VALSTYBĖS KONTROLĖ
FISCAL MONITORING

OPINION

OPINION ON THE ANNUAL PROGRESS REPORT 2026

15 May 2026

No. BPE-3

THE GROWTH IN NET EXPENDITURE IN 2025 MET EU REQUIREMENTS, BUT WITHOUT SUSTAINABLE SOURCES OF REVENUE, IT WILL BE DIFFICULT TO COMPLY WITH FISCAL DISCIPLINE IN THE FUTURE

The National Audit Office, as the Independent Fiscal Institution (hereinafter – IFI), submits its Opinion to the Seimas on the fiscal part of the Annual Progress Report 2026. The Opinion is submitted in accordance with the Law on Fiscal Governance of the Republic of Lithuania.

In the IFI's assessment, taking into account the possible deviation, the growth in net expenditure presented in the Annual Progress Report, based on actual 2025 data, was in line with the net expenditure growth limit set out in Lithuania's 2025–2029 Medium-Term Fiscal Structural Plan. The opinion also presents the IFI's projections for the general government balance and debt for 2026–2029, reviews *ex-post* compliance with national fiscal discipline rules in 2025, and outlines developments in national fiscal governance.

Key messages:

- **Based on actual data, net expenditure growth in 2025 was in line with EU requirements.**
- **There is a high risk that national and EU fiscal discipline rules may not be met in 2026, with expenditure growth deviating from the limits.**
- **If usual decisions were taken on the tax-exempt amount of income and social benefits in 2027–2029, the general government deficit would reach the 3% GDP threshold as early as 2028.**
- **With public debt rapidly approaching 60% of GDP, fiscal space to respond to potential future geopolitical or economic challenges will continue to narrow.**
- **To maintain the availability of public services and defence financing while complying with fiscal discipline, sustainable revenue sources are necessary.**
- **In 2025, the Compulsory Health Insurance Fund failed to comply with the fiscal discipline rule – this likely indicates a funding shortfall, and the inflows received by SODRA from second-pillar pension funds does not constitute revenue.**

SUMMARY

An updated fiscal governance framework came into force in Lithuania in 2026. It aims to ensure more flexible, transparent and sustainable management of general government finances by aligning national rules with the new EU fiscal framework. Net expenditure has become the key indicator of fiscal discipline, with its annual growth not permitted to exceed set limits. The trajectory of expenditure growth depends on the level of public debt and deficit, as well as the application of EU recommendations. The new system also provides local authorities with greater flexibility in planning their budgets. It should be noted that local authorities are an integral part of the general government sector; therefore, in order to comply with the limits on net expenditure growth, as local authority expenditure grows more rapidly, expenditure in other subsectors must grow at a slower rate. Furthermore, the role of the independent fiscal authority, whose tasks are carried out by the National Audit Office, has been strengthened. The *'comply or explain'* principle has been enshrined in fiscal governance.

According to actual data, net expenditure growth in 2025 complied with EU requirements. The limits on net expenditure growth are set out in Lithuania's fiscal structural plan[1]. A national escape clause for defence expenditure applies to the country for the period 2025–2028. While the escape clause is in force, the opinion on compliance with EU fiscal discipline rules is based solely on the accumulated deviation, which may not exceed 0.6% GDP. Although actual net expenditure growth in 2025 reached 11.1% and significantly exceeded the 6.1% limit set in the plan, after applying the escape clause for defence expenditure, the cumulative deviation stood at 0.5% of GDP. Therefore, in the IFI's assessment, net expenditure growth in 2025 was in line with the net expenditure growth limit set out in Lithuania's 2025–2029 medium-term fiscal structural plan.

Not all national fiscal discipline rules were complied with in 2025. Following the adoption of amendments to the Constitutional Law at the end of 2024, the rules on limiting the growth of the general government surplus and general government expenditure, as well as the structural adjustment target, were not applied in 2025. The opinion assesses only the compliance of social security fund budgets with national fiscal discipline rules[2] . According to the IFI's assessment, the State Social Insurance Fund budget complied with the rules, as it was in surplus and its structural balance exceeded 1% GDP, whilst the Compulsory Health Insurance Fund budget had a negative structural balance, and therefore the rules were not complied with.

Taking into account the discretionary decisions typically taken, the IFI projects that the general government deficit may exceed the Maastricht criterion threshold in 2029. In order to assess the pressure on public finances, the IFI has prepared projections for the general government balance for 2027–2029, incorporating typically taken discretionary decisions (regarding the level of the tax-exempt amount of income, public sector wages and pensions) that increase long-term expenditure or reduce revenue. In the IFI's assessment, there is a risk that the general government deficit will reach the 3% GDP Maastricht criterion threshold in 2028 and exceed it in 2029. This indicates that pressure on public finances will remain strong in the medium term and will require higher revenue or improvements in the efficiency and reduction in the scope of public services. The IFI also notes that geopolitical uncertainty and potential rises in energy prices could increase inflation and the need for general government spending; it is therefore important to avoid hasty decisions that are disproportionately costly to the State budget.

[1] Lithuania's Medium-Term Fiscal Structural Plan. Available online: https://finmin.lrv.lt/lt/veiklos-sritys/fiskaline-politika/fiskalinis-strukturinis-planas/.

[2] An assessment of the compliance of municipal budgets with the fiscal discipline rule will be presented in June.

In the medium term, public debt will rapidly approach the Maastricht criterion threshold. According to the IFI's estimates, debt will reach 45.0% of GDP this year. Based on the IFI's general government balance projections, due to the usual discretionary decisions, debt would grow faster over the remainder of the medium term than expected in the Annual Progress Report 2026 (APR2026) and would reach 55.3% GDP in 2029. It should be noted that advance payments for military equipment are already increasing public debt, although this will only be reflected in the general government deficit in the future. From 2027, rising real interest rates will also contribute to debt growth. It is also forecast that general government expenditure on debt interest payments will rise steadily – from €1.1 billion in 2026 to €1.8 billion in 2029.

According to both the APR2026 and IFI projections, there is a risk of non-compliance with the fiscal discipline rule from 2026 onwards. The IFI estimates that the growth rate of net expenditure in 2026–2029 will average 6.4% per year and will be higher than expected in the APR2026 (6.0%), with current expenditure on social benefits, wages and intermediate consumption having the greatest impact on this growth. Taking into account the defence expenditure clause, the cumulative deviation in net expenditure growth projected by both the IFI and the APR2026 will exceed the 0.6% GDP threshold in 2026–2028. If these projections are confirmed, this would constitute a breach of the fiscal discipline rules enshrined in both EU legislation and the Constitutional Law. The IFI also notes that the risk of breaching the rule as early as 2026 arises from higher-than-planned growth in net expenditure in 2025; therefore, in order not to exceed the set limits, expenditure in 2026 would need to be lower than currently forecast.

