Lietuvos Respublikos
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STABILITY PROGRAMME OF LITHUANIA FOR 2022

29 April 2022

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ABBREVIATIONS

ASIP	Administrative state immovable property
CHIF	Compulsory Health Insurance Fund
Constitutional Law	Constitutional Law of the Republic of Lithuania on the Implementation of the Fiscal Treaty[1]
COVID-19	COVID-19 disease (coronavirus infection)
COVID-19 related measures	Measures related to the management of the COVID-19 pandemic and the mitigation of its adverse effects
Draft Law Amending the 2022 Budget Law	Draft Law No. XIVP-1499 Amending the Preamble, Articles 1, 2, 6, 7, 9, 10, 11, 14, 21 of the Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2022 No. XIV-745 and Annexes 1, 2, 3, 4, 5, 6
EC	European Commission
Economic development scenario	Term used in the Programme which means other than EDS, the economic development scenario prepared by the Ministry of Finance and published on the website of the Ministry of Finance indicating a year and a month of a specific scenario[2]
EDS	Economic Development Scenario prepared by the Ministry of Finance, which has been made public on 31 March 2022 on the website of the Ministry of Finance[3] , and approved by the fiscal institution [4]
ESA	2010 European System of Accounts
EU	European Union
EU funds	EU and other international financial support funds (except for the RRF funds)
Fiscal institution	Lithuanian independent fiscal institution whose functions are performed by the Budgetary Policy Monitoring Department under the National Audit Office of Lithuania
GDP	Gross domestic product. The value of GDP in 2021 at the prices of that period, which is 55,383.1 million euros, is used in the Programme (except for the parts of the Programme related to EDS)

[1] **Constitutional Law of the Republic of Lithuania on the Implementation of the Fiscal Treaty**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6be2c020699a11e48710f0162bf7b9c5?positionInSearchResults=9&searchModelUUID=708ad2ec-2bb8-4551-8d6b-f37641b93d9e.

[2] **Economic development scenarios**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus/ekonomines-raidos-scenarijaus-archyvas.

[3] EDS, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.

[4] Opinion of the fiscal institution on the approval of the EDS, https://www.valstybeskontrole.lt/LT/Product/24078/isvada-del-ekonomines-raidos-scenarijaus-tvirtinimo.

Government Programme Implementation Plan	Plan for the Implementation of the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania[5]
HICP	Average annual inflation calculated acc. to the index of consumer prices methodically harmonised with other EU Member States
Law on the Budget for 2021	Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2021[6]
Law on the Budget for 2022	Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2022[7]
Lithuanian RRF plan	Lithuanian plan of structural reforms and related investment and of the instruments provided for the implementation of green and digital transformation, which is to be implemented in 2021-2026 with the funds of the instrument Next Generation EU
NPP	2021–2030 National Progress Plan[8]
NTA	Non-taxable amount
MMW	Minimum monthly wages
PIT	Personal income tax
Programme	Stability Programme of Lithuania for 2022
Reform of the budget system	Reform of the budgeting and strategic planning system which is being carried out in Lithuania
Recommendation for Lithuania	Council Recommendation of 6 June 2021 on the 2021 Stability Programme of Lithuania[9]

[5] **Government of the Republic of Lithuania Resolution No 155 of 10 March 2021 On the Approval of the Plan for the Implementation of the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/bef7d43286fe11eb998483d0ae31615c?positionInSearchResults=6&searchModelUUID=98674a8c-8953-4d90-8c3a-93d9e4a41b6a.

[6] **Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2021**, https://finmin.lrv.lt/lt/veiklos-sritys/biudzetas/patvirtinti-biudzetai/2021-m-biudzetas/issami-informacija-apie-2021-m-biudzeta.

[7] **Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2022**, https://finmin.lrv.lt/lt/veiklos-sritys/biudzetas/patvirtinti-biudzetai/2022-m-biudzetas/issami-informacija-apie-2022-m-biudzeta.

[8] **Government of the Republic of Lithuania Resolution No 998 of 9 September 2020 On the Approval of the National Progress Plan for 2021-2030**, https://lrv.lt/lt/aktuali-informacija/xvii-vyriausybe/strateginis-valdymas/2021-2030-m-nacionalinis-pazangos-planas.

[9] **Council Recommendation on the 2021 Stability Programme of Lithuania**, https://op.europa.eu/en/publication-detail/-/publication/c1d3a5e6-c382-11eb-a925-01aa75ed71a1/language-en/format-PDF/source-256112276.

RRF	Recovery and Resilience Facility is a new instrument of European Union grants and loans to European Union Member States, which is dedicated to implementing structural reforms and related investments as well as green and digital transformation[10].
SGP	Stability and Growth Pact[11]
SIP	State immovable property
SP2021	Stability Programme of Lithuania for 2021 approved by Government of the Republic of Lithuania Resolution No 433 of 29 April 2020 On the Stability Programme of Lithuania for 2021
SODRA	State Social Insurance Fund
STI	State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania
Structural balance	Structural balance indicator of general government
USA	United States of America
VAT	Value added tax

[10] At present, 70% of the funds of the grants part of the measure are distributed among the EU countries. At current prices, for Lithuania this amounts to about 2.092 billion euros. The remaining 30% of the funds will be distributed among the Member States in 2022 based on the latest GDP data. According to forecasts, Lithuania can receive from this measure a total of about 2.225 billion non-repayable grants. If necessary, Lithuania could apply for a loan that accounts for no more than 6.8% of the gross national product of 2019 (about 3 billion euros).

[11] Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, as last amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011; Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as last amended by Council Regulation (EU) No 1177/2011 of 8 November 2011.

SUMMARY

The programme was prepared in a context of geopolitical tensions in Europe (hereinafter − geopolitical tensions) and uncertainty in the economic situation (hereinafter − uncertainty). Geopolitical tensions and uncertainty due to Russia's military actions in Ukraine may lead to Lithuania's need to take more and larger measures than foreseen in the Programme in receiving Ukrainian people fleeing the country due to Russian military actions, strengthening Lithuania's military, cyber and economic security. In the face of a sharp rise in prices, the Government of the Republic of Lithuania has prepared a package of measures to increase the income of the population, especially the socially vulnerable, and to help businesses. The estimated amount of aid measures presented in the programme's projections for general government finances makes up EUR 1,726 million, or 2.9 % of GDP. In response to Russian military actions in Ukraine, sanctions imposed by Lithuania, other EU and world countries against Russia and Belarus will affect Lithuania's economic development and the situation of general government finances. The on-going COVID-19 pandemic also contributes to an increase in uncertainty.

Lithuania's economy grew 4.9 % in 2021. Due to the impact of geopolitical tensions, Lithuania's GDP is expected to grow at a slower pace in 2022 − 1.6 %. However, Lithuania's economy is expected to grow faster in the following years: 2.5 % in 2023 and 3 % per year in 2024 and 2025.

Taking into account the updated revenue of general government budgets under the ERS and the draft law amending the 2022 Budget Law, the general government deficit is estimated to be 4.9 % of GDP in 2022. The general government deficit is expected to decline gradually in 2023-2025 and to reach the medium-term objective in the second half of the medium term. Strengthening of the growth potential of the economy through investment of national, RRF and other EU funds, implementation of structural reforms will contribute to strengthening the sustainability of general government finances.

The general government debt amounted to 44.3 % of GDP in 2021. Despite the increased borrowing needs for measures related to COVID-19, strengthening of national defence and security, the aid to the people of Ukraine fleeing the country due to Russian military actions, increasing the income of the population in the face of significant price increases, support to state-owned enterprises suffering losses as a result of sanctions against Russia and Belarus, the debt will decrease to 43.3 % of GDP in 2022. The decline in the general government debt-to-GDP ratio will mainly be driven by faster nominal GDP growth (8.7 %) as compared to nominal debt growth (6.3 %). The debt-to-GDP ratio is expected to increase slightly to 43.7 % of GDP in 2023 and stabilise at about 42.6 % of GDP in 2024-2025.

PART I
INTRODUCTION

The programme is a medium-term fiscal policy document of Lithuania, which is prepared each year, in accordance with the procedure established in the SGP for strengthening the surveillance of the budgetary positions of the EU Member States and coordinating economic policies. The information in the programme covers the period 2021-2025 —EDS, fiscal policy guidelines and general government finance projections.

In accordance with Article 4(1) of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, the euro area Member States must make public their national medium-term fiscal plans in accordance with their medium-term budgetary framework. The programme provides information on national medium-term fiscal plans and the institutional set-up of government finances.

The programme follows the recommendation to Lithuania, the EC fiscal policy guidelines for 2023[12], in line with the requirements of the Guidelines on the content and format of the Stability Programme[13]. The programme provides information on the impact of the Lithuanian RRF Plan[14] and Government's proposals for the draft law amending the 2022 Budget Law on public finances.

Following the start of Russian military actions in Ukraine on 24 February 2022, by Resolution of the Seimas[15], a state of emergency was introduced on the territory of the Republic of Lithuania from 12 March 2022 and extended until 29 June 2022 at 24:00[16].

The exceptional circumstances announced in 2020 in the Republic of Lithuania, linked to the COVID-19 pandemic, — large-scale measures aimed at maintaining the country's economic viability, health and public security, negative impact on government finances − are still valid in 2022. Exceptional circumstances are determined and lifted in accordance with

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[12] **EC Communication of 2 March 2022, Fiscal policy guidelines for 2023,** https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf.
[13] **Code of Conduct**, http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf.
[14] **Lithuanian RRF Plan**, https://finmin.lrv.lt/uploads/finmin/documents/files/ST_10477_2021_INIT_lt(1).pdf.
[15] **Seimas Resolution No XIV-932 of 10 March 2022 On the Introduction of the State of Emergency,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c2966eb2a07111ec9e62f960e3ee1cb6?positionInSearchResults=0&searchModelUUID=db305de9-607b-41e5-b6ec-7220e05d4217.
[16] **Resolution No XIV-1044 of the Seimas of 21 April 2022 on the introduction of an emergency situation**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/9263cc61c16e11ec9f0095b4d96fd400?positionInSearchResults=0&searchModelUUID=665590c4-bc56-4393-bd16-8c2c226f0d72.

