In January 2025, Lithuania received technical information from the European Commission setting the target value for the structural primary balance (SPB) at 0.3% of GDP in 2028. To achieve this surplus, net expenditure is expected to grow at an average annual rate of 4.3% between 2025 and 2028. The macroeconomic assumptions used in the preparation of the fiscal part of the MTP were different from those of the EC. These assumptions are considered appropriate by the NAO FI as they are consistent with the March 2025 EDS, endorsed by the NAO FI, for the period 2025–2026, and more cautious than the EDS for the period 2027–2028. These assumptions result in a higher growth in net expenditure in the MTP (5.2% per annum on average) than in the technical information provided by the EC. In the assessment of the NAO FI, the net expenditure path is appropriate as it achieves an SPB that would ensure that, 10 years after the end of the adjustment period (i.e. in 2038), and including the costs of ageing, the GG deficit would not exceed 3% of GDP and the debt would be less than 60% of GDP.

Given usual budgetary decisions, NAO FI projects, that the general government deficit in 2026–2028 will be close to the Maastricht criterion threshold. The NAO FI projects a deficit of 3% of GDP in 2025, which is higher than projected in the Annual Progress Report (APR). This is due to lower projected tax revenues than in the APR. To illustrate the pressures on public finances, the NAO FI has prepared a baseline scenario for the period 2026–2028, which incorporates usual budgetary decisions that increase long-term general government expenditure (public sector wage increases, additional pension indexation, etc.). Under this scenario, the deficit would be close to 3% of GDP in 2026–2028. When assessing the projections for this indicator from a fiscal discipline compliance perspective, it should be taken into account that, if the national escape clause were applied, the deficit could be 1.5% of GDP higher than the one implied by the net expenditure path if the additional expenditure were allocated to financing defence.

The change in EU fiscal rules has made the growth of net expenditure the main indicator for measuring fiscal discipline. The assessment of compliance with the rules is now based on this indicator rather than on the general government balance. However, general government balance projections are used in the NAO FI analysis to provide a clearer picture of the state of public finances.

Measures that increase general government revenues are needed to increase defence expenditure without cutbacks in public services. The alternative scenario relative to the baseline for the NAO FI includes both an increase in defence expenditure from 3% to 5.25% of GDP and the impact of the tax proposals under discussion, according to the changes to the tax laws proposed by the Ministry of Finance, approved by the Government on 14 May. The planned tax changes do not cover the additional need for defence spending. Under the

alternative scenario of the NAO FI, the deficit would be higher than 4% of GDP in 2026–2028. The size of the deficit in the alternative scenario would violate fiscal discipline rules and is therefore considered unlikely in the assessment of the NAO FI. However, it reflects the pressure on public finances from usual budgetary decisions and the need to increase defence spending.

The level of Lithuania's GG revenue remains low compared to other EU countries. This also results in a low level of GG expenditure. Structural solutions that significantly increase GG revenues are needed to increase defence spending without planning for a reduction in public services. Implemented tax proposals would increase revenues and are on the right track, but only partly reflect the recommendations of international institutions. Among the outstanding issues, the following could be identified: the changes would improve the situation, but the differential taxation of income by activity remains, and no consideration is given to abolishing the preferential corporate tax rate, which encourages companies to remain small.

With the economy below potential, a stimulus is foreseen in 2025. The NAO FI projects an increase of the structural primary deficit of the GG this year. This suggests that fiscal policy will stimulate economic growth. Stimulating the economy below its potential level is possible, but it is important that it is also based on investment. This would increase the productivity and resilience of the economy by targeting spending on areas such as green and digital transformation.

According to the NAO FI's assessment, general government debt will grow faster in the period 2025–2028 than presented in the medium-term plan. According to the NAO FI's estimates, debt will reach 42.6% of GDP this year. Under the baseline scenario, debt is likely to grow faster than projected in the MTP over the rest of the medium term, due to the usual discretionary decisions, reaching 48.9% of GDP in 2028. In the alternative scenario, public debt would grow even faster, reaching 53.8% of GDP in 2028. It should be noted that interest expenditure will increase.

In 2024, general government budgets adhered to the national fiscal discipline rules. During the exceptional circumstances period, the general government expenditure growth limitation rule and surplus GG rule are not applicable. In 2024, the budgets of the State Social Insurance Fund and the Compulsory Health Insurance Fund complied with the fiscal discipline rules for their budgets. The assessment of the compliance of municipal budgets with fiscal discipline rules will be presented by the NAO FI in June. Following changes in EU legislation, exceptional circumstances are no longer valid in Lithuania from 2025. However, following the adoption of amendments to the Constitutional Law on the Implementation of the Fiscal Treaty, the rules set out therein do not limit the size of the general government deficit in 2025. In the opinion of the NAO FI, this decision only postpones the need for fiscal adjustment to later years and may pose risks for the application of the fiscal discipline rules and the conduct of a responsible budgetary policy in the long term.

REVIEW OF THE ECONOMIC GOVERNANCE FRAMEWORK OF THE EUROPEAN UNION

On 30 April 2024, new EU rules on fiscal discipline came into force[3]. According to the revision of the European Union's economic governance framework, from 2024 onwards, each EU Member State is required to prepare a 4–7 years fiscal-structural plan instead of Stability and Convergence Programmes and National Reform Programmes. These documents set out the countries' fiscal commitments, planned investments and reforms, reflecting both the Member State's own and the EU's overall priorities (e.g. green transformation, strengthening defence capabilities, social resilience and other strategic objectives), to enhance the country's growth potential, resilience and support fiscal sustainability. It should be noted that the measures presented in the investment and reform section do not affect the projections of macroeconomic indicators presented in the fiscal section[4]. The plans are approved by the Council and each spring EU Member States will additionally submit annual progress reports to the European Commission[5]. Lithuania submitted the MTP[6] to the EC with the Annual Progress Report (APR) in April[7] of this year.

Net expenditure is the key indicator in the EU's new economic governance framework. The fiscal-structural plan includes a net expenditure path. This is a multiannual trajectory of a Member State's nominal net expenditure, defined in terms of annual growth rates, to which Member States commit. Net expenditure is general government expenditure net of interest expenditure, discretionary revenue measures, expenditure on EU programmes, national expenditure on the co-financing of EU programmes, cyclical unemployment benefits and one-off and other temporary measures. The net expenditure path in the fiscal-structural plans shall ensure that general government debt is reduced or maintained below 60% of GDP and that the general government deficit is reduced to and/or maintained below 3% of GDP over the medium term, as foreseen in Regulation (EU) 2024/1263 of the European Parliament and of the Council on the Effective Coordination of Economic Policies and the Multilateral Surveillance of Budgets (the Regulation).

The new fiscal rules maintain the thresholds of Maastricht criteria of a general government deficit of 3% of GDP and public debt of 60% of GDP. Under the updated rules, when a country's general government debt exceeds 60% of GDP or the general government deficit exceeds 3% of GDP, the EC provides the Member State concerned with a reference trajectory of net expenditure, while for countries whose general government debt does not exceed 60% of GDP and whose general government deficit does not exceed 3% of GDP, the EC provides technical information.

[3] Regulation (EU) 2024/1263 of the European Parliament and of the Council. Available online: https://eur-lex.europa.eu/legal-content/LT/TXT/?uri=CELEX:32024R1263.

[4] Available online: https://eur-lex.europa.eu/eli/C/2024/3975/oj/eng.

[5] The reports cover the implementation of the fiscal-structural plans, including the net expenditure path set by the Council of the EU and the reforms and investments implemented.

[6] Available online: https://economy-finance.ec.europa.eu/document/download/3b16fb44-b5b2-410b-9216-bf31d81baa67_lt?filename=national_medium-term_fiscal-structural_plan_lithuania_lt.pdf&prefLang=en.