In order to comply with fiscal discipline rules in the medium term, measures to increase general government revenue are necessary. In the IFI's assessment, there is a risk that not only will the limits on net expenditure growth not be met, but the general government deficit will also exceed the 3% GDP threshold, providing grounds for the European Commission to initiate an excessive deficit procedure. To ensure compliance with fiscal discipline, it is important to increase general government revenue, given that Lithuania's general government revenue-to-GDP ratio remains low compared to other EU countries, and in line with the EU Council's recommendations on broadening the tax base and strengthening the financing of public services. The structurally increased level of defence funding also contributes to the need for sustainable public finances. It should be noted that the level of the deficit is significantly influenced by the accounting treatment of defence expenditure, as advance payments for military equipment and delivery times result in a lower deficit when the accrual rather than the cash basis of accounting is applied. According to APR2026 projections, the accumulated adjustment for military equipment procurement expenditure over 2025–2029 would amount to around 6% GDP. This implies that in subsequent years, this trend may increase pressure on public finances and, in order to remain within deficit limits, it may be necessary to reduce expenditure in other areas of the public sector. It is also noted that the additional cash inflows received by SODRA from the second pillar of the pension system are not considered revenue, as they create corresponding long-term liabilities.

The additional resources of SODRA arising from contributions to second-pillar pension funds are not considered revenue and increase long-term liabilities. It is anticipated that, following the entry into force of the amendments, the size of SODRA's reserve will be significantly boosted over the coming years by SODRA and The State budget contributions returned from second-pillar pension funds. However, this does not mean that the financial position of the pension system will improve structurally. The returned contributions are not treated as revenue, as they become pension accounting units, which represent future liabilities. It should be noted that following a short-term increase in reserves, the adverse impact of population ageing on public finances will become apparent. This will lead to the formation of a structural deficit, which would have to be financed from the SODRA reserve account. Due to population ageing, the reserve fund would be fully depleted before 2050. It should be noted that following the entry into force of the second-pillar reforms, greater pressure regarding future pensions will fall on social insurance. The IFI notes that the increased SODRA reserve should not be used for decisions that would increase the long-term level of liabilities without creating sustainable sources of revenue for this purpose.

1. REVIEW OF LITHUANIA'S FISCAL GOVERNANCE

An updated fiscal governance system came into force in Lithuania in 2026. It aims to ensure more flexible, transparent and clear financial management of the General government sector (GG), whilst maintaining its sustainability. The reform was implemented by amending the CL on the Implementation of the Fiscal Treaty[3] (CL) and related legislation – the Fiscal Discipline Law (renamed the Fiscal Governance Law[4]), the Budget Structure Law[5] and the National Audit Law[6] . These amendments align national rules with the updated EU fiscal framework by transposing the provisions of Directive (EU) 2024/1265 and establishing the procedures necessary for the application of Regulation (EU) 2024/1263.

Net expenditure is the key indicator in Lithuania's fiscal governance system. As at EU level, the CL enshrines a single key fiscal discipline rule: the annual growth in net expenditure must not exceed the established limits. Net expenditure is general government expenditure calculated by deducting interest expenditure, discretionary revenue measures, expenditure on EU programmes, national expenditure on co-financing of EU programmes, cyclical unemployment benefits, one-off and other temporary measures. The expenditure growth trajectory is set out in the country's fiscal structural plans. Expenditure growth limits are set for the current year and the following four years, applying one of three scenarios:

- where debt does not exceed 60% of GDP and the deficit does not exceed 3% of GDP, the Seimas sets expenditure growth limits so that they are consistent with a structural deficit of no more than 1% of GDP[7] ;
- if debt and/or the deficit exceed the Maastricht criterion thresholds, net expenditure growth must be in line with the EC's reference trajectory;
- where Council recommendations are in force (e.g. regarding the excessive deficit procedure or a national escape clause), the growth of net expenditure must comply with these recommendations.

Local authorities will be able to plan their municipal budgets more flexibly. The fiscal discipline rule applicable to local authorities will allow for more flexible budget planning; it comprises three elements:

- the balance rule – the budget must be balanced; a budget deficit of up to 1.5% of the municipality's revenue is permitted only in the event of a negative output gap;
- the debt limit – up to 60% of revenue (for Vilnius City – up to 75%);
- commitments under guarantees – up to 20% of the municipality's revenue.

There are no separate fiscal discipline rules for social security funds. Under the new fiscal governance framework, there are no separate fiscal discipline rules for the State Social Insurance Fund and the Compulsory Health Insurance Fund. Expenditure under the budgets of the State Social Funds and the Compulsory Health Insurance Fund must not exceed the shares of the aggregate appropriation limit allocated to them in the Budget law. The aggregate

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[3] Available online: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6be2c020699a11e48710f0162bf7b9c5/asr.

[4] Available online: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.308935/asr.

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

[6] Available online: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.18295/asr.

[7] Flexibility is also permitted in relation to higher central government investment (gross fixed capital formation), whilst ensuring compliance with EU fiscal discipline rules.

appropriations limit is set taking into account the limits on net expenditure growth established by the FSP.

During the stages of budget preparation, endorsement and implementation, it is important to manage the total expenditure of budgets classified under the GG sector in order to comply with fiscal discipline rules. It should be noted that both local authorities and social security funds are an integral part of the general government sector; therefore, in order to comply with the limits on net expenditure growth, when the expenditure of some general government entities grows more rapidly, the expenditure of other entities must grow less.

The Independent Fiscal Institution has been strengthened and its functions expanded. The National Audit Office has acquired the legal status of an Independent Fiscal Institution (IFI). The IFI will carry out assessments of compliance with EU and national fiscal discipline rules, the fiscal governance system and other matters provided for in legislation. The *'comply or explain'* principle enshrined in fiscal governance has strengthened the foundations for more transparent public finance management, geared towards long-term fiscal sustainability. Central and local government institutions must either take into account the opinions published by the IFI or publicly explain why they are not doing so. All IFI opinions and institutional explanations are discussed in Seimas committees.

2. ASSESSMENT OF COMPLIANCE WITH FISCAL DISCIPLINE RULES IN 2025

2.1. Compliance with the EU fiscal discipline rule

Lithuania is applying the national escape clause for the period 2025–2028. In the FSP, EU countries set out net expenditure plans which they commit to implementing. This is a multi-annual trajectory of a Member State's nominal net expenditure, defined in terms of annual growth rates. For the period 2025–2029, the net expenditure growth limits set out in the FSP and endorsed for Lithuania by the European Council in July 2025[8] apply. Lithuania is also applying a national escape clause for defence expenditure[9] . The escape clause allows for a deviation from the FSP's net expenditure growth limits of no more than 1.5% GDP, provided that this deviation is attributable to an increase in defence expenditure[10] compared to the level of such expenditure in 2021. As the escape clause is being applied, only the cumulative deviation in net expenditure growth is assessed for the period 2025–2028 when determining compliance with EU fiscal discipline rules. It is considered not to breach EU rules if it does not exceed 0.6% GDP[11] .

According to actual data, the growth in net expenditure in 2025 was in line with EU requirements. According to data presented in the Annual Progress Report 2026, net expenditure grew by 11.1% in 2025. (excluding the impact of discretionary revenue measures – 11.4%). Current expenditure (on social benefits, wages and salaries, and intermediate consumption) had the greatest impact on the growth of these expenditures. The impact of expenditure on investment (gross fixed capital formation) was insignificant (Figure 6). According to the FSP, the maximum possible growth in net expenditure in 2025 is 6.1%. The actual growth rate exceeded this limit by 5 percentage points, resulting in a deviation of 1.8% of GDP. However, in 2025, Lithuania applied the escape clause for defence expenditure amounting to 1.3% of GDP. Taking this escape clause

[8] Council Recommendation endorsing Lithuania's national medium-term fiscal structural plan. Available online: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:C_202503959.