Article 7 of the Constitutional Law. According to the Constitutional Law and the SGP, exceptional circumstances are an extraordinary event beyond the control of public authorities which has a significant impact on the financial position of the general government, or a severe economic downturn. On 27 March 2020, the fiscal authority concluded that the unusual situation in the country was in line with the concept of exceptional circumstances[17].

Once exceptional circumstances have been determined, in accordance with Article 7(3) of the Constitutional Law, the Ministry of Finance shall update the EDS once a quarter, make it public, and the fiscal authority shall issue a conclusion to the Seimas on the approval of this scenario.

In exceptional circumstances and given that the output gap calculated taking into account EDS will be negative for 2022-2025, the rules on fiscal discipline laid down in the Constitutional Law do not apply to the general government sector in 2022.

The SGP general escape clause for 2020-2022 is the flexibility clause of the SGP applied by the EC in the context of the COVID-19 pandemic in the EU, the euro area economic crisis, for the countries suffering economic downturn and high government expenditure. Under the flexibility clause, the deviation of the structural balance from the medium-term objective is not considered to be inconsistent with the fiscal discipline rules in the SGP. In May 2022, the EC plans to issue its opinion on the application of the SGP general escape clause in 2023.

During the preparation of medium-term fiscal projections provided in the programme, it was assumed that the fiscal discipline rules laid down in the Constitutional Law and SGP will be applicable from 2023 onwards. The general government balance should be gradually improved in 2023-2025 in order to reach the medium-term objective in 2024, and not deviate from it in 2025.

Lithuania’s medium-term objective is set in accordance with the SGP and the Constitutional Law. By Seimas of the Republic of Lithuania Resolution No XIV-193 of 16 March 2021 On Setting the Medium-Term Objective and Seimas of the Republic of Lithuania Resolution No XIV-945 of 17 March 2022 On Setting the Medium-Term Objective for 2023-2025, the medium-term objective for the years 2022-2025 has been set – the structural general government deficit does not exceed 1 % of GDP at current prices.

The programme was approved by the Government on 27 April 2022[18]. The programme is presented to the members of the Committee on European Affairs, the

[17] **Conclusion of the fiscal authority**, https://www.valstybeskontrole.lt/LT/Product/23909/isvada-del-neiprastos-padeties-atitikties-isskirtiniu-aplinkybiu-savokai.

[18] **Government Resolution No.404 of 27 April 2022 On the Stability Programme of Lithuania for 2022,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/d9946579c62a11ecb69ea7b9ba9d787b?positionInSearchResults=0&searchModelUUID=13b9ac9e-c6da-40b7-9ccd-d333f4de1588.

Committee on Budgets and Finance and the Audit Committee of the Seimas. The assessment of the fiscal indicators in the programme is carried out by the fiscal authority. The programme shall be submitted to the EC and the Eurogroup on 29 April 2022.

PART II
ECONOMIC OUTLOOK

SECTION 1
MEDIUM-TERM EDS

In March 2022, the Ministry of Finance published the EDS [19], which was approved [20] by the fiscal institution. The economic development scenario is based on the data of National Accounts published on 1 March 2022, in a context of geopolitical tensions, uncertainty and instability in the external environment. The effect of Russian military actions in Ukraine will occur through high global prices of raw materials and other commodities, disrupted international trade and falling confidence among economic players.

The EDS assumes that Russian military actions in Ukraine will have a direct and significant impact on the volume of Lithuania's foreign trade with Ukraine, Belarus and Russia. Increased energy and other raw material prices as a result of Russian military actions in Ukraine will dampen the economic activity of Lithuania's main trading partner − the EU.

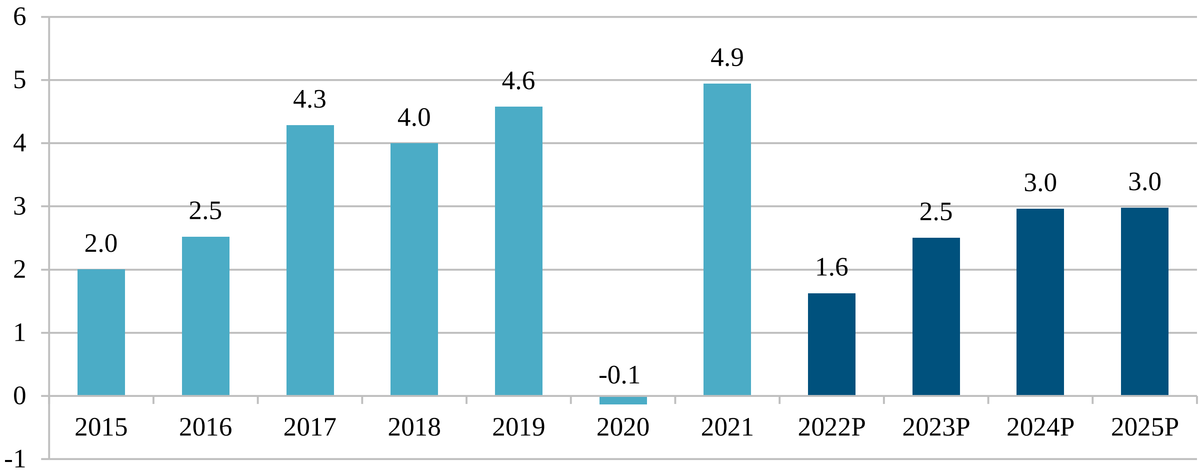
At the time of drafting the EDS, most countries around the world were still exposed to the COVID-19 pandemic and new strains of COVID-19 have increased the spread of the virus. However, the impact of the pandemic on economic activity has been weakened following the vaccination of the majority of the population and the increase in the number of people with immunity in the EU countries (and Lithuania). During the development of the EDS, there was no reliable evidence that COVID-19 became endemic in Europe, so the assumptions that for at least one more year the containment and control of the spread of the virus in Lithuania would require greater or lesser epidemiological control measures were not changed.

Due to geopolitical tensions in Europe and significantly increased uncertainty in the evolution of energy commodity prices, technical assumptions on energy commodity prices for 2022-2023 were established on the basis of an average of 10 observations on the future prices of Brent oil and natural gas published by 1 March 2022. The technical assumption is that energy commodity prices will remain stable in 2024-2025.

[19] **EDS**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.
[20] **Conclusion on the approval of the EDS**, https://www.valstybeskontrole.lt/LT/Product/24078/isvada-del-ekonomines-raidos-scenarijaus-tvirtinimo.

Due to the impact of geopolitical tensions in Europe, Lithuania's GDP is expected to grow at a slower pace in 2022 – 1.6 %. Lithuania's economy is expected to grow faster in the following years: 2.5 % in 2023, and 3 % per year in 2024 and 2025.

Fig. 1. Change in real GDP, %



Sources: Statistics Lithuania, Ministry of Finance.

Table 1. Macroeconomic indicators

	ESA code	Value of the indicator in 2021, MEUR	Rate of change, %				
			2021	2022	2023	2024	2025
GDP, chain-linked volume	B1g	45, 504.7	4.9	1.6	2.5	3.0	3.0
GDP, at current prices	B1g	55, 325.6	11.8	8.9	5.6	5.0	5.0
Components of GDP (chain-linked volume)							
Household consumption expenditure and consumption expenditure of non-profit institutions serving households (NPIs)	P.3	28, 228.3	7.2	2.1	3.4	3.4	3.4
General government final consumption expenditure	P.3	6, 409.7	0.4	0.3	0.0	0.0	0.0
Gross fixed capital formation	P.51	10, 160.0	7.0	2.7	4.8	5.4	5.4
Change in stocks and acquisition of valuables, minus loss, % of GDP	P.52 + P.53	–	–	–	–	–	–
Exports of goods and services	P.6	41, 164.6	14.1	–6.0	3.3	3.7	3.7
Imports of goods and services	P.7	37, 902.0	17.0	–6.0	4.1	4.1	4.1
Impact on real GDP development, percentage point							
Final domestic demand		44, 689.9	5.8	1.9	3.0	3.2	3.3
Change in stocks and acquisition of valuables, minus loss	P.52 + P.53	–	–	–	–	–	–

	ESA code	Value of the indicator in 2021, MEUR	Rate of change, %				
			2021	2022	2023	2024	2025
Balance of goods and services	B.11	3, 262.6	–0.6	–0.2	–0.6	–0.3	–0.3

Sources: Statistics Lithuania, Ministry of Finance.
Note. Actual indicators of 2021 are in line with the data published by Statistics Lithuania on 1 March 2022.

Geopolitical tensions in Europe will negatively affect economic activity in Lithuania, therefore the labour market situation is expected to deteriorate in 2022: the number of employed population will decrease by 0.2 %, and the unemployment rate, calculated according to the Labour Force Survey methodology, will increase up to 7.3 %. Geopolitical tensions in the short term may negatively affect labour demand in the export and transport sectors. In internal market-oriented activities, labour demand is expected to remain strong and, therefore a rapid increase in unemployment is currently not expected. The employed population is projected to grow 0.1 % in 2023, and the unemployment rate will fall down to 6.9 %. In the following medium-term years, the number of working-age population will decline due to demographic reasons and will negatively affect the supply of workers and the development of employment. Due to the relatively high number of unemployed people, who do not meet the rapidly changing labour market needs, the unemployment rate will decline at a slower pace and reach almost 6 % at the end of the medium term.