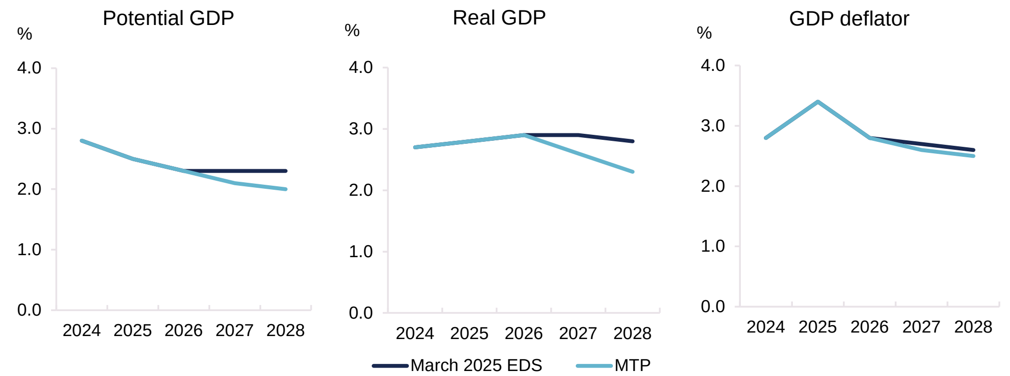
[7] Available online: https://economy-finance.ec.europa.eu/document/download/c3232688-2e5a-4100-a3eb-2e87f24953c5_lt?filename=annual_progress_report-2025-lithuania_lt.pdf&prefLang=en.

FISCAL PART OF THE MEDIUM–TERM FISCAL-STRUCTURAL PLAN FOR 2025–2029

In the technical information provided to Lithuania by the European Commission, net expenditure should be planned to ensure that the primary structural balance of the general government is no worse than 0.3% of GDP in 2028. In prior guidance to Lithuania[8] in January 2025, the minimum level of the structural primary balance (SPB) is specified that would need to be set in order to ensure that the Threshold of Maastricht criterion is not breached in the 10 years after the adjustment period, assuming no additional policy measures are adopted. According to the EC, the structural primary balance should reach 0.3% of GDP in 2028. The trajectory of net expenditure in countries' fiscal-structural plans may differ from the net expenditure calculated by the EC due to the use of different assumptions, but the higher net expenditure growth thresholds need to be supported by data and economic arguments. The net expenditure growth in the fiscal part of the MTP prepared by the Ministry of Finance (MoF) (5.2% on average per year) is higher than in the technical information provided by the EC. In the assessment of the NAO FI, the net expenditure path is appropriate as it achieves an SPB that would ensure that, 10 years after the end of the adjustment period (i.e. in 2038), and including the costs of ageing, the GG deficit would not exceed 3% of GDP and debt would be less than 60% of GDP.

Among the reasons for the divergence of the net expenditure path from the EC guidelines, the MTP also identifies the following macroeconomic assumptions: potential and real GDP growth, and growth in the GDP deflator. The assumptions for these indicators for the period 2025–2026 are in line with the March 2025 Economic Development Scenario (EDS)[9] prepared by the MoF and endorsed by the NAO FI (Figure 1). According to the MTP, the estimates of potential GDP growth for the period 2027–2029 are combined with the assumption of technical information, considering that the plan must be consistent with the EC's methodology for the analysis of debt sustainability monitoring. Real GDP growth is recalculated using the output gap to potential projected by EDS. The growth rate of the GDP deflator starts to gradually converge towards the 2034 target from 2027. Thus, the macroeconomic assumptions used in the MTP for 2025–2026 are in line with the March 2025 EDS endorsed by the NAO FI, while for 2027–2028 they are more cautious than the EDS. Therefore, in the assessment of the NAO FI, the assumptions used in the MTP for these indicators for the period 2025–2028 can be considered appropriate for the preparation of a net expenditure path for Lithuania.

Figure 1. The macroeconomic assumptions used in the MTP for 2025–2026 are in line with the March 2025 EDS endorsed by the NAO FI, while for 2027–2028 they are more cautious than the EDS.



The charts show the percentage change in the above indicators.

It should be noted that the macroeconomic assumptions of the MTP need to be consistent with the EC's methodology for analysing debt sustainability.

Source: MTP, Ministry of Finance

[8] Available online: https://economy-finance.ec.europa.eu/document/download/e7b91d16-b40e-4644-b23d-a511dc537df2_en?filename=Commission_prior_guidance-lithuania_en.pdf.

[9] Available online: https://finmin.lrv.lt/public/canonical/1742387552/24820/ERS%20apra%C5%A1ymas%202025%20kovas_skelbimui.pdf.

The MTP could not take into account the likely application of the national defence clause and therefore the fiscal commitment in the MTP does not cover this aspect. According to the MTP, the GG deficit is expected to reach 1.3% of GDP in 2025. This is significantly lower than foreseen in the draft budgetary plan 2025–2027 (BP2025). In its assessment of the BP2025, the EC noted[10] that Lithuania risks not complying with the Council Recommendation[11] as net expenditure is projected to exceed the expenditure that would ensure a deficit of no more than 3% of GDP and a prudent debt level. According to Lithuania's Annual Progress Report, the deficit will reach 2.8% of GDP in 2025. As the European Commission has confirmed[12] that Russia's war against Ukraine and its threat to European security constitute "exceptional circumstances beyond the control of Member States", Member States can request for a national escape clause for defence–related expenditures. Lithuania's defence expenditure growth in 2025 is likely to be in line with the escape clause application requirements. This would allow a share of defence expenditure to be taken into account during the assessment of the compliance of the net expenditure path with the MTP commitment and the rules would not be breached. Lithuania, in the light of the Communication from the European Commission on the assessment of defence expenditure, addressed the Council of the EU on 2 May 2025 to adopt the national exceptional circumstances for the period 2025–2028[13]. The flexibility due to the national escape clause would cover increases in total defence expenditure, including investment and current expenditure, but would be limited up to 1.5% of GDP for each year of activation, compared to the net expenditure path set out in Member States' medium–term fiscal-structural plans. Thus, if the national escape clause were activated and defence spending increased, larger deficits could be planned. It is also important to note that the 1.5% of GDP clause applies to the increase in defence financing compared to 2021, and not to all expenditure in this area.

GENERAL GOVERNMENT BALANCE IN 2024

The actual general government balance in 2024 was –1.3% of GDP, better than planned, due to a more favourable outcome for all sub-sectors except local government. The general government deficit on a cash basis was 4.2% of GDP (Figure 2). After taking into account the adjustments needed to switch from cash to accrual accounting and the impact of components, the general government deficit in 2024 was 1.3% of GDP[14]. This is 1.5 p.p. lower than when the 2024 budget was adopted. This result is mainly due to the surplus of social security funds[15], other central government units[16] and lower expenditure on the acquisition of arms, military equipment and military stocks (accrual adjustment of the Ministry of National Defence expenditure).

[10] Available online: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2025_en#lithuania.

[11] Available online: https://eur-lex.europa.eu/eli/C/2024/6822/oj/eng.

[12] Available online: https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf.