[9] Council Recommendation authorising Lithuania to deviate from the maximum rate of net expenditure growth set by the Council under Regulation (EU) 2024/1263. Available online: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:C_202503969.

[10] According to COFOG.02.

[11] In accordance with Regulation 2024/1264. Available online: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202401264.

into account, the cumulated deviation amounted to 0.5% of GDP, i.e. less than the maximum permitted limit of 0.6% GDP. Therefore, the growth in net expenditure in 2025 complies with the EU fiscal discipline rule (Annex 1). The deviation was influenced by the lower *ex–post* assessment of discretionary revenue measures compared to their projected value at the time of preparing the 2026 Draft Budget Plan, and higher general government expenditure (on wages and social benefits).

2.2. Compliance with national fiscal discipline rules

2025 was a transitional period in Lithuania's fiscal governance system. The previous year was considered a transitional period during which national legislation was being aligned with the revised EU economic governance framework. In implementing the 2025 general government budgets, they had to comply with both the net expenditure growth limit set by the FSP and the national fiscal discipline rules in force until 31 December 2025. However, at the end of 2024, Article 10(5) was added to the CL, stipulating that, when implementing the Budget law for 2025–2027 (BL2025), the rules on limiting the general government surplus and the growth of general government expenditure shall not apply, nor shall a structural adjustment target be set. Thus, in 2025, only the compliance of social security funds and municipal budgets with the requirements of the CL is assessed. The assessment is presented in Table 1. It should be noted that, following the update of the fiscal governance system, these national fiscal discipline rules will no longer apply from 2026.

Table 1. Compliance with fiscal discipline rules in 2025

Fiscal discipline rules	Conclusion
Surplus GG rule	not applicable
GG expenditure growth limitation rule	not applicable
Rules on Budgets attributable to GG, including:	
State Social Insurance Fund	✓
Compulsory Health Insurance Fund	×
Local government subsector	To be provided in June 2026

✓ – rule complied with,× – rule not complied with

Source: Independent Fiscal Institution

In 2025, not all national fiscal discipline rules were complied with. The State Social Insurance Fund's budget met the requirements applicable to it, as it was in surplus and its structural balance exceeded 1% of GDP. Meanwhile, the structural balance of the Compulsory Health Insurance Fund was negative (–0.1% of GDP) and the rule was not complied with. It should be noted that the budget balance indicators assessed are calculated on a cash basis. At the general government level, had the CL amendment not been adopted, the GG expenditure growth limitation rule would not have applied due to the negative output gap, and the GG surplus rule would have been breached, as the structural deficit exceeded 1% of GDP (according to IFI calculations – 1.9% GDP, according to the MoF – 1.5% GDP[12]). Furthermore, according to a preliminary assessment[13] , the 2025 budgets of Anykščiai and Rokiškis municipalities did not meet the requirements set for them. The final assessment of municipal budgets will be presented in June 2026.

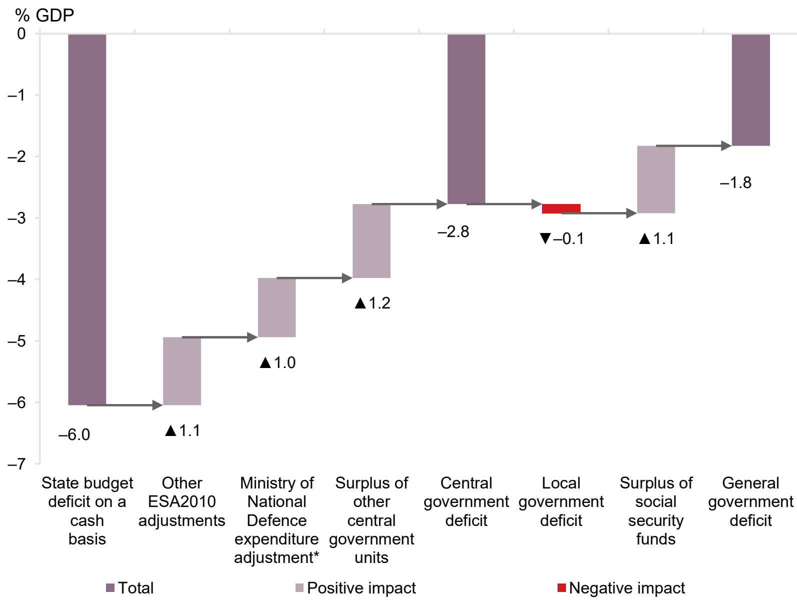
3. 2025 GENERAL GOVERNMENT BALANCE

[12] According to MoF calculations, the output gap stood at -1% of potential GDP, whilst the IFI was -0.1%.

[13] Available online: https://www.valstybeskontrole.lt/EN/Product/Download/4861.

The State budget deficit in 2025, on a cash basis, stood at 6% GDP, but on an accrual basis it was lower than planned when the Budget law was adopted. The State budget deficit on a cash basis amounted to almost €5.1 billion, or 6% GDP (Figure 1, Column 1). The adjustments under the excessive deficit procedure (EDP)[14] had a positive impact on the State budget. Due to these factors, the central government deficit on an accrual basis was 2.8% GDP. The local government balance had a negative impact on the general government balance. The social security funds surplus amounted to 1.1% GDP. The actual general government deficit stood at 1.8% of GDP and was lower than the 3% of GDP target set in the 2025 Budget Law.

Figure 1. According to the April 2026 Excessive Deficit Procedure (EDP) report, the lower deficit in 2025 on an accrual basis was driven by favourable results across all general government subsectors, except for the local government subsector



* Data from the State Defence Fund are included in the surplus of other central government units

Source: April 2026 EDP report, calculations by the Independent Fiscal Institution

4. IFI GENERAL GOVERNMENT BALANCE PROJECTIONS 2026–2029

The IFI forecasts a deficit of 2.4% of GDP for 2026, which is slightly higher than expected in the Annual Progress Report. This is due to projected tax revenues being lower than those presented in the Annual Progress Report 2026 (APR2026). Although the IFI forecasts slightly lower revenue growth, the Ministry of Finance's projections are considered plausible given the continuing uncertainty surrounding economic developments.

To illustrate the mounting pressure on public finances, the IFI has prepared projections for the general government balance for 2027–2029. The projections include discretionary decisions that are typically adopted and which increase long-term general government expenditure or reduce revenue. Under the updated Budget law, indicators, coefficients and other figures affecting the State budget were to be forecast for a period of no less than three years. Although the 2026–2028 Budget Law (BL2026) includes an increase in certain social benefits for 2027–2028, no decisions have yet been taken for 2027–2029 regarding additional indexation of the individual

[14] The adjustment under the excessive deficit procedure (EDP) covers the factors and their amounts required to move from a cash-based to an accrual-based State budget balance.

component of pensions or increases in public sector staff salaries; however, the IFI is based on the assumption that such decisions will be taken (Table 2).