Table 2. Labour market indicators

	ESA code	Value of the indicator in 2021	Rate of change, %				
			2021	2022	2023	2024	2025
1. Number of employed persons, thou.		1, 368.6	0.8	–0.2	0.1	–0.3	–0.4
2. Employment, hours worked, thou.		2, 537, 023	2.8	–	–	–	–
3. Unemployment rate, %		–	7.1	7.3	6.9	6.6	6.3
4. Labour productivity (gross value added at current prices per person employed), EUR thou.		33.2	4.1	1.9	2.4	3.3	3.4
5. Labour productivity, hours worked gross value added at current prices per actually worked hour), EUR		–	–	–	–	–	–
6. Compensation of employees, MEUR	D.1	27, 062.7	12.9	10.5	5.3	4.7	4.6
7. Compensation per employee, EUR		22, 110	11.6	10.7	5.2	5.0	5.0

Sources: Statistics Lithuania, Ministry of Finance.
Notes:
1. Line 1 shows the data acc. to the population employment survey methodology.
2. Line 3 shows the value of the indicator.

In 2022, there is a strong demand for and shortages of skilled workers that both the private and public sectors face in at least half of the country's economic activities; decisions taken by the Government on the payment of public sector employees (increasing wages for education, health care, statutory employees, increasing basic amount of the official salary for civil servants and other employees of budgetary institutions); a significant increase in the MMW (13.7 % up to EUR 730) will stimulate the wage growth. In 2022, wage growth in the country is expected to reach 8.8 %, and in the later medium-term years, in the absence of decisions on MMW developments and public sector wages, the wage growth will slow down to 5-5.2 %.

The main inflation factor this year will remain the rise in the prices of imported energy commodities, which will be significantly exacerbated by the war in Ukraine. Persistently rising food, service and industrial non-energy commodity prices will have a slightly lower but significant impact on inflation. Food prices will be affected by higher energy prices, the likely shortage of global grain supply (Ukraine and Russia are significant global exporters of cereals, due to Russian military actions in Ukraine, imports from these countries may be affected) and higher fertiliser prices (Belarus is a significant exporter of fertilisers, their imports into the EU are currently prohibited, moreover, more expensive gas is used to produce fertilisers). A faster growth in service prices will be driven by higher energy prices, strong wage growth, including a strong impact of the MMW increase, travel bottlenecks due to the closure of Russian airspace for EU aircrafts, and a low comparable base. The increase in prices of industrial non-energy goods (household appliances, construction goods, furniture, etc.), a significant proportion of which Lithuania imports, will be affected by the persisting disruption of global supply chains during the COVID-19 pandemic, which will be exacerbated by Russian military actions in Ukraine, resulting in additional difficulties in the transportation of goods, high energy prices, a ban on imports of some raw materials from Belarus and more complex imports from Russia, high demand for metals and semiconductors in the world.

After assessing the trends in consumer price developments and technical assumptions about the evolution of oil prices, the EDS projects the average annual inflation to be 9.8 % in 2022. In 2023, energy prices are expected to fall (oil prices will fall by about 9 %, gas prices − about 31 %), prices of other raw materials and food will rise more slowly or stabilise, and average wages will also grow more slowly, so inflationary pressures will weaken and inflation rates in the country will slow down to 3 %. Assuming that energy commodity prices will be stable in 2024-2025, the rate of inflation is expected to be close to 2 %.

Table 3. Price indicators

	Value of the indicator in 2021	Rate of change, %				
		2021	2022	2023	2024	2025
1. GDP deflator	121.6	6.5	7.1	3.0	2.0	2.0
2. Household consumption deflator	115.4	4.6	9.8	3.0	2.0	2.0
3. HICP (average annual)	115.8	4.6	9.8	3.0	2.0	2.0
4. General government consumption expenditure deflator	158.1	7.8	12.6	4.1	3.6	3.6
5. Gross fixed capital formation deflator	115.1	4.8	6.2	2.9	2.4	2.4
6. Export of goods and services deflator	106.5	5.7	5.7	1.3	1.2	1.2
7. Import of goods and services deflator	109.8	12.2	9.1	1.0	1.1	1.2

Sources: Statistics Lithuania, Ministry of Finance.

Geopolitical tensions will increase people's anxiety and change consumer behaviour, while rising prices will dampen the purchasing power. As a result, household consumption expenditure will grow 2.1 % in 2022 – slower than in 2021. It is not clear how long the unease caused by Russia's military actions in Ukraine will last in the society, but after it weakens and prices stabilise, household consumption expenditure could stabilise at 3.4 % in the medium term.

Due to geopolitical tensions and uncertainties, business is likely to slow down the development and implementation of investment projects. Investment will slow down in 2022 — spending on gross fixed capital formation will increase by 2.7 % in 2022. Investment is expected to remain subdued in 2023, and an acceleration of business investment is expected at the end of the medium term due to labour market tensions and the need to increase productivity and reduce operating costs in order to successfully carry out its activities. Projects implemented by the public sector, including those implemented with the EU funds, should maintain the level of investment in the country throughout the medium term. Gross fixed capital formation is expected to grow 4.8 % in 2023, and 5.4 % in the remaining medium-term years (2024 and 2025).

Geopolitical tensions in Europe, sanctions imposed by the EU, USA and other countries on Russia and Belarus will negatively affect Lithuania's foreign trade. Disrupting logistics chains, rising raw material prices, lower foreign demand due to uncertainty and the impact of sanctions are the challenges to be faced by the Lithuanian exporters. The EDS projects that exports of goods and services will decline by 6 % in 2022, and could grow by an average about 3.5 % per year in 2023-2025.

Table 4. Key assumptions

	2021	2022	2023	2024	2025
1. Lithuanian short-term interest rates (average annual), %	–0.3	1.5	2.0	2.2	2.4
2. Lithuanian long-term interest rates (average annual), %	0.3	2.0	2.3	2.4	2.7

	2021	2022	2023	2024	2025
3. USD/EUR exchange rate (average annual)	1.18	1.13	1.13	1.13	1.13
4. Nominal effective exchange rate	1.6	–1.2	0.0	0.0	0.0
5. Exchange rate vis-à-vis EUR (annual average) (for countries not in euro area or ERM II)	–	–	–	–	–
6. Global (excl. EU) GDP growth, %	5.7	3.0	3.8	3.8	3.8
7. EU GDP growth, %	5.3	3.0	2.8	2.8	2.8
8. Growth of main export markets, %	5.2	1.7	2.1	2.4	2.4
9. Global (excl. EU) import growth, %	9.3	5.5	4.6	4.6	4.6
10. Oil prices (Brent, USD per barrel)	70.8	90.0	81.6	81.6	81.6

Sources: Ministry of Finance, EC (2022 winter forecast).

Notes: 1. Technical assumption is applied to lines 4, 6, 7, 9 which on 10 February 2022 was published by the EC; EU, global GDP growth revised on 24 February 2022.

2. In line 5 ERM II – the second exchange rate mechanism.

3. In line 10 the assumption about oil prices in 2022 and 2023 has been developed on the basis of the information on future transactions published on 1 March 2022.

SECTION 2
BALANCE OF PAYMENTS OF LITHUANIA

The material provided in this section is based on an analysis of the balance of payments to GDP ratio.

Lithuania's current account balance was positive in 2021, but its surplus decreased significantly. It was 7.3 % of GDP in 2020, and 1.4 % of GDP in 2021. The decline was mainly due to a deterioration in the trade balance, which returned to levels close to 2019 levels. The surplus of trade in services was almost the same as in 2020, but the trade deficit in goods decreased significantly and returned to 2018 levels. The balance of primary income decreased in 2021 (more negative). For the second year in a row, the surplus of the secondary income balance has been decreasing. Most of this change relates to the general government sector, whose secondary income transfers to abroad have increased, and transfers from abroad have declined.

The surplus of the services balance decreased slightly in 2021, and amounted to 9.4 % of GDP, while the components of the balance sheet changed unevenly. Among them transport services were distinctive, the surplus of which decreased, as compared to the previous year, with the balance sheets improving for other services. The weaker performance of services exports in the first quarter of 2021 was offset by the growth of exports of road freight transport services in the fourth quarter. In 2021, there was a steady increase in imports of services. Imports of transport services have increased significantly, but imports from other groups, such as other business services, have also increased. In the face of challenges faced by road and rail freight transport (rail transport — with sanctions imposed on Belarus, road freight transport − with additional requirements of the mobility package that came into force since February this year), no further development is foreseen, and the requirements of the mobility package may lead to the relocation of these services to the territories of countries closer to the main transport flows.

The deficit in the goods balance increased significantly, amounting to 5.2 % of GDP in 2021, and close to zero (–0.8 % of GDP) a year ago. External demand developments prior to the COVID-19 pandemic observed again and the year-on-year increase in investment allowed further increases in volume of exports of goods, while increased risks due to geopolitical factors (uncertainty for the future and rising prices stimulated upfront supply of goods and raw materials) and the fall in corporate stocks during the COVID-19 pandemic had a positive impact on imports. Trade in goods grew exceptionally fast in 2021, but a large part of the increase was linked to the strong price rises in the second half of 2021. The strongest growth was in exports of goods from the chemical industry, exports of furniture and wood products group was also strong. Most of the value of imported mineral and energy products has increased, but there has been a significant increase in imports of machinery and equipment, which can be partly linked to investment and development of production.