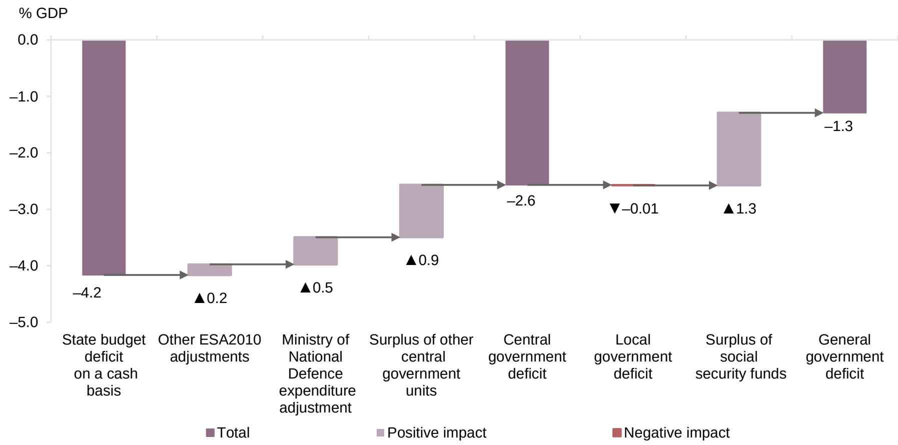
[13] Available online: https://finmin.lrv.lt/lt/naujienos/lietuva-kreipesi-i-es-taryba-su-prasymu-suteikti-daugiau-lankstumo-finansuojant-gynyba/.

[14] According to data published by the State Data Agency on 18 April 2025.

[15] The Social Security Funds subsector comprises the National Social Insurance, Compulsory Health Insurance, Guarantee and Long-Term Employment Benefit Funds.

[16] Other central government units include extra-budgetary funds, enterprises controlled by the central government, public institutions and public health and higher education institutions established by the central government, the financial data of which are excluded from the working balance of the central government sub-sector.

Figure 2. According to the April 2025 EDP notification table, the lower deficit in 2024 is due to a more favourable outcome for all sub-sectors of general government, except local government



Source: April 2025 EDP notification table, calculations by the National Audit Office implementing the function of a fiscal institution

NAO FI PROJECTIONS OF THE GENERAL GOVERNMENT BALANCE 2025–2028

The NAO FI forecasts a deficit of 3% of GDP in 2025, which is higher than projected in the Annual Progress Report. This is due to lower projected tax revenues than in the APR. Although the MoF forecasts slightly lower revenue growth, the Ministry of Finance's projections are considered plausible due to the remaining uncertainties in economic development. Although the MoF projects a lower GG revenue-to-GDP ratio than expected in autumn 2024, the projection has been revised upwards in nominal terms. This is mainly due to the positive revisions of macroeconomic indicators (wage bill, nominal GDP and final consumption expenditure) with the updated Economic Development Scenario. The NAO FI projects that in 2025, revenue collection from corporate income tax (CIT), VAT and PIT could be around EUR 260 million higher than foreseen in the Budget Law 2025–2027.

To illustrate the pressures on public finances, the NAO FI has developed two scenarios for the period 2026–2028: a baseline and an alternative scenario, which includes an additional increase in defence funding (Table 1). Both scenarios include usual budgetary decisions that increase long-term general government expenditure. According to the updated Law on Budget Structure[17], the indicators, ratios and other variables affecting the state budget had to be projected for a minimum period of three years. The NAO FI positively assesses the fact that the BP2025 2026–2027 includes an increase in social expenditure due to the plans to increase the base rates such as the basic social benefits, the state supported income, the base of the old-age pension and the base of the targeted compensations. For the period 2026–2028, decisions such as additional indexation of the individual part of pensions or salary increases for public sector employees have not yet been taken, but the NAO FI assumes that such decisions will be taken. The NAO FI has projected the indicators for the Compulsory Health Insurance Fund, State Social Insurance Fund and municipal budgets on the assumption that they are made in compliance with fiscal discipline rules.

In addition to these assumptions, the alternative scenario includes an increase in defence funding from baseline 3 to 5.25% of GDP and the impact of the tax proposals under consideration, based on the amendments to tax laws proposed by the Ministry of Finance

[17] Available online: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.428/asr.

approved by the Government on May 14[18]. The deficit is higher than in the baseline scenario, as the tax increases do not offset the need for additional defence financing. It is also assumed that the remainder is financed through borrowing and that expenditure is reflected in the GG statistics in the same year[19].

Table 1. Assumptions of the NAO FI 2026–2028 scenarios

Baseline scenario	Alternative scenario with additional funding for defence
Defence spending remains at the level approved in the 2025–2027 Budget Law (3% of GDP).	Defence spending is set to increase to 5.25% of GDP between 2026 and 2028.
No implementation of the tax change proposals is foreseen.	Estimated implementation of the tax change proposals, based on information available until 14 May (budgetary impact: 0.3% of GDP in 2026, 0.6% of GDP in 2027–2028).
Includes discretionary decisions that usually reduce general government revenue and increase long-term GG expenditure: ➢ Increasing the rate of tax-exempt amount of income ➢ Increasing non-base-related social assistance benefits. ➢ Increasing salaries for public sector workers.	
Other included assumptions are: ➢ Additional indexation coefficient for the individual part of the social security pension is 1.034 (3.4%). ➢ The sub-sectoral budgets of the Local Government and Social Security Fund are drawn up in compliance with fiscal discipline rules. ➢ Positive impact on GG revenues, assuming an increase in wage bill. ➢ The EU and international financial assistance plan are not fully implemented (does not affect the GG balance).	
The expenditure and revenue projections are based on the March 2025 Economic Development Scenario.	

Source: the National Audit Office implementing the function of the fiscal institution

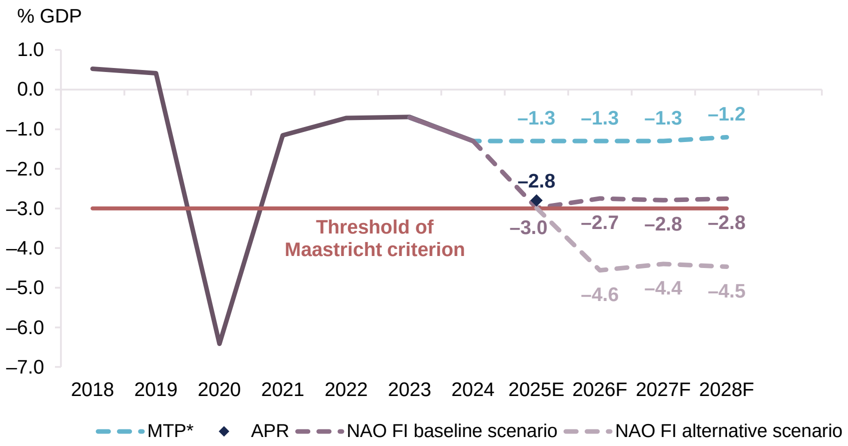
In the baseline scenario, the general government deficit in 2026–2028 is close to the threshold of Maastricht criterion, while according to the alternative scenario it will exceed it. In the baseline scenario, the deficit would be close to 3% of GDP in the medium term and above 4% of GDP in the alternative scenario (Figure 3). However, when assessing the projections for this indicator from a fiscal discipline compliance perspective, it should be borne in mind that the deficit could be higher than in the MTP if the national escape clause were applied, if the additional expenditure were to be allocated to defence spending. The deficit size in the NAO FI baseline scenario is close to the maximum possible deficit size consistent with EU fiscal rules (taking into account the application of the national escape clause). However, it is important to note that the exception only applies to increases in defence financing and if the increase in expenditure cannot be explained by it, the rules would be breached. The size of the deficit in the alternative scenario would breach fiscal discipline rules and is therefore considered unlikely in the NAO FI's assessment. Nevertheless, it reflects the pressure on public finances from usual decision-making and the need to increase defence spending. The alternative scenario results in a slight reduction of the deficit in 2027, due to the higher positive revenue impact of the projected tax changes at that time.

The change in EU fiscal rules has made the growth of net expenditure the main indicator for ensuring fiscal discipline. The assessment of compliance with the rules is now based on this indicator rather than on the general government balance. However, general government balance projections are used in the NAO FI analysis to provide a clearer picture of the state of public finances.

[18] Available online: https://finmin.lrv.lt/lt/naujienos/vyriausybe-pritare-finansu-ministerijos-pasiulytiems-mokestiniu-istatymu-pakeitimams/.