Table 2. Additional assumptions by the IFI that differ from the APR2026 indicators for 2027–2029 have been included

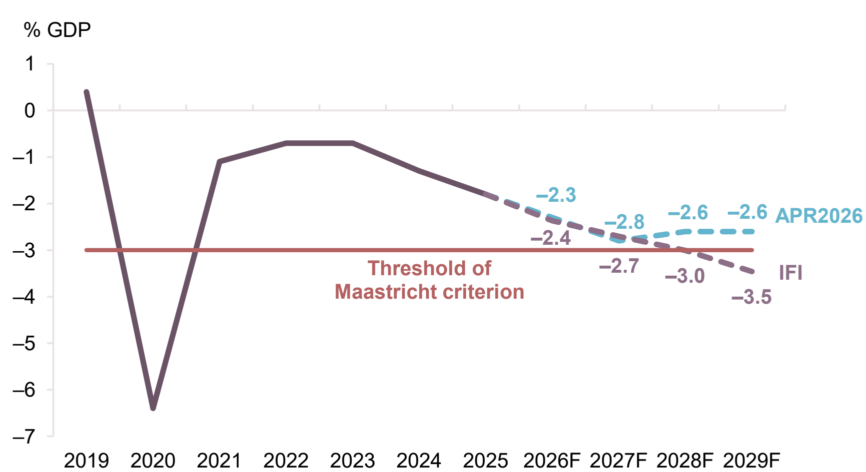
Given that discretionary decisions are taken each year which typically reduce GG revenue and increase long-term GG expenditure, the IFI applied the following assumptions when preparing its projections:

- An additional indexation coefficient of 1.033 (3.3%) for the individual social insurance pension component, calculated based on the 5-year indexation average.
- Increasing the rate of tax-exempt amount of income.
- A faster increase in public sector wages.
- A positive impact on GG revenue due to increased expenditure on wages.
- The EU and international financial assistance programme are not being fully implemented (does not affect the GG balance).

Source: Independent Fiscal Institution

According to the IFI's assessment, there is a risk that the deficit will reach the 3% GDP Maastricht criterion threshold as early as 2028 and exceed it in 2029. According to the IFI's projections, the deficit will rise in the medium term and will be higher than the APR2026 projection in 2028–2029 (Figure 2). The IFI estimates that the revenue level will stand at 40.8% GDP in 2028, falling slightly to 40.5% GDP in 2029, whilst the expenditure level during this period will reach 43.8% and 44.0% GDP respectively. Higher expenditure will be driven mainly by growth in social benefits and compensation of employees, which is why the GG deficit projection exceeds the level forecast in APR2026. It should be noted that the APR2026 projects a structural decline in compensation of employees from 12.2% GDP in 2026 to 11.5% GDP in 2029. The projection for compensation of employees for the period 2027–2029 shows an average annual growth of 3.0%. According to the March Economic Development Scenario, the total wage bill for the Lithuanian economy will grow by an average of 5.8% during this period. Thus, the gap between the IFI and APR2026 GG projections indicates that pressure on public finances will remain strong in the medium term and will require higher revenue and/or a reduction in the volume of public services. The projections for the GG balance are also likely to be influenced by changes in the ESA 2010 compilation principles for defence expenditure and revisions to the national accounts.

Figure 2. According to the IFI's assessment, the general government deficit is likely to reach the Maastricht criterion threshold in 2028



F – forecast

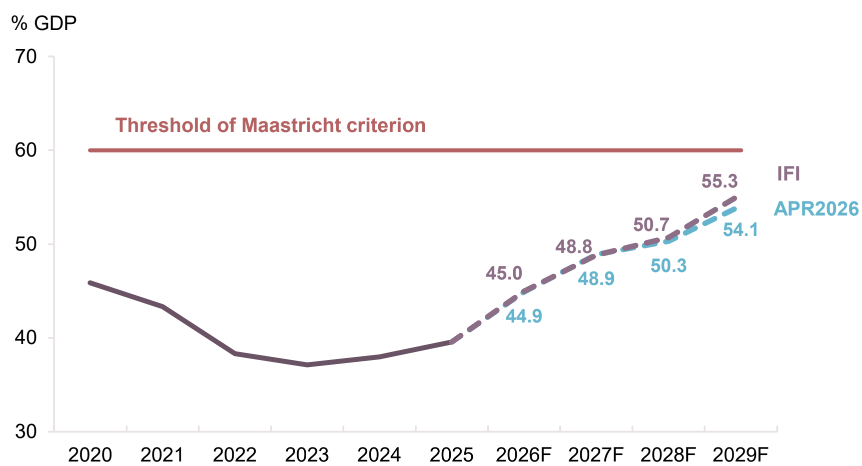
Source: State Data Agency, APR2026, Independent Fiscal Institution

A larger surge in inflation is unlikely to result in higher revenue than that expected in the annual progress report, but would encourage the need to increase General government expenditure. APR2026 was prepared in March 2026 based on the EDS, whose macroeconomic projections for fiscal planning were approved by the IFI[15] . It should be noted that the main downside risks that could affect the development of the Lithuanian economy are related to the geopolitical situation in the Middle East. The outbreak of war in Iran has increased uncertainty in energy markets. If energy prices do not fall over a longer period, inflation would be higher than expected when preparing the March 2026 EDS. Faster inflation is unlikely to result in higher tax revenues than those expected in the APR2026. It would adversely affect real household consumption and foreign demand for Lithuanian exports. However, such a situation would create a need to increase general government expenditure in order to implement fiscal policy measures. The IFI notes that it is important to prepare in advance so that, if necessary, the most targeted measures can be implemented. During this period of uncertainty, it is critically important not to adopt hasty, broad-scale decisions that would be disproportionately costly to The State budget compared to the benefits gained.

5. GENERAL GOVERNMENT DEBT PROJECTIONS FOR 2026–2029

In the medium term, public debt will rapidly approach the Maastricht criterion threshold. Based on the International Monetary Fund's methodology[16] , the IFI projects that this indicator will reach 45.0% GDP this year (Figure 3). The projected debt level for this period is close to that forecast in the APR2026. Due to the usual discretionary decisions (Table 2), debt is likely to grow faster over the remainder of the medium term than expected in the Annual Progress Report[17] , reaching 55.3% GDP in 2029. This is almost 16 percentage points higher than in 2025, when it stood at 39.6% of GDP. It should be noted that debt will approach the 60% of GDP threshold, which means there will be less room to respond to future challenges.

Figure 3. In the medium term, public debt will rapidly approach the Maastricht criterion threshold, leaving less room to respond to future challenges



F – forecast
Source: State Data Agency, APR2026, Independent Fiscal Institution

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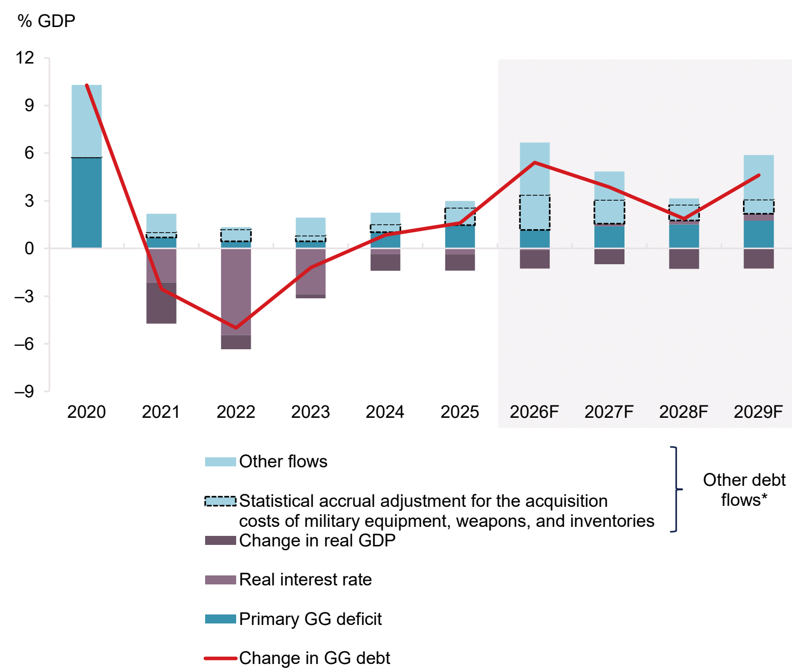
[15] Available online: https://www.valstybeskontrole.lt/EN/Product/24384/opinion-on-the-economic-development-scenario.