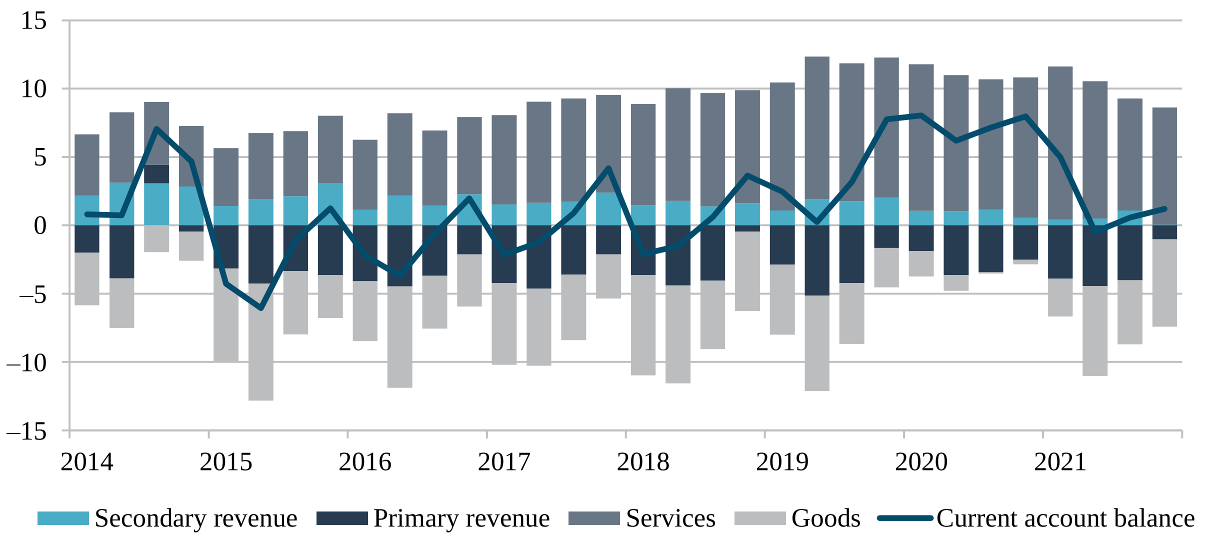
In the medium term, the foreign trade balance is expected to deteriorate gradually. The main source of risk for the projected development of exports is geopolitical tensions and related risks, which can negatively affect Lithuanian exporting companies directly or indirectly linked to China, Ukraine, Russia and Belarus. Russia's military actions in Ukraine and global sanctions against Russia have greatly increased uncertainty. This significantly reduced the level of projected foreign demand. In addition to decreasing demand, risks also arise with regard to raw materials (metals, wood), a large part of which is imported from Russia and Belarus. For the most important raw materials imported from these countries, the forecasts for price increases and substitution of raw materials are still very uncertain, but the price increase will be unavoidable due to the fall in supply on the market and the fact that raw materials from these countries are cheaper than from other suppliers.

In 2021, the primary income balance deficit increased as compared to 2020. It accounted for –3.3 % of GDP in 2021 and 2.9 % of GDP in 2020. The development of investment income contributed mainly to this deterioration in the balance sheet, with a significant increase in reinvested foreign direct investment income in Lithuania as a result of the recovery in economic activity. Portfolio and other investment balance deficits decreased in 2021 as compared to 2020. The primary income deficit also increased as a result of transfers to abroad related to labour income which returned to the levels of 2019. The balance of primary income was positively affected by other than investment and labour income, whose transfers to Lithuania increased significantly in the last quarter of 2021. These cash flows are linked to subsidies from the EU Funds. As compared to 2020, subsidies from the EU and non-EU countries increased in 2021 as compared to 2020.

As in the foreign trade balance, the development of the primary income balance will continue to depend to a large extent on changes in the development of the economy. The slowdown in economic growth in 2022 will be driven by a slowdown in exports of goods and services due to sanctions against Russia and Belarus, prolonged supply chain disruptions, slower growth in real consumption due to higher energy prices and labour shortages. Substitution of supply countries of raw materials, restrictions on the supply of energy commodities linked to tougher economic sanctions against Russia and Belarus could lead to slower economic growth than currently expected. All this should limit the growth of foreign-owned corporate income transfers to abroad and less negatively affect the balance of primary income.

The secondary income balance deteriorated, with a surplus of 3.4 % of GDP in 2021 and 6.5 % of GDP in 2020. The general government deficit increased and surpluses of other sectors decreased. The deterioration of the secondary income balance is mainly driven by an increase in general government transfers to abroad. These payments include contributions to the EU budget (which increased in 2021) and other current transfers. In the near future, the surplus of the secondary income balance is not expected to start increasing. Despite the difficult geopolitical situation and challenges in the external sector, Lithuania's economy will grow, subsequently, contributions to the EU budget will increase and subsidies and other financial flows will gradually decrease.

Fig 2. Components of the current account balance, % of the GDP



Sources: Statistics Lithuania, Bank of Lithuania and calculations of the Bank of Lithuania.

In 2021, the balance of the capital account was 1.5 % of GDP, or by 0.2 % less than in 2020. The surplus of this account decreased slightly due to lower capital transfers to general government. This is due to a less active use of EU funds to finance a wide range of investment and development projects in the country.

The net flow of the financial account was positive in 2021, but decreased by about 60% as compared to 2020. This decline is mainly due to changes in portfolio and other investment. The flow of net other investment out of the country decreased (assets abroad were higher than foreign liabilities). The flow of net portfolio investment in 2021 changed the direction due to the decline in foreign liabilities. Changes in the portfolio investment account are related to the fiscal policy pursued and the issuance and redemption of Eurobonds. The issue of Government securities redeemed in 2021 led to a significant movement of money from the country through a financial account.

Table 5. Sector balances

	ESA code	% of GDP				
		2021	2022	2023	2024	2025
1. Net borrowing	B.9N	3,0	1,6	1,2	–0,2	–0,5
o/w:						
1.1. balance of goods and services		3,9	1,3	0,9	0,7	0,4
1.2. balance of primary and secondary income		–2,3	–2,4	–2,4	–2,8	–2,8
1.3. capital account		1,4	2,7	2,7	1,9	1,9
2. Net lending (+) /net borrowing (-) of the private sector		4,0	6,5	3,6	1,1	0,5
3. General government net lending (+) / net borrowing (-)	B.9N	–1,0	–4,9	–2,4	–1,3	–1,0
4. Statistical discrepancy		0	0	0	0	0

Sources: Ministry of Finance, Bank of Lithuania.
Note. Lines 1.2 and 1.3 show projections of the Bank of Lithuania developed on the basis of international environment assumptions made in adherence of the information published by 28 February 2022, and other data and information published by 1 March 2022.

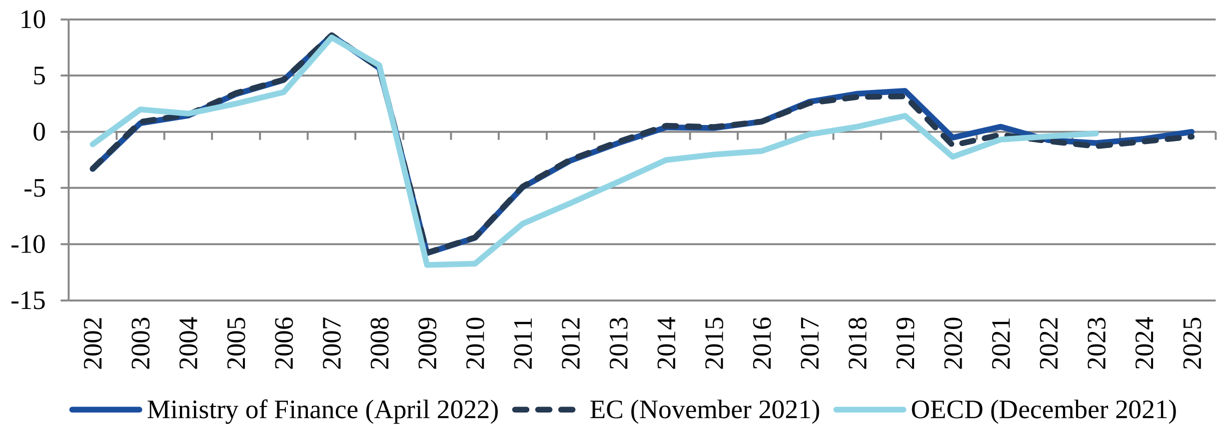
SECTION 3
ECONOMIC CYCLE ASSESSMENT

To assess the economic cycle, the Ministry of Finance of the Republic of Lithuania calculates the estimates for the potential GDP and the output gap. The concept of potential GDP refers to the theoretical level of economic output that would have been achieved if the factors of production — labour and capital — were used to the extent that the potential of these factors allows without affecting prices and wages. The output gap shows the difference between real and potential economic output levels. The potential GDP and output gap are unobservable indicators, and various statistical and econometric approaches are used to measure them, and their estimates are therefore characterised by high uncertainty. Different approaches, parameters or assumptions result in significantly different estimates of potential GDP levels leading to different estimates of output gaps. Differences in estimates are also due to different indicator projections (forecasts) and the length of their period, the different length of time series used for the calculations, different means of smoothing data time series and their parameters, different indicator statistics known at the time of calculation, and revisions of statistical data.