[19] When analysing the impact of defence spending on the budget balance, uncertainty is increased by the fact that the ESA2010 methodology applies the accrual accounting principle to military expenditure. Thus, expenditure is recorded when the economic ownership of the good is established, usually at the time of delivery.

Figure 3. In the baseline scenario, the deficit would be close to 3% of GDP in 2025–2028, while in the alternative scenario it would exceed this threshold



E – expected, F – forecast

* The commitments in the MTP do not include the aspect of the national escape clause related to defence.

The GG balances reported in the MTP are derived from the net expenditure growth limits.

The projections made by the NAO FI do not aim to be consistent with EU fiscal discipline rules, and the amounts in the MTP are fiscal commitments that must comply with them.

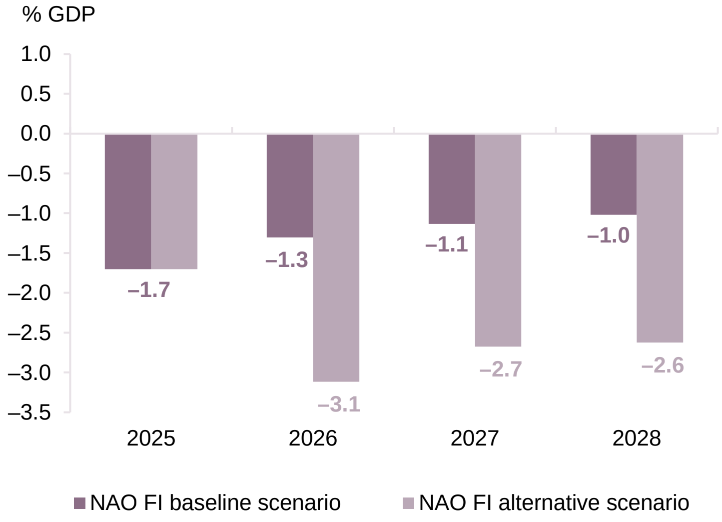
Source: State Data Agency, MTP, APR, calculations by the National Audit Office implementing the function of the fiscal institution

In the baseline scenario of the NAO FI, the level of general government revenue will reach around 39.7% of GDP in 2026–2028. The NAO FI projects that the ratio of general government revenue to GDP will increase in 2026 compared to 2025, before declining in subsequent years. The assumption of an increase in the non–taxable amount of income results in a constant level of direct taxes as a percentage of GDP, consisting of the PIT and the CIT. The increase in the level of revenues from indirect taxes is mainly due to the impact of higher GG expenditure on consumption and the resulting increase in VAT revenues. Revenues from social contributions will remain stable (Annex 1, Table 1).

In the baseline scenario of the NAO FI, the level of general government expenditure will be around 42.4% of GDP in 2026–2028. The main increase in general government expenditure will come from increases in social benefits. The overall level of expenditure and revenue is boosted by EU funds, but, in line with the neutrality principle, it does not affect the budget deficit indicator.

A structural primary deficit of the GG is projected for 2025–2028. Under both NAO FI scenarios, the structural primary balance of the GG will remain negative in 2025–2028 (Figure 4). In the baseline scenario, the SPB would reach –1.3% of GDP on average annually over this period, while in the alternative scenario it would be lower at –2.5% of GDP.

Figure 4. The NAO FI projects a structural primary deficit of the GG for the period 2025–2028



Source: the National Audit Office implementing the function of the fiscal institution

Increasing defence spending without cutbacks in public services requires structural solutions that significantly increase GG revenues. The planned tax changes do not cover the additional need for defence spending, which amounts to 2.25% of GDP annually. This, together with further usual discretionary decisions reducing GG revenues and increasing GG expenditure, would lead to an increase in the deficit to 4.5 % of GDP. Such a deficit level would be inconsistent with fiscal discipline rules and would lead to a significant increase in debt. Lithuania's GG revenue level remains low[20] compared to other EU countries. This also results in a low level of GG expenditure. The Council Recommendation[21] to Lithuania states that low tax revenues "constrain the availability of resources to finance public expenditure on health care, social protection and general public services". The Council also recommends "providing adequate financing for health, social protection and general public services". Structural revenue and expenditure solutions are needed now to achieve sustainable public finances in the long term.

Tax changes could take greater account of recommendations from international organisations to achieve a fairer and more efficient tax system. Simplicity[22] and neutrality are among the key principles of tax policy. The principle of neutrality means that taxation should be neutral between forms of activity. Thus, the taxation of different forms of economic activity should be as uniform as possible to ensure that resources are allocated efficiently in the economy and that the tax system does not create an incentive to seek more favourable tax treatment. In the light of these principles, international organisations have made recommendations for improving the Lithuanian tax system. In the 2023 Stability Programme Assessment[23], the NAO FI provided a broader overview of the recommendations of international organisations.

[20] In 2023, tax revenues accounted for 32.3% of GDP in Lithuania and almost 40% of GDP in the EU.

[21] Council Recommendation 2024 on economic, social, employment, structural and budgetary policies for Lithuania. Available online: https://eur-lex.europa.eu/legal-content/LT/TXT/HTML/?uri=CELEX:52024DC0615.

[22] Available online: https://www.oecd-ilibrary.org/taxation/addressing-the-tax-challenges-of-the-digital-economy/fundamental-principles-of-taxation_9789264218789-5-en.

[23] Available online: https://www.valstybeskontrole.lt/EN/Product/24172/assessment-of-the-stability-programme-of-lithuania-for-2023.

The proposals to amend the personal income tax follow some of the recommendations of international organisations, but the elements of taxation based on the type of income rather than the amount remain. The package of proposals considers the recommendations of the World Bank[24] to move away from an activity-based and types of income-based system of taxation and to introduce a single taxation of all income, which aggregates most sources of income into a single taxable amount, and to increase progressivity through the introduction of a wider range of tax brackets. However, although the rates for self-employment and contract employment are formally aligned, these regimes are subject to different tax exemptions and self-employment income is aggregated with other income from a relatively high level (EUR 42,500). This means that income will continue to be treated differently, and the different rates of income taxation will remain.

The proposed amendments to the corporate income tax do not address the problem of corporate "bunching". The World Bank's above-mentioned recommendations state that small and medium-sized enterprises are concentrated around the current tax exemption threshold of EUR 300,000 of revenue per tax period. This concentration is described as the result of tax optimisation, which does not encourage the development of these enterprises and is therefore detrimental to economic development. The preferential rate changes the behaviour of firms. One of the reasons for this 'bunching' is the sudden increase in the tax rate (from 6 to 16%[25]) when the preferential tax threshold is crossed. For this reason, it is recommended that the preferential rate be abolished. This option has not been considered.

The proposals to amend the real estate tax are in line with the recommendations of international institutions to broaden the tax base. The International Monetary Fund (IMF) has pointed out that real estate tax in Lithuania is only levied on high-value real estate (and are paid by a relatively small proportion of the population[26]). The IMF's 2021 recommendations[27] for Lithuania stressed that the country's tax system should be more focused on capital and wealth taxation. The Organisation for Economic Co-operation and Development (OECD) proposes to increase the tax base[28]. The current proposals reflect this objective.

NAO FI PROJECTED NET EXPENDITURE 2025–2028

Between 2025 and 2026, the NAO FI projects net expenditure growth to be faster than indicated by potential economic developments. General government revenue-enhancing decisions are needed. According to the NAO FI's baseline scenario, general government net expenditure growth is projected to average 7.3% annually over the period 2025–2028 (growth does not include the aspect of the national escape clause) (Figure 5, Annex 2). Between 2025 and 2026, the growth of these expenditures would exceed the rate of increase in potential GDP at current prices indicating sustainable growth. The rapid growth of general government net expenditure, which exceeds the growth rate of potential GDP at current prices, reflects a widening of the structural deficit. To reduce the GG structural deficit, net expenditures would need to increase at a lower rate than the potential change in GDP at current prices, or they could increase faster if financed by

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[24] World Bank. Microsimulation analysis of the scale and impact of tax optimisation and corporate "drift". Report and recommendations. December 2022. Available online: https://documents1.worldbank.org/curated/en/099085002062326444/pdf/P17403102e65110c608eb00d49794b3ceba.pdf.

