FISCAL POLICY

IMPORTANCE OF FISCAL POLICY TO LITHUANIA

Pro-cyclical fiscal policies that continued for **12 years** did not ensure a financial cushion for the 2008–2009 financial crisis: in 2012 cost for debt financing reached **2.0 % GDP**, twice as much as allocations to defence at that time

Government sector expenditure for basic and long-term healthcare due to liabilities related to population ageing will increase by **1.8 % GDP** in 2047 as compared to 2016

EU budget revenue streams that averaged about **4.7 % GDP** in 2008–2018 were the highest in the EU and should be considered as fiscal stimulus. The impact of this factor will decrease in the future

The overall level of the accumulated reserves at the end of 2018 amounted to 496.8 million Eur or **1.1 % GDP**. Just before the financial crisis of 2008 the reserves also reached **1.1 % GDP**

"CREATIVE" COMPLIANCE WITH FISCAL POLICY RULES

Expenditure growth limitation rule should be applied to the next year's budget until the average of general government (GG) balances is negative over the previous 4 years and for the current year

Drawing up the draft budget **2018**, expenditure growth should have been limited as the average of government sector balances over **2013–2017** was negative

Drawing up the draft budget **2018** the Government "switched off" the expenditure growth rule choosing not the latest GG balance projection (0.1 % GDP) as a point of reference, but instead the one given in the Stability Programme for 2017 (–0.4 % GDP) thereby stating that in 2018 an improvement in the GG balance amounting to 1 % point of GDP will be reached (one of the exceptions to the rule)

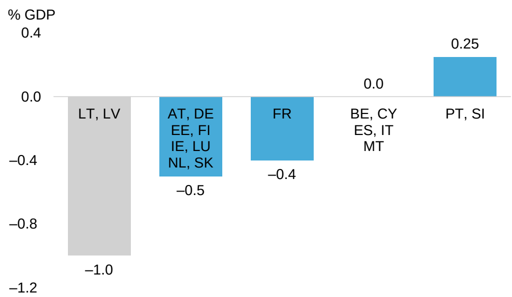
Fiscal Institution informed that the rule is switched off "creatively". By applying the latest GG balance projection, the improvement in the GG balance amounting to 1 % point of GDP is not reached, therefore, it has to be reached via additional revenue measures or the expenditure growth needs to be limited

The Government delivers an *ex-post* opinion that in **2018** the expenditure growth limitation rule was not applied reasonably as the **2014–2018** average GG balance was positive. The same **2014–2018** period is used, which was used when "switched off" the expenditure growth rule for the draft budget **2019**

Fiscal Institution maintains the consistent position, in the *ex-post* assessment the average GG balance was negative in **2013–2017**, no improvement in the GG balance amounting to 1 % point of GDP was observed, therefore, the expenditure growth should have been limited or the revenue increased. **The result – Lithuania's GG budget remains among the lowest in the EU**

GENERAL GOVERNMENT BALANCE AND MEDIUM-TERM OBJECTIVE

- The 2016–2018 GG balance was determined by one-off, non-permanent factors
- In the future, representation of expenditure for armament and supplies on an accrual basis will have a reverse effect
- Medium-term objective in Lithuania should be not restrictive, but the target indicator
- The current GG in Lithuania - 1 % GDP structural general government deficit – is the maximum allowed in the EU



THE IMPACT OF TAX ADMINISTRATION IMPROVEMENT ON THE REVENUE IN 2018 WAS LOWER THAN PLANNED

The economy grew at a higher rate than projected, however, there were no major increases in major taxes and social security contributions

91 m Eur revenue from personal income, corporate and value-added tax was due not to the tax administration improvement but rather to faster than projected economic growth