In order to reduce the uncertainty of estimates of potential GDP and output gap and to maintain their comparability with estimates of the EC and other EU Member States, as well as to comply with the provisions of the Stability and Growth Pact, the Ministry of Finance calculates the estimates of these indicators using a methodology for calculation of potential GDP [21]approved and improved by the EC and harmonised with other Member States, based on the Cobb-Douglas production function. The estimates calculated by the Ministry of Finance and the EC are not identical, their differences are mainly due to different projections (forecasts) of economic indicators used for the calculations, different their horizon length (Ministry of Finance — up to T + 3 years, EC — up to T + 1 year in spring, up to T + 2 years in autumn); the “closure” rule used by the EC on output gap; planned revisions of national accounts statistics, the deadlines (dates) of which do not coincide with those of the economic development scenario of the Ministry of Finance and of the calculation of potential GDP.

The results of the calculations made by the Ministry of Finance on the basis of EDS data and projections indicate that the output gap will remain negative in the medium term. In 2022, it will account for -0.7 % of potential GDP. In the subsequent medium-term years, with stronger economic growth, and slower growth of potential GDP mainly due to the negative impact of demographic factors, the negative output gap will narrow and will be close to 0 at the end of the period. The latest known (updated in July 2020) projections of the no migration scenario produced by Eurostat services were used to calculate the estimates of potential GDP.

Fig. 3. Estimates of output gap, % of the potential GDP



Sources: Ministry of Finance, EC, Organization for Economic Cooperation and Development.

[21] Detailed description of the methodology is published in the EC publication “The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps”, Economic Papers 535, 2014

PART III
STATE AND PROSPECTS OF GENERAL GOVERNMENT FINANCES

SECTION 1
GENERAL GOVERNMENT FINANCES IN 2021–2022

The 2021 Budget Law targets the general government deficit of 7 % of GDP. In July 2021, the 2021 Budget Law was amended. According to the amended 2021 Budget Law, the general government deficit amounted to 6.9 % of GDP. Taking into account the updated economic development scenario[22] published in June 2021, revenue in the amended 2021 Budget Law has been increased, and also about EUR 0.5 billion to finance expenditure measures related to COVID-19, if necessary, has been foreseen. In total, the 2021 budget, taking into account its amendment, foresees about EUR 1.7 billion for expenditure measures related to COVID-19. Additional funds are foreseen for health care − for purchase of vaccines and for implementation of other COVID-19 related measures; social security — to support the self-employed, to provide temporary job-search benefit to the unemployed; for economic area — to help businesses to preserve jobs during and after the COVID-19 pandemic, to promote the creation of new jobs after the COVID-19 pandemic (Table 6). Moreover, COVID-19 related tax deferral measures were applied in 2021.

In 2021, EUR 1.3 billion, or 2.3 % of GDP, was actually spent for the implementation of COVID-19-related measures. The positive impact of COVID-19-related revenue measures (deferral of tax payments) on the general government balance in 2021 amounted to EUR 247 million, or 0.4 % of GDP on an accrual basis.

Table 6. COVID-19-related general government expenditure measures

General government expenditure	EUR million			
	2020 (actual data)	2021 (according to the 2021 Budget Law)	2021 (according to the updated 2021 Budget Law)	2021 (actual data)
Compensation of employees	97.1	45.0	120.9	44.9
Intermediate consumption	231.1	156.7	431.9	260.10
Social benefits	571.8	210.5	239.4	242.41
Subsidies	1, 057.3	562.0	1, 001.0	748.02
Capital formation	529.9	0	0	0
Capital transfers	122.1	0	0	0
Other	53.8	78.5	0	0
Total:	2, 663.1	1, 052.7	1, 793.2	1, 295.4

Source: Ministry of Finance. The table shows only the measures affecting the general government balance.

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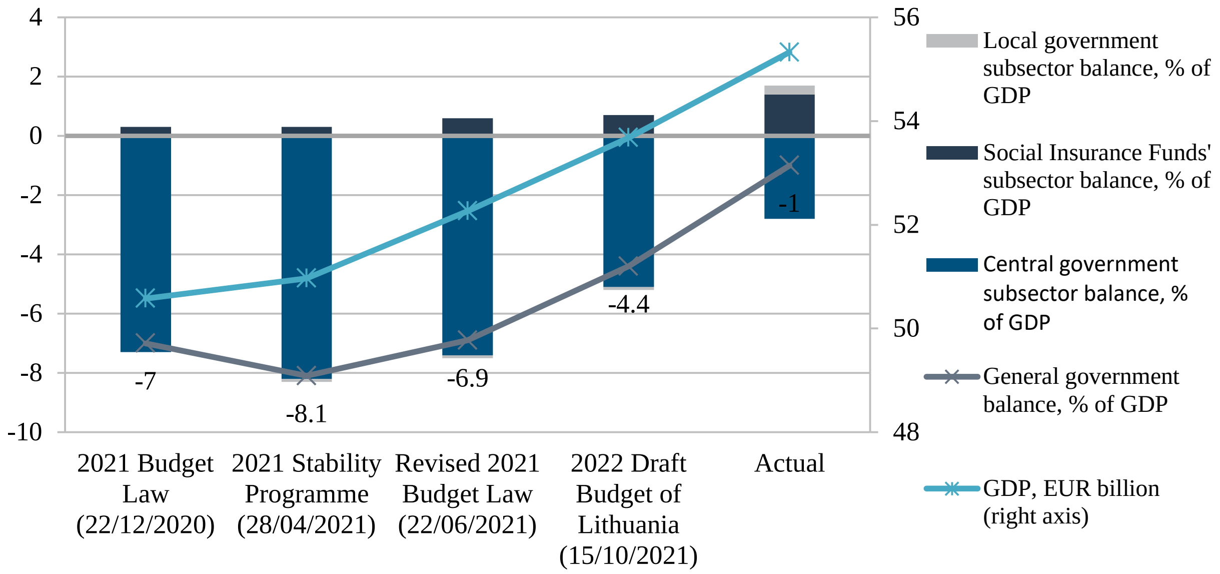
[22] **Economic Development Scenario June 2021**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus/scenarijus-2021-birzelis.

Over the year 2021 the value of the general government balance for 2021 varied from -7 % of GDP, set in the 2021 Budget Law, up to actual -1 % of actual GDP (Fig.4).

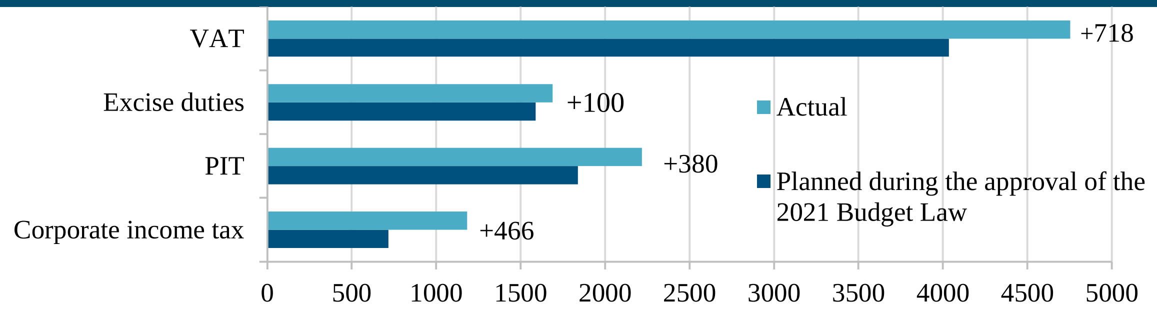
Fig. 4. General government and subsector balances for 2020 and GDP at current prices



Sources: Lithuanian Department of Statistics, Ministry of Finance.

One of the main reasons of the reduction of the general government deficit, as compared to the deficit set in the 2021 Budget Law, is the overperformance of the revenues from four main taxes of State budget– about EUR 1.7 billion more than planned (on an accrual basis). Due to the favourable economic situation, which occurred despite the on-going COVID-19 pandemic in 2021 and related restrictions to activities, the revenue from value added tax, excise duties, personal income tax and corporate income tax exceeded the plan most substantially (Fig. 5).

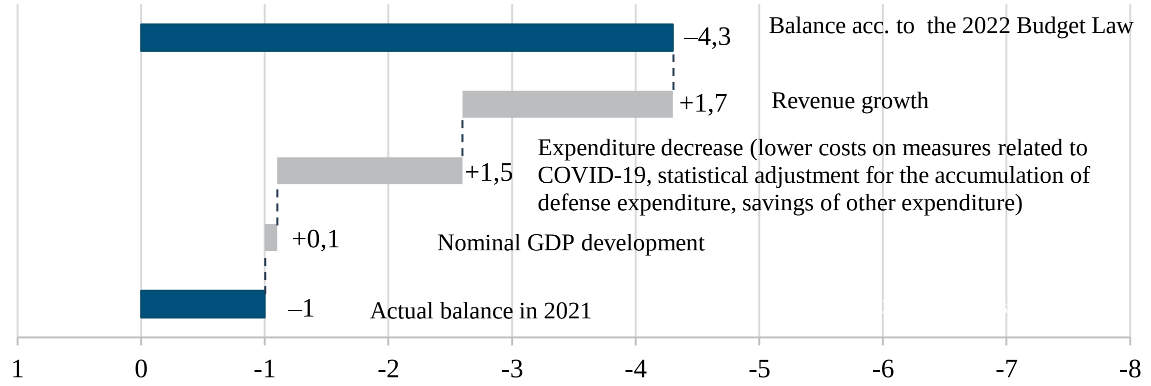
Fig. 5. State budget revenue from main taxes in 2021, EUR million



Source–Ministry of Finance.