[25] Valid from 01/01/2025.

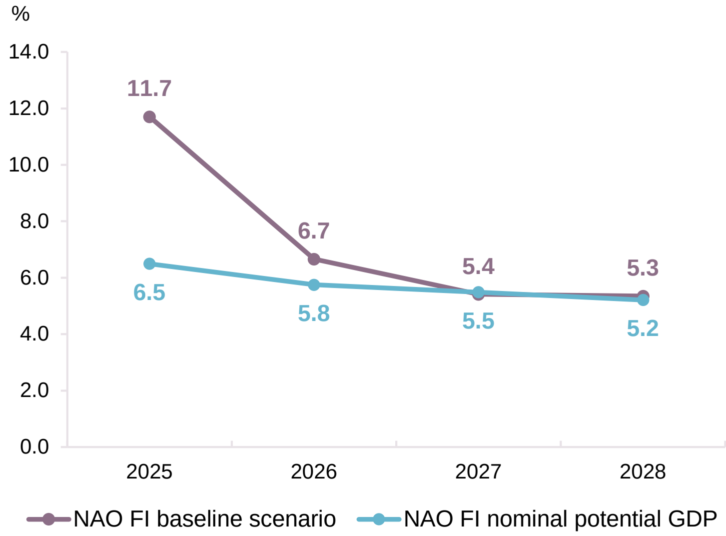
[26] Available online: https://www.imf.org/en/Publications/CR/Issues/2024/07/23/Republic-of-Lithuania-Selected-Issues-552407.

[27] Available online: https://www.imf.org/en/Publications/CR/Issues/2021/08/30/Republic-of-Lithuania-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-464874.

[28] Available online: https://www.oecd.org/en/publications/oecd-economic-surveys-lithuania-2025_4abf1ea5-en.html.

additional revenue measures. This implies that additional expenditure growth can be accompanied by revenue-enhancing solutions. It should be noted that, subject to the application of national escape clause, the increase in defence expenditure could exceed the net expenditure increases foreseen in the MTP, up to a maximum of 1.5% of GDP.

Figure 5. According to the NAO FI baseline scenario, general government net expenditure growth is projected to exceed the growth rate of potential GDP at current prices, indicating sustainable growth, between 2025 and 2026



The net expenditure growth shown in the NAO FI graph does not include the aspect of the national escape clause related to defence.

Source: State Data Agency, Ministry of Finance, State Budget Accounting and Payment System (SBAPS), calculations by the National Audit Office implementing the function of a fiscal institution

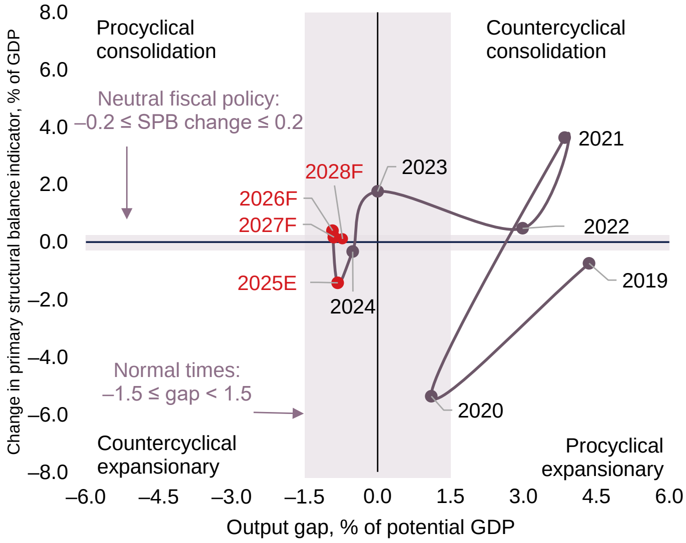
The Lithuanian MTP indicates that information on the specific discretionary revenue and expenditure measures to take effect from MTP year 2026 onwards will be provided in the draft budget for the relevant year. According to the MTP guidelines[29], detailing such measures in the plan is not mandatory. However, the European Commission stresses that their inclusion in the fiscal-structural plan would enhance the credibility of the document and reduce the risk of non-implementation of the commitment.

NAO FI'S PROJECTED FISCAL STANCE 2025–2028

With the economy below its potential level, a stimulus is foreseen in 2025, with fiscal policy moving towards neutrality in 2026. Taking into account the projections for the general government balance in the NAO FI baseline scenario and the projected negative output gap in 2025, the annual change in the structural primary balance of the GG is projected at –1.4% of GDP (Annex 3). This suggests that fiscal policy is in the countercyclical expansionary area (Figure 6). It should be noted that the projected stimulus to the domestic economy is stronger in 2025 than in 2024. If the economy is below its potential level, stimulus is possible, but it is important that it is also supported by investment. This would help to increase the productivity and resilience of the economy, by directing spending towards areas such as green and digital transformation. For the period 2026–2028, the NAO FI projects a neutral fiscal stance in the baseline scenario. This means that fiscal policy maintains the current cyclical position of the economy, neither stimulating nor constraining growth.

[29] Available online: https://eur-lex.europa.eu/legal-content/LT/TXT/HTML/?uri=OJ:C_202403975#ntr17-C_202403975LT.000101-E0017.

Figure 6. Fiscal policy remains countercyclical in 2025 and moves towards neutral in 2026



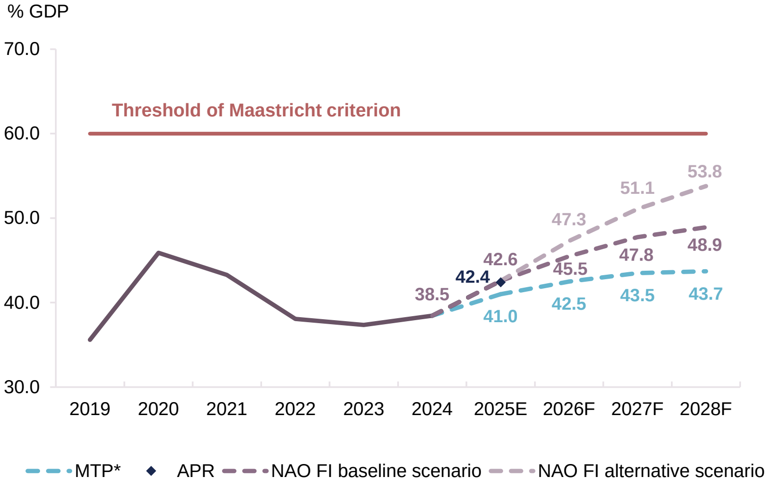
Based on the projections for the general government balance and the output gap in the NAO FI baseline scenario.
E – expected, F – forecast

Source: State Data Agency, Ministry of Finance, calculations by the National Audit Office implementing the function of a fiscal institution

NAO FI PROJECTED GENERAL GOVERNMENT DEBT 2025–2028

Government debt is projected to grow faster between 2025 and 2028 than in Lithuania's medium-term fiscal-structural plan. The NAO FI, based on the International Monetary Fund's methodology[30], projects this indicator to reach 42.6% of GDP this year (Figure 7). Under the baseline scenario, debt is likely to grow faster than projected in the MTP over the remaining medium term, reaching 48.9% of GDP in 2028, due to the usual discretionary decisions (Table 1). This is 10.5 p.p. of GDP higher than in 2024. Under the alternative scenario of the NAO FI, public debt would grow even faster, reaching 53.8% of GDP in 2028.