[16] IMF explanatory notes '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.

[17] The APR2026 projects that GG debt will rise to 54.1% of GDP in 2029.

According to the IFI's assessment, the growth in public debt will be driven not only by the rising primary deficit of the General government, but also by advance payments for the procurement of military equipment, weapons and supplies, as well as other flows. It is projected that the rising primary deficit could average around 1.5% GDP annually in 2026–2029 (Figure 4). A significant portion of other debt-creating flows (according to the stock flow adjustment envisaged in APR2026) will consist of the statistical accrual adjustment for expenditure on the procurement of military equipment, weapons and inventories. It should be noted that advance payments for the purchase of military equipment increase public debt in the year they are made, but under the accrual basis of accounting, this expenditure will only be recorded in the GG deficit when the equipment is actually delivered. Accordingly, once the expenditure is recognised in the future, it will no longer contribute to the increase in debt. Advance payments will peak in 2026, amounting to 2.2% GDP (Table 3 in Annex 2). Debt growth is projected to be fastest this year over the forecast period. In the medium term, real GDP growth is expected to moderate debt growth by an average of 1.2% GDP annually. As the average nominal interest rate on debt rises, the impact of real interest rates on debt will remain favourable this year. However, it is projected to contribute to debt growth in 2027–2029 (Table 3 in Annex 2).

Figure 4. In the medium term, the growth of general government debt will be driven primarily by the primary GG deficit and other debt-affecting flows, including advance payments for the procurement of military equipment



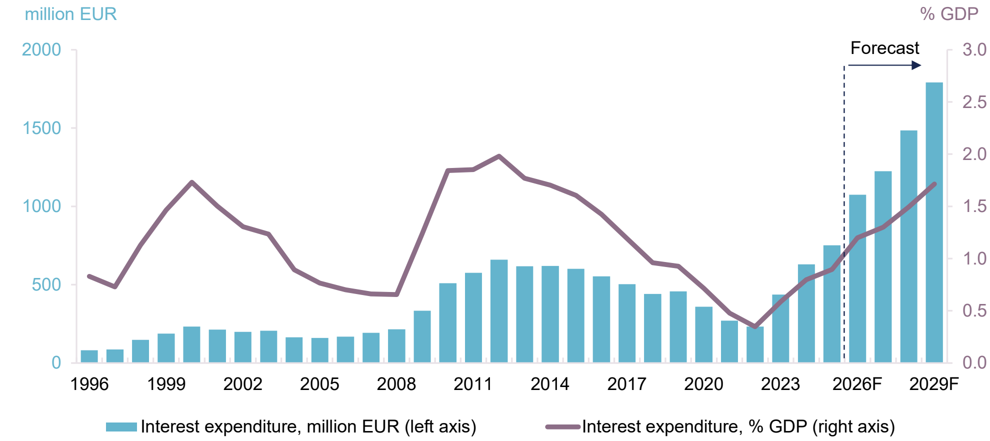
* Calculated as a residual until 2025, and from 2026 to 2029 including *the stock-flow adjustment* (*SFA*) projected in the APR2026. This includes adjustments between the GG and State budget deficits, the impact of the EU balance, changes in the Treasury's liquid assets, and other factors.

F – forecast

Source: State Data Agency, APR2026, calculations by the Independent Fiscal Institution

Expenditure on interest payments on GG debt is expected to continue to rise. The IFI projects that expenditure on GG debt interest payments will reach €1.1 and €1.2 billion in 2026–2027 (1.2 and 1.3 % GDP) (Figure 5 and Table 3 in Annex 2). It is likely that in 2029 they could reach €1.8 billion (1.7% of GDP). This higher expenditure means that more resources will need to be allocated to debt servicing in the future, when they could be used for other important public areas.

Figure 5. Expenditure on interest payments on GG debt is projected to continue to rise

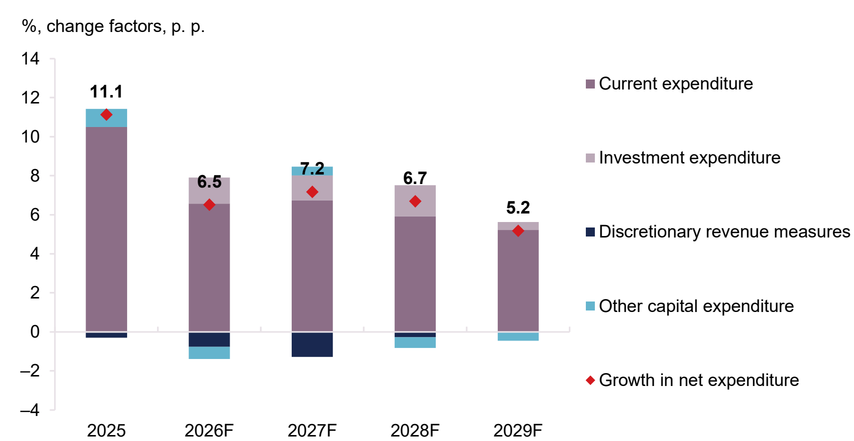


Source: State Data Agency, calculations by the Independent Fiscal Institution

6. COMPLIANCE WITH FISCAL DISCIPLINE RULES 2026–2028

Based on both the APR2026 and IFI balance projections, which incorporate long-term commitments typically undertaken, there is a risk of non-compliance with fiscal discipline from 2026 onwards. The IFI's projections incorporate standard policy decisions that increase long-term general government expenditure (Table 2). The IFI estimates that the average annual growth rate of net expenditure for 2026–2029 will be 6.4% (Annex 3). This is 0.4 percentage points higher than the 6.0% expected in the APR2026. Current expenditure (on social benefits, wages and intermediate consumption) has the greatest impact on the expected growth rate of net expenditure (Figure 6).