The aggregate revenue of SODRA, CHIF and municipal budgets exceeded the planned revenue by more than EUR 1 billion, on an accrual basis. Revenue growth was due, among other factors, to better tax bases than those projected during the preparation of the 2021 Budget Law. About EUR 300 million were not spent on financing the COVID-19 related measures. The costs of acquiring weapons, military equipment and military supplies, calculated on an accrual basis, were by about EUR 400 million lower than planned at the time of drafting the 2021 Budget Law. Although, according to the requirements of fiscal discipline, municipal budgets could be with a deficit, in fact the aggregate of municipal budgets amounted to a surplus of EUR 183 million.

Fig. 6. Change in the general government balance in 2020, as compared to that approved in the 2021 Budget Law, % of GDP



Source– Ministry of Finance.

The general government deficit of 3.3 % of GDP was planned in the 2022 Budget Law. In the preparation and approval of the 2022 budget, the need to allocate funds for the implementation of the COVID-19 related measures, the increase of minimum pensions, wages of education, health sector employees, the construction of a physical barrier on the Lithuanian-Belarusian border and the implementation of other spending policy measures were taken into account. EUR 323 million were allocated in 2022 for the measures related to the COVID-19 pandemic to purchase vaccines, to ensure the vaccination process, and to pay wage supplements for medical staff working with patients with COVID-19, and to incentivise vaccination.

As Russia began military actions in Ukraine in February 2022, as a result of which geopolitical tensions increased, risks to Lithuania's security, economic growth, social environment and general government finances have also increased. Lithuania is one of the countries hosting the Ukrainian people fleeing the country as a result of Russian military actions. As prices rise rapidly, there is a need to increase the income of the socially most vulnerable groups of the Lithuanian population.

Taking into account the need for strengthening national defence, in March 2022 the 2022 budget was adjusted[23], giving the Ministry of Finance the right to borrow additional funds and to allocate to national defence the amount of funds corresponding to 2.52 % of GDP instead of 2.05 % of GDP. This amendment amounts to EUR 298 million.

At the beginning of April 2022, a draft Law Amending the 2022 Budget Law was re-drafted[24]. The Law on the Approval of 2022 Indicators of SODRA Budget is also amended. The draft amendments to these budgets were approved by the Government on April 13[25]. The budgets amendment proposes the measures related to aid to the Ukrainians, as well as measures to help the people of Lithuania in the face of sharp price increases, provides for funds to state-owned enterprises to mitigate their potential losses due to indirect impact of sanctions imposed on Russia and Belarus, and aid to business. The potential impact of these measures on general government finances in 2022 will amount to EUR 1, 726 million, or 2.9 % of GDP (a quantification of discretionary measures is provided in Table 25). General government expenditure, on an accrual basis, will increase by EUR 2, 167 million, or 3.6 % of GDP as compared to the expenditure planned in the 2022 Budget Law approved in December 2021. The negative impact of the measures on general government finances is partly offset by higher-than-expected general government revenue. The general government revenue (on an accrual basis) is expected to be EUR 1, 097 million higher in 2022 than planned in the 2022 Budget Law.

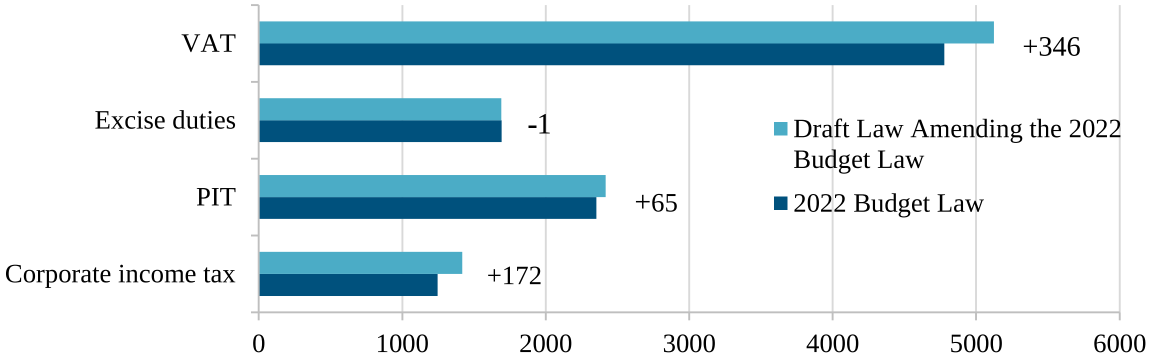
The draft Law Amending the 2022 Budget Law revises the revenue collection plan approved by the 2022 Budget Law (Fig. 7). The revenue plan is updated by taking into account the EDS, as well as the actual revenue collection in 2021 and at the beginning of 2022, also the planned new revenue measures, such as the temporary compensation of VAT on heat energy, hot water (for heat energy actually supplied to residential premises in January-April 2022), as well as the additional increase in NTA for those whose wages do not exceed one average wage. Revenue from four main taxes (VAT, PIT, excise duties and corporate income tax, on an accrual basis) is expected to be EUR 581.5 million in 2022, or by 1 % of GDP higher than foreseen in the 2022 Budget Law, and EUR 806.1 million, or 1.3 % of GDP higher than in 2021.

[23] **Law No XIV-943 of 17 March 2022 Amending Article 14 of Republic of Lithuania Law No XIV-745 On the Approval of Financial Indicators for the State Budget and Municipal Budgets for 2022**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/a8a91e42a5fc11ecaf79c2120caf5094?jfwid=-3u6wv6mul.

[24] **Draft Law Amending the 2022 Budget Law**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/40738cd0bb1311ec9f0095b4d96fd400?jfwid=4ki18eszk.

[25] **Government Resolution No 345 of 13 April 2022**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c31cde90bb1111ec9f0095b4d96fd400?positionInSearchResults=0&searchModelUUID=781047a5-014e-41f8-9e20-938cc88861cb.

Fig. 7. State budget revenue from main taxes in 2022, EUR million

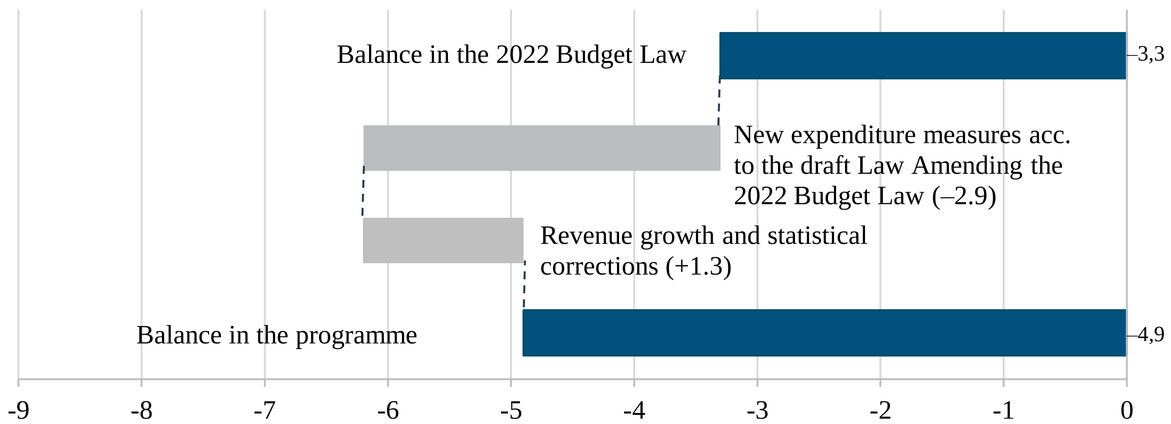


Source–Ministry of Finance.

Taking into account the latest data on the execution of budgets attributed to general government received by the Ministry of Finance by 22 April 2022, EDS, in line with the proposed budgetary changes updated revenue and expenditure projections of the State, Social Insurance Funds and the trends of the local government subsector balance, the general government deficit is expected to reach 4.9 % of GDP in 2022 (Fig.8).

With growing geopolitical tensions, changing uncertainty and anticipating additional, than foreseen in the programme, measures affecting public finances, the general government finance indicators presented in the programme for 2022 may deteriorate. The general government finance indicators can improve due to higher, than indicated in the programme, general government revenue and lower expenditure, if part of the funds earmarked to finance expenditure measures is not needed.

Fig. 8. Comparison of the 2022 general government balance presented in the programme and the one in the 2022 Budget Law, % of GDP



Source –Ministry of Finance.

In 2022, the surplus of the Social Insurance Funds' subsector will have a positive impact on the general government finance situation. The projected surplus in SODRA's budget is due to the increasing revenues as a result of wage growth and the fact that most of the measures related to aid to the Ukrainian people fleeing the country due to Russian military actions are not financed by SODRA, but by the State budget. The main reason for the CHIF's surplus is the higher-than-expected revenues and mostly unchanged expenditures as compared to the planned ones. Taking into account the surplus of 0.3 % of GDP in the local government subsector in 2021, as well as the fact that Lithuanian municipalities may have budgets with deficits when the output gap is negative, it is assumed that the local government subsector will basically not be affecting the general government balance in 2022 (Table 7).

Table 7. Balance of general government subsectors

General government subsector	2021 (actual data)		2022 (acc. to the 2022 Budget Law)		2022 (acc. to the data in the programme)	
	MEUR	% of GDP	MEUR	% of GDP	MEUR	% of GDP
Central government subsector	–1, 530.9	–2.8	–2, 209.9	–3.9	–3, 415.4	–5.7
Social Insurance Funds' subsector	802.0	1.4	329.2	0.6	423.7	0.7
SODRA	533.8	1.0	303.1	0.5	339.8	0.6
CHIF	231.7	0.4	0.0	0.0	49.7	0.1
Local government subsector	174.3	0.3	–29.1	–0.1	11.0	0.0
General government	–554.6	-1.0	–1, 909.8	–3.3	–2, 980.7	–4.9
GDP	55, 383.1	–	57, 206.1	–	60, 223.6	–
GDP, in line with EDS, data	Actual data	–	2021-09-23	–	2022-03-31	–

Sources — Ministry of Finance, Statistics Lithuania.