Figure 7. Under the baseline and alternative scenarios of the NAO FI, the projected public debt in 2025–2028 is projected to grow faster than foreseen in Lithuania's medium-term fiscal-structural plan



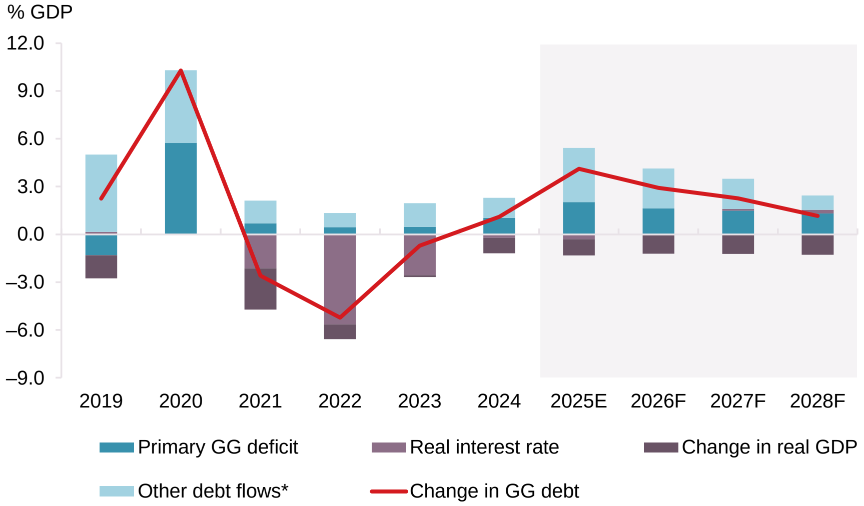
E – expected, F – forecast
* The commitments in the MTP do not include the aspect of the national escape clause related to defence.
The GG balances reported in the MTP are derived from the net expenditure growth limits.
The projections made by the NAO FI do not aim to be consistent with EU fiscal discipline rules, and the amounts in the MTP are fiscal commitments that must comply with them.

Source: State Data Agency, MTP, APR, calculations by the National Audit Office implementing the function of a fiscal institution

[30] IMF Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries, 9 May 2013. Available online: https://www.imf.org/external/np/pp/eng/2013/050913.pdf.

Looking at the drivers of debt change, according to the NAO FI's assessment, the main contributors to debt change will be the primary deficit of the GG and the other debt-creating flows (in line with the MTP's stock-flow adjustment) (Figure 8). Under the baseline scenario, the primary deficit could average around 1.6% of GDP annually between 2025 and 2028. The projected expansion of real GDP will moderate the debt growth by 1.2% of GDP on average each year. The favourable impact of real interest rates on debt will diminish as the average nominal interest rate on debt rises and inflation slows. It is projected to contribute to debt growth between 2027 and 2028 (Annex 1, Table 3).

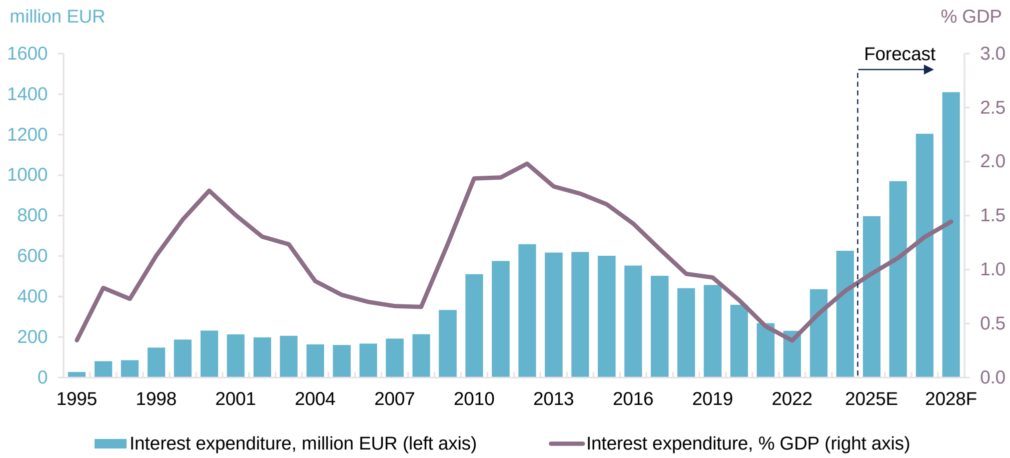
Figure 8. Under the NAO FI baseline scenario, the main contributors to the general government debt-to-GDP ratio in 2025–2028 are the primary deficit and other debt-creating flows



* Calculated as a residual until 2024 and including the *stock-flow* adjustment in the MTP for 2025–2028. This includes adjustments between the GG and the State budget deficit, the impact of the EU balance, the change in the Treasury's liquid assets and others.
E – expected, F – forecast
Source: State Data Agency, MTP, calculations by the National Audit Office implementing the function of the fiscal institution

Expenditure on interest payments on GG debt is projected to continue to grow. In the baseline scenario, the NAO FI projects interest payments on GG debt to amount to EUR 0.8 billion and EUR 1.0 billion (1% and 1.1% of GDP) in the period 2025–2026 (Figure 9 and Annex 1, Table 3). They are likely to reach EUR 1.4 billion (1.4% of GDP) in 2028. This higher expenditure implies that more resources will be needed in the future to service debt when they could be used for other important public areas.

Figure 9. Expenditure on interest payments on GG debt is projected to continue growing



Based on the NAO FI baseline scenario.
Source: State Data Agency, calculations by the National Audit Office implementing the function of the fiscal institution

FISCAL RISKS

In the medium term, geopolitical uncertainty, climate change, demographic and technological change are among the main challenges. These risks can lead to both direct increases in GG expenditure and indirect effects through the macroeconomic environment, the labour market or productivity growth. Proper identification of these risks is essential to improve budget planning and maintain fiscal stability.

The unfavourable geopolitical environment poses risks to public finances. General uncertainty related to trade restrictions, resulting from US protectionist policies and persistent geopolitical tensions are among the main sources of fiscal risks. A report by the International Monetary Fund[31] states that major geopolitical risk events (such as military conflicts, trade tensions) contribute to volatility in financial markets, stock price corrections, undermine investor confidence, and can disrupt supply chains. Also, in mid-2024, the IMF pointed out[32] that Lithuania is already facing high spending needs for defence and higher borrowing costs, which adds to the long-term pressures of ageing and climate change. The IMF estimates that this could increase public spending by between 5% and 10% of GDP.

An ageing population will increase pressure on public finances. Lithuania faces the problem of a rapidly ageing population - according to the NAO FI's assessment[33], the share of people aged 65 and over in the population structure could rise from 20% in 2024 to almost 23% in 2029. This is likely to increase pressure on public services, especially health and pension systems. The NAO FI estimates that age-related expenditure[34] will increase by 1.4 p.p. of GDP between 2025 and 2029. It should be noted that the Regulation establishes the need to manage net expenditure in such a way as to ensure that the structural primary balance achieved at the end of the adjustment period, plus ageing costs, plus other components, does not lead to a general government deficit of more than 3% of GDP within 10 years (after the end of the adjustment period), and to avoid increasing the risk to the long-term sustainability of general government finances.

Climate change will also pose risks to fiscal sustainability. The European State of the Climate Report[35] states that 2024 was the warmest year on record in Europe. Measures to halt or adapt to climate change can have a significant impact on public finances. According to the OECD[36], the most prominent risk in Lithuania is the increasing vulnerability of farmland to drought. Extreme weather events can not only affect food and energy prices but also damage the production capacity of various economic activities. On the other hand, investment in green energy and innovation can boost productivity growth and employment. The list of reforms and investments foreseen in the MTP includes increasing the production of renewable energies and developing infrastructure for their use in the transport sector and promoting the decarbonisation of industry.