Figure 6. Current expenditure accounts for the majority of the projected growth in IFI net expenditure



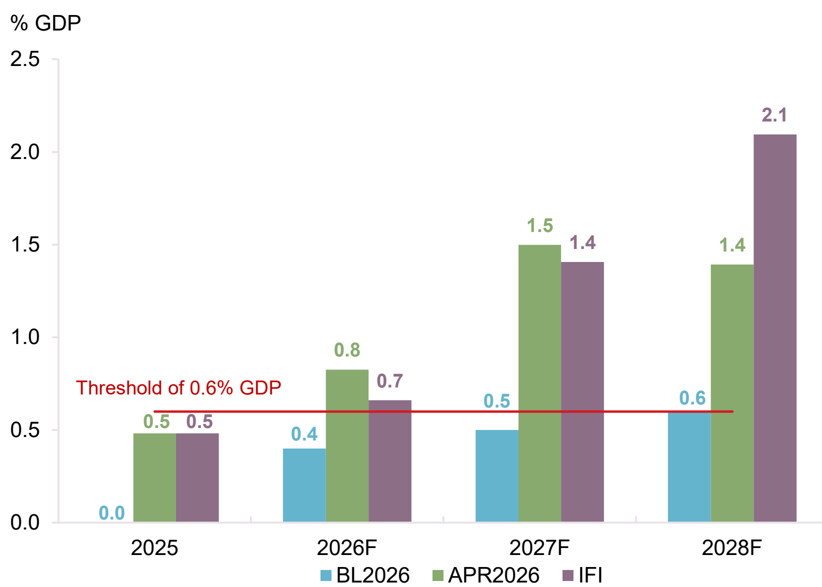
F – forecast

Source: State Data Agency, Ministry of Finance, Independent Fiscal Institution calculations

Based on IFI projections, taking into account the defence expenditure clause, the cumulative net expenditure deviation for 2026–2028 exceeds the 0.6% GDP threshold by 0.1, 0.8 and 1.5 % GDP respectively (Figure 7 and Annex 1). According to the APR2026 general government finance projection, the 0.6 % GDP threshold would also be exceeded as early as 2026. If the projections are confirmed, EU fiscal discipline would not be adhered to and the sustainability of public finances would be at risk. The EC could prepare an opinion[18] to assess whether there are grounds to initiate an excessive deficit procedure. At the same time, the fiscal discipline rule for the general government sector enshrined in the CL would also be breached; this rule stipulates that, during the period of validity of the Council's recommendation on the national escape clause, the annual growth in net expenditure must not exceed the expenditure growth limits. In the event of a deviation, the Prime Minister would be required to explain orally to the Seimas the reasons for exceeding the established limits on net expenditure growth.

When the 2026 Budget Law was endorsed, it was forecast that there would be no deviation from the net expenditure limits in 2025, and a deviation of 0.4% GDP was planned for 2026, not exceeding the 0.6% GDP limit. However, the deviation that has arisen in 2025 results in a 0.8% deviation in 2026. This occurs because the growth in net expenditure accumulated over two years is assessed, and a larger proportion of expenditure was utilised in 2025 than had been planned. Therefore, despite lower projected annual net expenditure growth in 2026 than planned, there is a risk that the rule will be breached. According to IFI projections, the deviation in 2026 amounts to 0.7% of GDP. To avoid breaching the rule, the expenditure included in the calculation of net expenditure should be more than €50 million lower. Mechanisms should be established to ensure compliance with expenditure limits and coordination between different general government entities, which could contribute to more effective compliance with fiscal discipline rules.

Figure 7. According to both the APR2026 and the IFI assessment, the cumulative net expenditure deviation exceeds the 0.6% GDP threshold as early as 2026. Consequently, EU fiscal discipline would not be met



Taking into account the flexibility provided by the defence expenditure clause.

F – forecast

Source: BL2026, APR2026, calculations by the Independent Fiscal Institution

In the medium term, decisions to increase general government revenue are needed to comply with fiscal discipline rules. According to IFI projections, there is a risk that the GG deficit will exceed 3% of GDP in the medium term. In such a case, this would provide grounds for the EC to initiate the excessive deficit procedure. Following a decision by the European

[18] In accordance with Article 126(3) of the Treaty on the Functioning of the European Union. Available online: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12008E126.

Council, a correction period and fiscal requirements would be set, and if the Member State fails to comply with the recommendations, fiscal sanctions would be applied. The growing pressure to take on long-term commitments poses a risk that Lithuania will not adhere to its net expenditure plan either. Therefore, in order not to breach fiscal discipline, it is important to increase GG revenue and identify new long-term sources of revenue. Lithuania's GG revenue level remains low[19] compared to other EU countries. The Council also[20] recommends that Lithuania "Provide adequate financing for healthcare, social protection and general public services. Improve tax compliance and broaden the tax base to sources less detrimental to growth." The structural deficit in the Compulsory Health Insurance Fund's budget is also likely to reflect the shortfall in healthcare system funding.

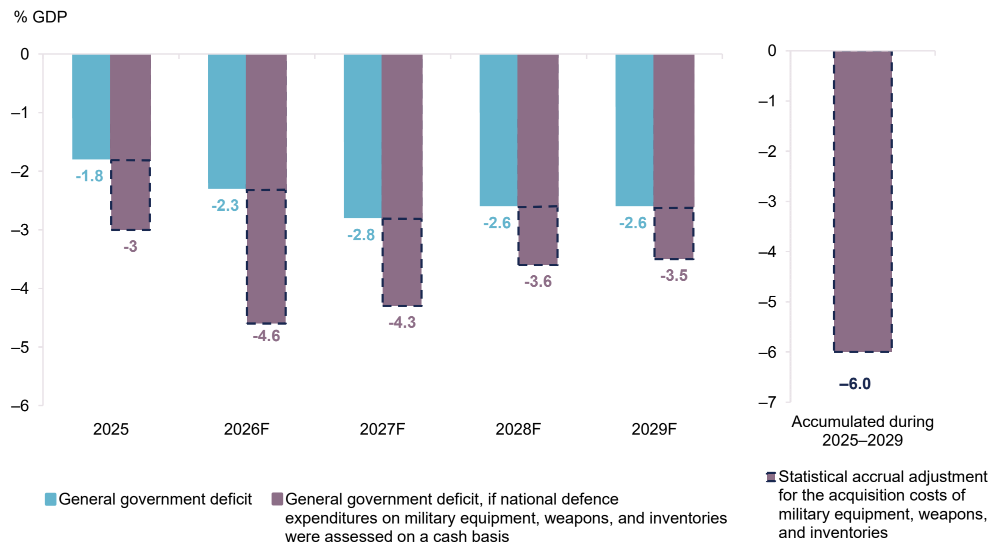
The structurally increased level of defence funding also contributes to the need for sustainable public finances. It should be noted that the level of the deficit is significantly influenced by the accounting characteristics of national defence expenditure, as advance payments for military equipment and delivery times result in a lower deficit when the accrual rather than the cash accounting principle is applied. Under the ESA 2010 methodology, the accrual accounting principle is applied to military expenditure. Thus, expenditure is recorded when economic ownership of the goods arises, which is usually recorded at the time of delivery. This means that advance payments for part of the military equipment, weapons and inventories (hereinafter 'military equipment') are reflected in the GG balance only when they are delivered. Currently, the GG deficit calculated on an accrual basis is lower than that calculated on a cash basis. According to APR2026 data, if defence expenditure on the acquisition of military equipment were assessed on a cash basis, the general government deficit for 2025–2029 would average around 3.8% of GDP, whilst the statistical accrual adjustment for military equipment expenditure over the same period would be around 6% GDP[21] (Fig. 8). This means that in subsequent years, when the military equipment is delivered, this trend will change and, in order not to exceed the Maastricht criterion threshold, it may be necessary to reduce expenditure in other areas of the public sector.