SECTION 2
GUIDELINES FOR MEDIUM-TERM FISCAL POLICY

Medium-term projections for general government balances have been prepared taking into account:

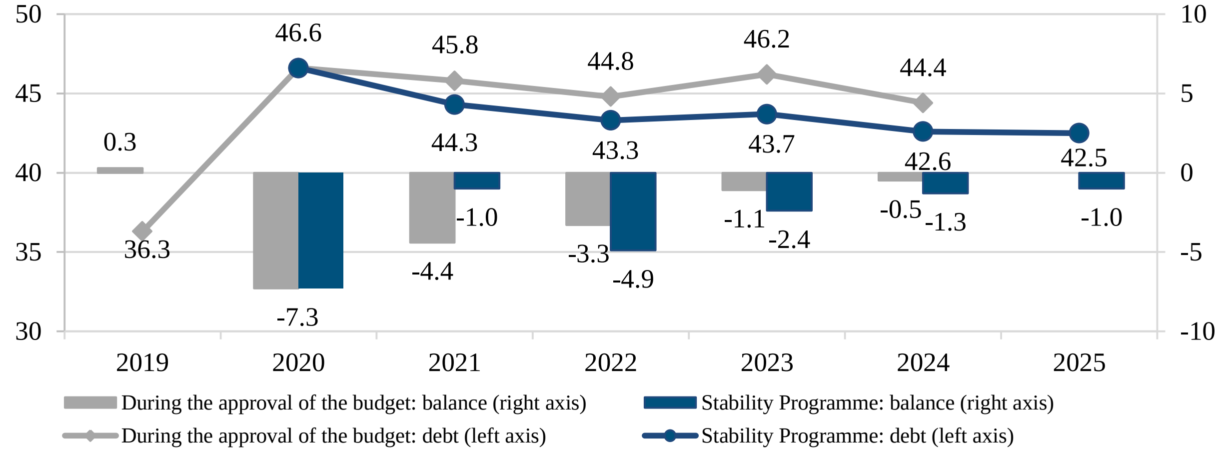
- the need to plan general government finances with caution when there is considerable uncertainty about the impact of the geopolitical crisis on the Lithuanian economy, social environment and public finances;

- the Government's objective, as set out in Lithuania's 2022 draft budget, to gradually improve the general government balance in 2023-2025 in order to reach the medium-term objective in 2024;
- the need to ensure the sustainability of general government finances, while maintaining a non-increasing general government debt-to-GDP ratio over the medium term;
- the state of the economic cycle – in normal economic times, as output gap gradually narrows, the economy should not be exclusively stimulated or subdued by general government finances;
- the assumption that, due to the exceptionally high impact of the COVID-19 pandemic effects and their mitigation measures on public finances, the exceptional circumstances announced in 2020 will be lifted in 2023, national fiscal discipline rules will have to be applied, and the general escape clause of the SGP will expire in 2023.

Due to geopolitical tensions and uncertainty, during the preparation of the draft State and other general government sector budgets for 2023 in autumn 2022, medium-term fiscal policy guidelines may change, in particular, if an inferior Lithuania's macroeconomic situation or prospects were projected then and fiscal risks have been materialised (see subsection 3 of Section VIII of the Programme for information on fiscal risks).

During the crisis caused by the COVID-19 pandemic, the general government debt increased to 46.6 % of GDP in 2020, reaching 44.3 % of GDP at the end of 2021. The general government debt-to-GDP ratio will remain stable over the medium term constituting about 43% of GDP. Though challenges to address ageing society and other structural challenges, greening and digitising the economy remains, keeping the debt level well below the Maastricht criterion 60 % of GDP in the medium term will contribute to strengthening the long-term sustainability of general government finances.

Fig. 9. General government balance and debt, % of GDP



Source–Ministry of Finance.

The projected gradual reduction of the general government deficit in 2023-2025 will be one of the key conditions for maintaining a stable level of the general government debt. Despite the projected reduction of the deficit, nominal general government expenditure, excluding one-off expenditure and other temporary measures, will not be reduced due to expected increases in revenue of budgets attributed to general government. The investment projects implemented from national and the EU funds, including measures foreseen in the RRF Plan, are expected to contribute to strengthening the economic growth. In 2022-2025, it is planned to use EUR 1.8 billion of RRF funds out of the planned EUR 2.2 billion for Lithuania. This amount is estimated in the general government finance projections presented in the programme as revenue for the years 2022-2025 and, accordingly, as expenditure, maintaining the principle of neutrality of the EU funds for the budget balance. The remaining EUR 447 million of RRF funds is planned to be used in 2026. The distribution of the RRF grant in the medium-term year is presented in Tables 8 and 24 of the programme.

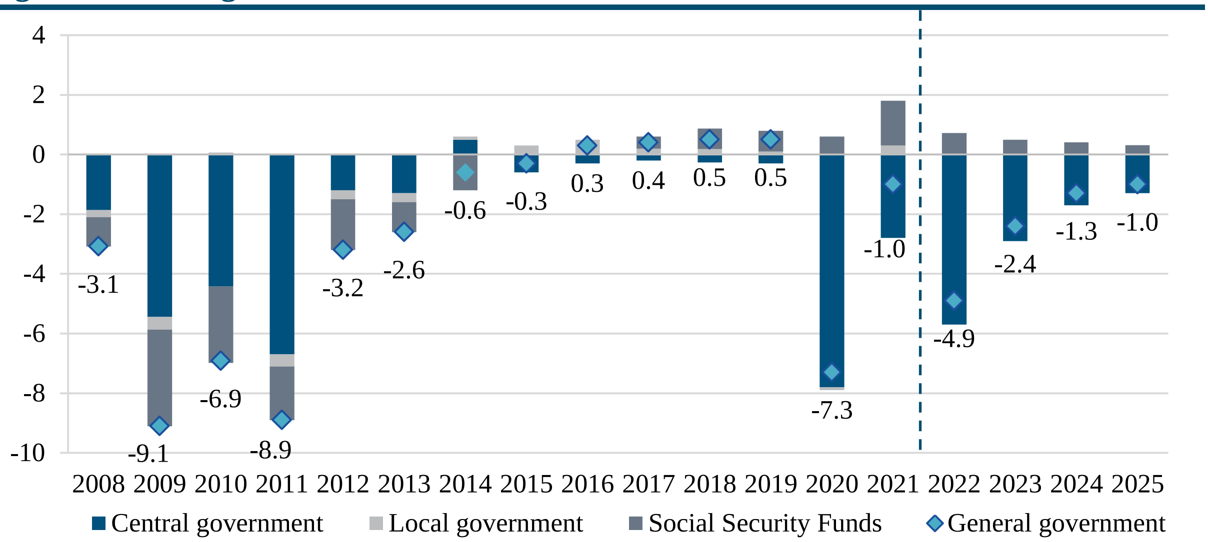
Table 8. The planned distribution of the RRF funds over the medium-term

	EUR million				
	2021	2022	2023	2024	2025
RRF grants	0.0	196.5	498.4	585.9	496.0

Source–Ministry of Finance.

Medium-term general government finance projections (Fig.10) have been prepared taking into account e EDS, the revenue projections of the budgets attributed to general government updated on the basis of EDS, Social Insurance Funds' budgets expenditure, and municipal budget expenditure, which is equated to revenue. The amounts of RRF and EU funds increase the general government revenue and expenditure without affecting the general government balance.

Fig. 10. General government and subsector balances for 2008-2025, % of GDP



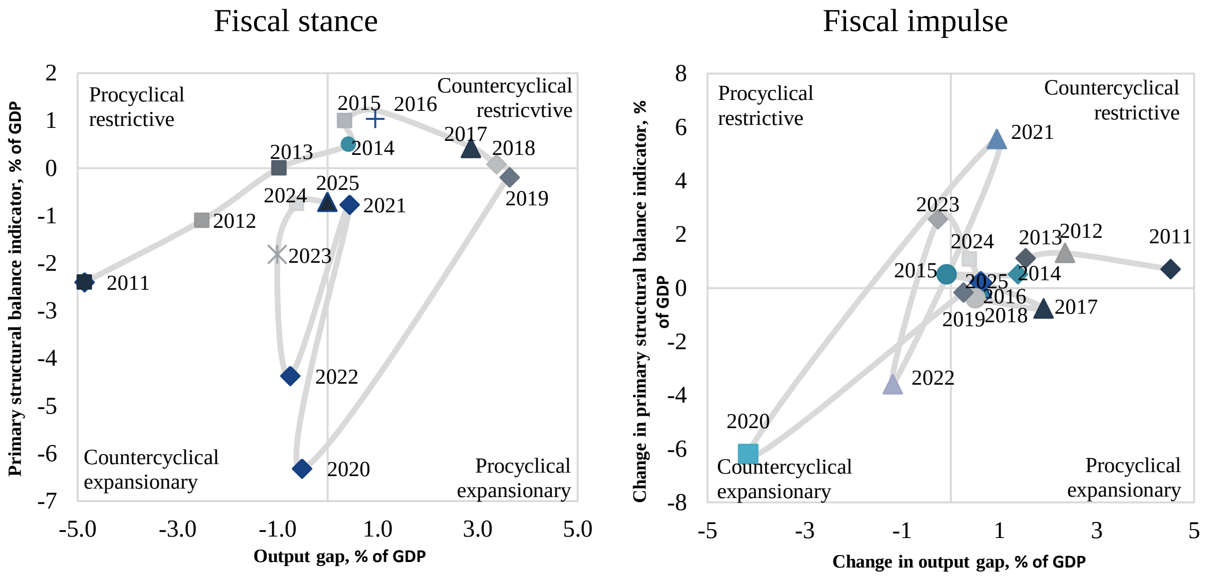
Sources: Statistics Lithuania, Ministry of Finance .