[31] Available online: https://www.imf.org/en/Publications/GFSR/Issues/2025/04/22/global-financial-stability-report-april-2025.

[32] Available online: https://www.imf.org/en/News/Articles/2024/07/22/pr-24284-lithuania-imf-concludes-2024-article-iv-consultation.

[33] Available online: https://www.valstybeskontrole.lt/EN/Product/24298/assessment-of-the-sustainability-of-general-government-finances-in-20252050.

[34] The expenditure assessed by the NAO FI included: old-age pensions, health care and long-term care, education, maternity-paternity, and child benefits.

[35] Available online: https://climate.copernicus.eu/esotc/2024.

[36] Available online: https://www.oecd.org/en/publications/oecd-economic-surveys-lithuania-2025_4abf1ea5-en.html.

Technological change and artificial intelligence will have an impact on public finances. In the medium term, a breakthrough in this area could contribute to productivity growth. Also, the National Audit Office report[37] states that the use of Artificial Intelligence (AI) in the public sector would open opportunities for greater efficiency and reduce the need for public budget expenditures. However, the audit shows that Lithuania lacks a national strategy for the coherent development of the use of this tool in the sector. AI initiatives remain fragmented, and most institutions do not have the tools to assess and manage the risks of these technologies. Technological change also poses downside risks: AI can increase structural unemployment, and cyber threats are on the rise, which can affect economic stability through critical infrastructure and financial institutions.

The proposed changes to II pension pillar system [38] may have implications for macroeconomic developments and fiscal projections in the medium term. According to the Bank of Lithuania's assessment[39], in case 40% of the participants in the second pension pillar system would withdraw their funds primarily for consumption, the economy would experience large short-term fluctuations. Real GDP and inflation would initially increase rapidly in 2026 and fall below the baseline projection in 2027 as consumption normalises. Although these fluctuations would change the assessment of economic developments in the short term, by the end of 2028 both GDP and inflation would eventually return to their trends prior to the implementation of suggested changes. According to the NAO FI's assessment, these short-term fluctuations could have an impact on the fiscal indicators. In its assessment of the sustainability of public finances[40], the NAO FI noted that the proposed changes to the second pillar pension system are likely to reduce the income replacement rate for future pensioners and increase pressure on the sustainability of public finances in the long term.

Regular assessment of fiscal risks would contribute to the management of medium-term fiscal risks. In 2020, the MoF prepared the first comprehensive overview of fiscal risks[41], which assesses both the likelihood of risks occurring and their potential impact. The impact on general government finances in 2019, if all risks materialised simultaneously, was estimated to be around EUR 5.6 billion or 11.5% of GDP. The NAO FI considers that it would be appropriate to carry out such an assessment on a regular basis, as this would help to manage the risks more effectively in the medium term and contribute to the long-term sustainability of public finances.

ASSESSMENT OF COMPLIANCE WITH FISCAL DISCIPLINE RULES IN 2024

Given the limited application of the fiscal discipline rules, the 2024 general government budgets were in line with the requirements of the Constitutional Law (Table 2)[42]. In years of exceptional circumstances, the scope of the fiscal discipline rules is narrowed. The rules for the State Social

[37] Available online: https://www.valstybeskontrole.lt/EN/Product/24315/management-of-artificial-intelligence-in-the-public-sector.

[38] Available online: https://socmin.lrv.lt/lt/naujienos/vyriausybe-pritare-antrosios-pensiju-kaupimo-pakopos-tobulinimams-sistema-bus-patrauklesne-ir-lankstesne/.

[39] Available online: https://www.lb.lt/uploads/publications/docs/51997_99f0a98e57fd62873e5bab678d6514d2.pdf.

[40] 20/02/2025 NAO FI report "Assessment of the sustainability of general government finances 2025–2050". Available online: https://www.valstybeskontrole.lt/EN/Product/24298/assessment-of-the-sustainability-of-general-government-finances-in-20252050.

[41] Available online: https://finmin.lrv.lt/uploads/finmin/documents/files/Fiskaliniu_riziku_apzvalga_2020.pdf.

[42] A detailed assessment of compliance with the rules can be found in the *MS Excel* workbook accompanying this conclusion on the website. Available via the Internet: https://www.valstybeskontrole.lt/EN/BudgetMonitoring.

Insurance Fund and the Compulsory Health Insurance Fund budgets were respected in 2024. The budget of the Compulsory Health Insurance Fund was structurally balanced and complied with the requirements of Article 4(2) of the Constitutional Law (CL), while the structural balance of the State Social Insurance Fund was in surplus, thus also complying with Article 4(3) of the CL. Even if all the rules of fiscal discipline were applied, according to the MoF's estimates, they would still not be breached. In 2024, with a negative output gap, the expenditure growth limitation rule would not be applied, and the surplus budget rule would be respected as the actual structural deficit of the GG (0.5% of GDP) is below the medium-term objective of 1% of GDP. However, according to the NAO FI's assessment, the structural deficit was 1.1% of GDP and therefore the rule would not be respected. This difference is due to different estimates of potential GDP. The assessment of the compliance of municipal budgets with fiscal discipline rules will be presented in June 2025.

Table 2. Fiscal discipline in 2024

Fiscal discipline rules	Assessment
Surplus GG rule	Not applicable
GG expenditure growth limitation rule	Not applicable
Rules for the Budgets Attributable to GG, including:	
State Social Insurance Fund	✓
Compulsory Health Insurance Fund	✓
Local government sub-sector	To be submitted in June 2025

✓ - rule complied with, × - rule not complied with

Source: the National Audit Office implementing the function of a fiscal institution

In 2025, exceptional circumstances are not applied in Lithuania, but the application of national fiscal discipline rules remains limited. Exceptional circumstances were first declared in Lithuania in March 2020, following the outbreak of the COVID-19 pandemic. In 2022, as the impact of the pandemic on public finances diminished, the geopolitical situation following the outbreak of the war in Ukraine became the basis for exceptional circumstances. Following changes in European Union legislation, the exceptional circumstances in Lithuania are no longer applied from 2025. Changes in economic governance at EU level also entail an amendment of the Constitutional Law implementing the Fiscal Treaty to align national fiscal discipline rules with EU rules. As 2025 is considered as a transition period, Article 10 of the CL has been supplemented by paragraph 5[43], providing that the budget for the period 2025–2027 will still be exempted from the GG expenditure growth limitation and surplus GG rules and will not be subject to the imposition of structural adjustment targets. However, in the view of the NAO FI, this decision only postpones the need for fiscal adjustment to later years and may pose risks to the application of fiscal discipline rules and the pursuit of responsible budgetary policies in the long term.

The National Audit Office of the Republic of Lithuania, in its capacity as the budget policy monitoring authority, is responsible for monitoring compliance with the rules of fiscal discipline and the fulfilment of tasks set out in the Constitutional Law on the Implementation of the Fiscal Treaty of the Republic of Lithuania, and is empowered to prepare and submit to the Seimas of the Republic of Lithuania independent opinions related to compliance with the rules of fiscal discipline and macroeconomic developments. The NAO FI has carried out an assessment of the fiscal part of Lithuania's medium-term fiscal-structural plan and is submitting it to the Parliament of the Republic of Lithuania.

Head of Budget Monitoring Department Jurga Rukšėnaitė

[43] Available online: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/91298c90b3b011efbb3fe9794b4a33e2?jfwid=10oefocqyv.