[19] In 2024, revenue from taxes and social contributions in Lithuania amounted to 33.3% of GDP, whilst in the EU it was almost 40.4% of GDP.

[20] 2025 Council Recommendation on Lithuania's economic, social, employment, structural and budgetary policies. Available online: https://eur-lex.europa.eu/legal-content/LT/TXT/HTML/?uri=OJ:C_202503989&qid=1778015240961.

[21] Compared with March 2026. GDP projection for 2029 in The Economic Development Scenario.

Figure 8. According to data presented in the APR2026, the statistical accumulation adjustment for expenditure on the acquisition of military equipment, weapons and supplies for the period 2025–2029 would amount to 6% GDP



F – forecast

Source: State Data Agency, APR2026, calculations by the Independent Fiscal Institution

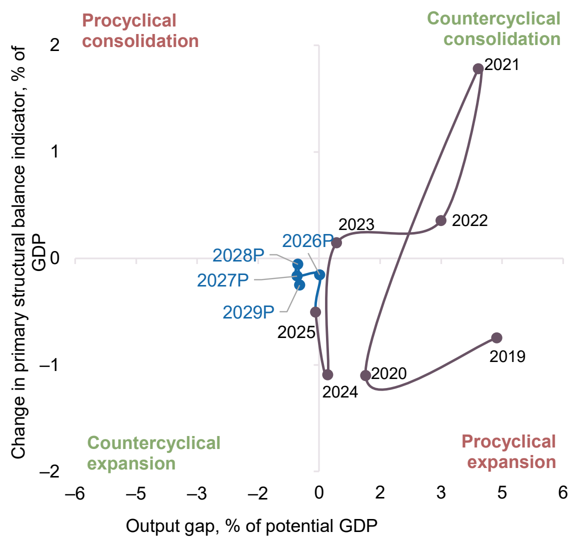
Structural measures regarding revenue and expenditure are essential to ensure the long-term sustainability of public finances. It should be noted that over the next few years, the size of the SODRA reserve will be significantly boosted by SODRA and contributions from the State budget returned from second-pillar pension funds, which will become pension accounting units. This does not mean that the financial position of the pension system will improve structurally. The returned contributions create corresponding long-term liabilities and are not considered additional revenue that can be used to increase existing commitments. It should be noted that, in the long term, the adverse impact of an ageing population on public finances will become apparent. The resulting structural deficit would have to be financed from the SODRA reserve account. The reserve fund would be fully depleted before 2050[22] . The IFI notes that the increased SODRA reserve should not be used for decisions that would increase the long-term level of liabilities without creating sustainable sources of revenue for this purpose.

[22] Available online: https://www.valstybeskontrole.lt/EN/Post/18749/will-the-sodra-reserve-withstand-the-inevitable-changes-in-lithuanias-demographics.

7. FISCAL POLICY STANCE

According to IFI projections, a neutral fiscal policy is expected in 2026–2027. IFI projects an annual rate of change of –0.2% of GDP in the structural primary general government balance for 2026–2027 (Annex 4). Although the structural primary deficit remains high, its changes are modest. This implies that fiscal policy will be neutral[23] , i.e. it will neither stimulate nor constrain economic growth. With the IFI projecting an output gap close to zero in 2026, fiscal policy is not expected to stimulate growth in domestic demand (Figure 9). However, uncertainty regarding economic developments complicates the assessment of the economic cycle.

Figure 9. With the structural primary general government deficit remaining stable, the fiscal policy stance for 2026–2027 is assessed as neutral



Based on IFI forecasts of the general government balance and the output gap.

The figure shows the impact of temporary measures that have been eliminated: COVID-19-related measures, measures to mitigate the impact of rising energy prices, assistance to the Ukrainian people fleeing Russian military aggression 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.

F – forecast

Source: State Data Agency, Ministry of Finance, calculations by the Independent Fiscal Institution

The National Audit Office of the Republic of Lithuania, as the Independent Fiscal Institution, having monitored compliance with fiscal discipline rules and fiscal governance, carried out an assessment of the fiscal part of the Annual Progress Report 2026 and issued its opinion. In accordance with Article 9(3) of the Law on Fiscal Governance of the Republic of Lithuania and Article 8(7)(4) of the Law on the National Audit Office, the National Audit Office submits its Opinion to the Seimas of the Republic of Lithuania.

Head of the Fiscal Monitoring Centre — Jurga Rukšėnaitė

[23] In accordance with the *broadly neutral* fiscal policy range set by the EC (change in the structural balance of ±0.2% of GDP). Available online: https://economy-finance.ec.europa.eu/publications/2016-stability-and-convergence-programmes-overview-and-implications-euro-area-fiscal-stance_en.

Cover photo: www.pexels.com

ANNEXES

Opinion on the Annual Progress Report 2026
Annex 1

COMPLIANCE OF ACTUAL AND IFI PROJECTED NET EXPENDITURE GROWTH WITH FSP LIMITS

			2025	2026F	2027F	2028F
	Net expenditure growth path submitted in the FSP and endorsed by the European Council					
1.	Net expenditure[1]	Change, %	6.1	5.2	4.8	4.5
2.	Net expenditure	accumulated[2] growth rate, %	6.1	11.6	17.0	22.3
	Based on actual and projected indicators					
3.	Net expenditure	Change, %	11.1	6.5	7.2	6.7
4.	Net expenditure	accumulated[2] growth rate, %	11.1	18.4	26.9	35.3
	Deviations					
5.	Annual deviation of net expenditure from the FSP net expenditure growth limits	% GDP	1.8	0.5	0.9	0.8
6.	Cumulative deviation in net expenditure compared to the FSP	% GDP	1.8	2.1	2.9	3.6
7.	Escape clause for defence expenditure	% GDP	1.3	1.5	1.5	1.5
8.	Cumulative net expenditure deviation compared to the FSP and taking into account the escape clause for defence expenditure	% GDP	0.5	0.7	1.4	2.1

[1] In line with the European Council's recommendation endorsing Lithuania's FSP and the net expenditure growth limits set out in FSP.

[2] The cumulative growth rate is the change in expenditure from 2024 (the base year for the FSP).

The possible margin of error with the cumulative deviation (taking into account escape clause for defence expenditure) should be up to 0.6% of GDP. Deviations marked in green meet this criterion, while those marked in red are at risk of not meeting it.

F – forecast

Source: State Data Agency, Ministry of Finance, calculations by the Independent Fiscal Institution

Opinion on the Annual Progress Report 2026

Annex 2

IFI PROJECTIONS OF FISCAL INDICATORS

Table 1. IFI projections of general government revenue and expenditure based on ESA 2010

Indicator (% GDP, unless otherwise specified)	ESA 2010 code	2025	2026F	2027F	2028F	2029F
Total revenue	OTR	39.5	40.1	40.5	40.8	40.5
Tax revenue		22.6	23.2	24.1	24.4	24.1
Revenue from indirect taxes	D.2	11.9	12.0	12.3	12.3	11.8
Revenue from direct taxes	D.5	10.7	11.2	11.9	12.1	12.3
Net social contributions	D.61	11.4	11.5	11.8	12.0	12.2
Other revenue, of which:		5.5	5.4	4.6	4.5	4.2
Revenue from property	D.4	1.0	0.9	0.9	0.9	0.9
Total expenditure	OTE	41.3	42.5	43.2	43.8	44.0
Compensation of employees	D.1	12.1	12.3	12.2	12.2	12.2
Intermediate consumption	P.2	4.5	4.5	4.7	4.9	4.9
Subsidies	D.3	0.3	0.3	0.3	0.3	0.3
Interest payments	D.41	0.9	1.2	1.3	1.5	1.7
Social benefits	D.6M	16.4	16.6	17.3	17.6	17.8
Other expenditure, of which:		7.1	7.4	7.4	7.3	7.0
Gross fixed capital formation	P.5L	4.2	4.8	4.7	5.1	5.0
Capital transfers	D.9	0.6	0.6	0.6	0.5	0.6
Net lending (+) / net borrowing (–)	B9	–1.8	–2.4	–2.7	–3.0	–3.5
Net lending (+) / net borrowing (–), billion EUR		–1.5	–2.1	–2.5	–3.0	–3.6

F – forecast

Figures may not add up due to rounding.

Source: State Data Agency, Independent Fiscal Institution

Table 2. IFI projections for the general government sector and its subsectors

Indicator, % GDP	2025	2026F	2027F	2028F	2029F
Central government subsector	–2.8	–3.1	–3.2	–3.4	–3.7
Social security funds subsector	1.1	1.0	0.5	0.4	0.3
Local government subsector	–0.1	–0.3	–0.0	–0.0	–0.0
General government	–1.8	–2.4	–2.7	–3.0	–3.5

F – forecast

Figures may not add up due to rounding.

Source: State Data Agency, Independent Fiscal Institution

Table 3. IFI projections for general government debt and its drivers

No.	Indicator (% GDP, unless otherwise specified)	2025	2026F	2027F	2028F	2029F
1.	GG debt	39.6	45.0	48.8	50.7	55.3
2.	Change in GG debt (3 + 4 + 7)	1.6	5.4	3.9	1.9	4.6
3.	Primary GG deficit	1.5	1.2	1.4	1.5	1.7
4.	Automatic debt dynamics (5 + 6)	−1.4	−1.3	−0.8	−1.0	−0.8
5.	Real interest rate	−0.4	−0.1	0.2	0.2	0.4
6.	Change in real GDP	−1.0	−1.2	−1.0	−1.3	−1.3
7.	Other debt-creating flows*	1.5	5.5	3.3	1.4	3.7
8.	Statistical accrual adjustment for the acquisition of military equipment, weapons and inventories	1.1	2.2	1.5	1.0	0.9
9.	GG debt in billion EUR	33.3	40.3	46.0	50.3	57.8
10.	Interest payments	0.9	1.2	1.3	1.5	1.7
11.	Interest payments (billion euros)	0.8	1.1	1.2	1.5	1.8

* Calculated as a residual up to 2025, and for 2026–2029 includes *the stock-flow adjustment* (*SFA*) envisaged in APR2026.

F – forecast

Due to rounding, the sum of the rows may not match the detailed data.

Source: State Data Agency, APR2026, Independent Fiscal Institution

Opinion on the Annual Progress Report 2026
Annex 3

IFI ESTIMATED GENERAL GOVERNMENT NET EXPENDITURE

No.	Indicator (% GDP, unless otherwise specified)	2023	2024	2025	2026F	2027F	2028F	2029F
1.	General government expenditure	37.2	39.4	41.3	42.5	43.2	43.8	44.0
2.	Interest payments	0.6	0.8	0.9	1.2	1.3	1.5	1.7
3.	Cyclical unemployment benefits	0.0	0.1	0.0	0.0	0.0	0.0	0.0
4.	Expenditure on EU programmes	1.0	1.3	1.3	1.9	1.3	1.2	1.1
5.	National expenditure on co-financing of EU programmes	0.1	0.2	0.2	0.3	0.3	0.2	0.2
6.	One-off expenditure measures (excluding EU-funded measures)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7.	Net primary GG expenditure (before discretionary revenue measures) (ne_t = 1 – 2 – 3 – 4 – 5 – 6)	35.4	37.1	38.8	39.1	40.4	40.9	40.9
8.	Discretionary revenue measures (excluding one-off revenue measures) (drm_t)	–	0.1	0.1	0.3	0.5	0.1	0.0
9.	Net primary GG expenditure (after discretionary revenue measures) ($ne_t - drm_t$ = 7 – 8)	–	37.0	38.8	38.8	39.9	40.8	40.9
10.	Change in nominal GDP (g_t), %	–	6.3	6.4	6.6	5.0	5.5	5.3
11.	Rate of change in net primary GG expenditure, % $\Delta ne_t = \frac{ne_t - drm_t}{ne_{t-1}} * (1 + g_t) - 1$	–	10.9	11.1	6.5	7.2	6.7	5.2

F – forecast

t – year

Due to rounding, the sum of the rows may not match the detailed data.

Source: State Data Agency, Ministry of Finance, calculations by the Independent Fiscal Institution

Opinion on the Annual Progress Report 2026
Annex 4

IFI ASSESSMENT OF THE CYCLICAL STATE OF THE LITHUANIAN ECONOMY AND THE STRUCTURAL GENERAL GOVERNMENT BALANCE

No.	Indicator, % GDP	2023	2024	2025	2026F	2027F	2028F	2029F
1.	General government net lending (+) / borrowing (–)	−0.7	−1.3	−1.8	−2.4	−2.7	−3.0	−3.5
2.	One-off and other temporary measures	−0.1	0.0	0.1	−0.1	0.0	0.0	0.0
3.	Temporary measures*	−0.8	−0.2	−0.1	0.0	0.0	0.0	0.0
4.	Output gap, % of potential GDP	0.4	0.2	−0.1	0.0	−0.5	−0.5	−0.5
5.	Cyclical budget component (0.399 × 4 rows)	0.2	0.1	0.0	0.0	−0.2	−0.2	−0.2
6.	Structural GG balance (1 – 2 – 5)	−0.7	−1.4	−1.9	−2.3	−2.5	−2.8	−3.3
7.	Structural GG balance, excluding temporary measures (1 – 2 – 3 – 5)	0.1	−1.2	−1.8	−2.2	−2.5	−2.8	−3.2
8.	Interest	0.6	0.8	0.9	1.2	1.3	1.5	1.7
9.	Structural GG primary balance (6 + 8)	−0.1	−0.6	−1.0	−1.1	−1.2	−1.3	−1.6
10.	Structural GG primary balance, excluding temporary measures (7 + 8)	0.7	−0.4	−0.9	−1.0	−1.2	−1.3	−1.5
11.	Change in the primary balance of the structural GG	1.6	−0.5	−0.4	−0.1	−0.1	−0.1	−0.3
12.	Change in the primary balance of the structural GG, excluding temporary measures	0.1	−1.1	−0.5	−0.2	−0.2	−0.1	−0.3

F – forecast

* Measures related to COVID-19-related measures, measures to mitigate the impact of rising energy prices, assistance to the Ukrainian people fleeing Russian military aggression 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.

Due to rounding, the totals may not match the detailed figures.

Source: State Data Agency, Ministry of Finance, calculations by the Independent Fiscal Institution