ANNEXES

Assessment of the fiscal part of Lithuania's medium-term fiscal-structural plan
Annex 1

NAO FI PROJECTIONS OF FISCAL INDICATORS

Table 1. General government revenue and expenditure projected in ESA 2010 by the NAO FI under the baseline scenario

Indicator (% of GDP, unless otherwise specified)	ESA 2010 code	2024	2025E	2026F	2027F	2028F
Total revenue	OTR	38.5	39.4	40.0	39.5	39.5
Tax revenue		22.4	22.8	23.5	23.7	23.9
Revenue from indirect taxes	D.2	11.7	11.9	12.2	12.4	12.5
Revenue from direct taxes	D.5	10.8	10.9	11.3	11.3	11.4
Net social contributions	D.61	11.2	11.5	11.8	11.9	12.0
Other income, of which:		4.9	5.1	4.7	4.0	3.6
Revenue from property	D.4	0.9	0.8	0.7	0.6	0.5
Total expenditure	OTE	39.8	42.4	42.8	42.3	42.3
Compensation of employees	D.1	11.6	11.8	11.8	11.8	11.8
Intermediate consumption	P.2	4.4	5.1	5.0	4.4	4.5
Subsidies	D.3	0.3	0.5	0.5	0.4	0.4
Interest payments	D.41	0.8	1.0	1.1	1.3	1.4
Social benefits	D.6M	15.5	16.4	17.0	17.3	17.5
Other expenditure, of which:		7.0	7.6	7.3	7.0	6.6
Gross fixed capital formation	P.5L	4.4	5.1	4.9	4.6	4.5
Capital transfers	D.9	0.6	0.5	0.4	0.6	0.6
Net lending (+) / net borrowing (-)	B9	−1.3	−3.0	−2.7	−2.8	−2.8
Net lending (+) / net borrowing (-), EUR billion		−1.0	−2.5	−2.4	−2.6	−2.7

E – expected, F – forecast
Figures may not add up due to rounding.
Source: State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution

Table 2. Projections of general government and sub-sectoral balances under the baseline scenario

Indicator, as % of GDP	2024	2025E	2026F	2027F	2028F
Central government subsector	−2.6	−4.0	−3.9	−3.9	−3.9
Social insurance funds subsector	1.3	1.1	1.2	1.1	1.1
Local government sub-sector	−0.0	−0.1	−0.0	0.0	0.0
General government	−1.3	−3.0	−2.7	−2.8	−2.8

E – expected, F – forecast
Figures may not add up due to rounding.
Source: State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution

Table 3. Projected general government debt, its drivers of change and interest payments by the NAO FI under the baseline scenario

No.	Indicator (% of GDP, unless otherwise specified)	2024	2025E	2026F	2027F	2028F
1.	GG debt	38.5	42.6	45.5	47.8	48.9
2.	Change in GG debt (3+4+7)	1.1	4.1	2.9	2.3	1.2
3.	Primary GG deficit	1.0	2.0	1.6	1.5	1.3
4.	Automatic debt dynamics (5+6)	−1.2	−1.3	−1.2	−1.1	−1.0
5.	Real interest rate	−0.2	−0.3	−0.1	0.1	0.2
6.	Change in real GDP	−1.0	−1.0	−1.2	−1.2	−1.3
7.	Other flows affecting debt*	1.3	3.4	2.5	1.9	0.9
8.	GG debt EUR billion	30.0	35.3	39.9	44.2	47.8
9.	Interest payments	0.8	1.0	1.1	1.3	1.4
10.	Interest payments in EUR billion	0.6	0.8	1.0	1.2	1.4

* Calculated as a residual until 2024 and including the *stock-flow* adjustment in the MTP from 2025 to 2028.

E – expected, F – forecast

Source: State Data Agency, MTP, calculations by the National Audit Office implementing the function of a fiscal institution

Assessment of the fiscal part of Lithuania's medium-term fiscal-structural plan
Annex 2

NAO FI ESTIMATED GENERAL GOVERNMENT NET EXPENDITURE 2024–2028

No.	Indicator (% of GDP, unless otherwise specified)	2024	2025E	2026F	2027F	2028F
1.	General government expenditure	39.8	42.4	42.8	42.3	42.3
2.	Interest payments	0.8	1.0	1.1	1.3	1.4
3.	Cyclical unemployment benefits	−0.1	−0.1	−0.1	−0.1	−0.1
4.	Expenditure on EU programmes	1.3	1.9	1.6	1.0	0.9
5.	National expenditure on co-financing of EU programmes	0.2	0.2	0.3	0.3	0.2
6.	One-off expenditure measures (excluding EU-funded measures)	0.0	0.0	0.0	0.0	0.0
7.	Net primary GG expenditure (before discretionary revenue measures) (1 - 2 - 3 - 3 - 4 - 5 - 6)	37.6	39.4	39.9	39.9	39.8
8.	Discretionary revenue measures (excluding one-off revenue measures)	0.2	0.1	0.2	0.3	0.3
9.	Net primary GG expenditure (after discretionary revenue measures) (7 - 8)	37.4	39.3	39.7	39.6	39.5
10.	Change in net primary GG expenditure, %	11.0	11.7	6.7	5.4	5.3

E – expected, F – forecast

Based on the NAO FI baseline scenario.

The NAWRU (non-accelerating wage rate of unemployment) estimated by the NAO FI for March 2025 was used to calculate cyclical unemployment benefits.

Source: State Data Agency, Ministry of Finance, State Budget Accounting and Payment System (SBAPS), calculations by the National Audit Office implementing the function of a fiscal institution

Assessment of the fiscal part of Lithuania's medium-term fiscal-structural plan
Annex 3

CYCLICAL SITUATION OF THE LITHUANIAN ECONOMY AND STRUCTURAL GENERAL GOVERNMENT BALANCE, 2020–2028, AS ASSESSED BY THE NAO FI

No.	Indicator, as % of GDP	2020	2021	2022	2023	2024	2025E	2026F	2027F	2028F
1.	GG net lending (+)/borrowing (-)	−6.4	−1.2	−0.7	−0.7	−1.3	−3.0	−2.7	−2.8	−2.8
2.	One-off and other temporary measures	0.0	0.0	0.2	−0.1	0.0	0.0	0.0	0.0	0.0
3.	Temporary measures*	−4.6	−2.4	−2.3	−0.8	−0.2	0.0	0.0	0.0	0.0
4.	Output gap, % of potential GDP	1.1	3.8	3.0	0.0	−0.5	−0.8	−0.9	−0.9	−0.7
5.	Cyclical budget component (0.399 × 4 series)	0.4	1.5	1.2	0.0	−0.2	−0.3	−0.4	−0.4	−0.3
6.	Structural GG balance (1 - 2 - 5)	−6.9	−2.7	−2.1	−0.5	−1.1	−2.7	−2.4	−2.4	−2.5
7.	Structural GG balance excluding temporary measures (1 - 2 - 3 - 5)	−2.3	−0.2	0.2	0.3	−0.8	−2.7	−2.4	−2.4	−2.5
8.	Interest	0.7	0.5	0.3	0.6	0.8	1.0	1.1	1.3	1.4
9.	Structural GG primary balance (6 + 8)	−5.8	−2.2	−1.7	0.0	−0.3	−1.7	−1.3	−1.1	−1.0
10.	Structural primary balance of the GG excluding temporary measures (7 + 8)	−1.6	0.2	0.6	0.9	0.0	−1.7	−1.3	−1.1	−1.0
11.	Change in the primary balance of the structural GG	−5.4	3.6	0.5	1.8	−0.3	−1.4	0.4	0.2	0.1
12.	Change in the primary balance of the structural GG, excluding temporary measures	−1.1	1.8	0.3	0.3	−0.8	−1.7	0.4	0.2	0.1

E – expected, F – forecast

Based on the NAO FI baseline scenario.

* COVID-19-related measures include measures to mitigate the impact of rising energy prices, assistance to the Ukrainian people fleeing Russian military action and other support to Ukraine, the installation of a physical barrier and security systems on the Lithuanian-Belarusian border, and support for Lithuania's railway infrastructure.

Source: Ministry of Finance, State Data Agency, calculations by the National Audit Office implementing the function of a fiscal institution