SECTION 3
STRUCTURAL BALANCE FOR 2021-2025

In 2021, the general government structural deficit stood at 1.2 % of GDP and was close to the medium-term objective. The improvement in the primary structural balance, as compared to primary structural balance for 2020, amounted to 5.6 percentage points of GDP. The decline in the primary structural deficit reflects a countercyclical consolidating fiscal impulse, while the fiscal stance in 2021 was procyclical expansionary (Fig.11).

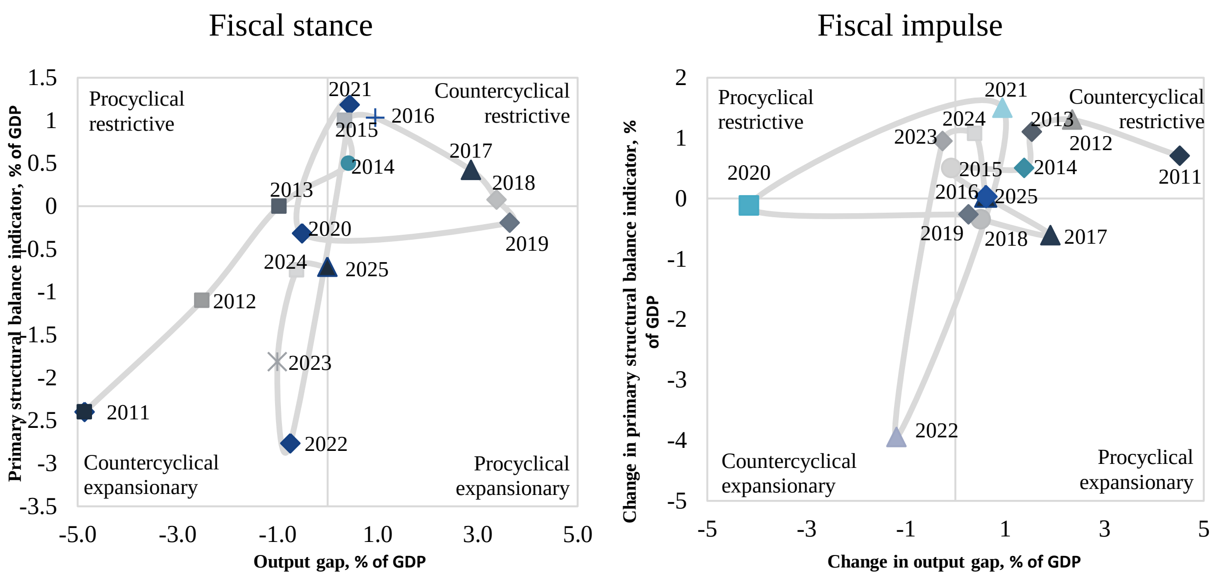
Excluding 1.9 % of GDP COVID-19-related measures in 2021, general government would be in surplus in terms of structural balance. In this case, the structural surplus would amount to 0.8 % of GDP in 2021, while an improvement of 1.5 percentage points of GDP in the primary structural balance, as compared to 2020, would point to a countercyclical restrictive stance of fiscal policy, where the economy was not exclusively stimulated by general government finances (Fig.12).

Fig. 11. Fiscal policy stance and fiscal impulse in 2011-2025



Sources: Statistics Lithuania and calculations of the Ministry of Finance.

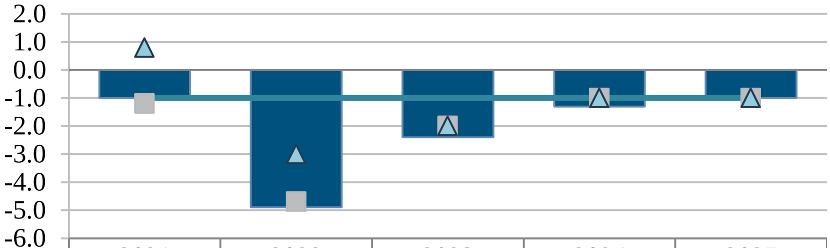
Fig. 12. Fiscal policy stance and fiscal impulse, excluding the impact of one-offs and other temporary measures in 2011-2025



Sources: Statistics Lithuania and calculations of the Ministry of Finance.

In 2022, the general government structural deficit is projected to be 4.7 % of GDP and an increase of 3.6 percentage points of GDP in the primary structural deficit as compared to 2021. The temporary increase in the structural deficit, as compared to the structural deficit in 2021, is mainly due to the impact of the implementation of the measures related to war refugees from Ukraine, strengthening Lithuania's security and defence, support to the Lithuanian people and businesses under strong price increases on general government finances. Temporary measures are expected to amount to 1.6 % of GDP in 2022. Excluding the impact of temporary measures on general government finances, the general government structural deficit would amount to 3 % of GDP (Fig.13).

Fig. 13. The structural balance for 2021-2025, including and excluding the impact of temporary measures, % of GDP



	2021	2022	2023	2024	2025
Nominal general government balance	-1.0	-4.9	-2.4	-1.3	-1.0
Structural general government balance	-1.2	-4.7	-2.0	-1.0	-1.0
Structural general government balance, excluding the impact of temporary measures	0.8	-3.0	-2.0	-1.0	-1.0
Medium-term objective	-1.0	-1.0	-1.0	-1.0	-1.0

Source –Ministry of Finance.
Note. Temporary measures are measures related to COVID-19, risk management of migrants across the Lithuanian-Belarusian border, support to the Ukrainian people fleeing the country due to Russian military actions in Ukraine, maintenance of the Lithuanian railway infrastructure. Such measures amount to 1.9 % of GDP in 2021, 1.6 % of GDP in 2022, and no such measures are expected in 2023-2025.

According to the EDS, the output gap will be negative in 2022-2024, and equal to 0 in 2025. Medium-term estimates of the output gap (Table 9) show normal times for the economy.[26] During these years, there is no need to stimulate the economy or take measures to restrain economic activity. In the medium term, the projected fiscal policy becomes more neutral as the output gap becomes close to 0.

Changes in economic development, as compared to those foreseen in the EDS, an updated assessment of the economic cycle position, and the timing of the application of fiscal discipline rules may change the estimates of the general government structural balance.

[26] If the value of output gap falls within the range [–1,5-1,5] in a given year, the economy is considered to live in normal times.

Table 9. Economic cycles

	ESA code	% of GDP				
		2021	2022	2023	2024	2025
1. GDP growth/chain-linked volume growth		4.9	1.6	2.5	3.0	3.0
2. General government net lending (+)/borrowing (−)	B.9	–1.0	–4.9	–2.4	–1.3	–1.0
3. Interest expenditure	D.41	0.4	0.3	0.2	0.3	0.3
4. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0
o/w:						
one-off measures — general government revenues		0.0	0.0	0.0	0.0	0.0
one-off measures — general government expenditures		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth, %		3.9	2.8	2.8	2.6	2.3
of which:						
labour		0.6	0.0	–0.1	–0.4	–0.7
capital		1.6	1.5	1.5	1.6	1.6
total factor productivity		1.7	1.3	1.3	1.4	1.5
6. Output gap		0.4	–0.7	–1.0	–0.6	0.0
7. Cyclical budgetary component		0.17	–0.3	–0.4	–0.3	0.0
8. Cyclically adjusted balance (2-7)		–1.2	–4.7	–2.0	–1.0	–1.0
9. Cyclically adjusted primary balance (8 + 3)		–0.8	–4.4	–1.8	–0.7	–0.7
10. Structural balance (8 – 4)		–1.2	–4.7	–2.0	–1.0	–1.0

Sources: Lithuanian Department of Statistics, Ministry of Finance.
Note. In some years, due to rounding, the sum of the GDP percentage may not coincide with the values of the calculated indicators.

SECTOR 4
MEDIUM-TERM REVENUE AND EXPENDITURE POLICY PRIORITIES AND MEASURES FOR THEIR IMPLEMENTATION

Income policy priorities and measures

A fairer and growth-friendly tax system, reducing poverty and inequality are priorities of the Government policy. Information on the implementation of these priorities is provided in 2022 Lithuanian Draft Budgetary Plan[27].

In the circumstances of the uncertainty and in response to geopolitical tensions, additional revenue measures are foreseen in 2022 as compared to the 2022 Lithuanian draft Budgetary Plan:

- the Law Supplementing Republic of Lithuania Law No IX-751 on Value Added Tax with Article 125^{2} and Repealing Article 125^{2} came into effect on 1 April 2022, which

[27] 2022 **Lithuanian draft Budgetary Plan,** submitted to the EC on 15 October 2021, https://finmin.lrv.lt/uploads/finmin/documents/files/LT_DBP2022.pdf.

establishes that the VAT, calculated for heating energy and hot water supplied to residential premises, will be temporarily compensated by the State budget by the VAT rate of 9 percentage points. The compensation will apply for heating energy and hot water actually supplied to residential premises from 1 January 2022 to 30 April 2022.

- With effect from 1 July 2022, the supply or supply and import of goods and services intended for use by the armed forces (or civilian staff accompanying them) of other Member States when those forces participate in defence operations carried out under the common EU security and defence policy will be exempt from VAT and excise duties.

- In order to implement the direction of a fairer and growth-friendly tax system envisaged in the Government Programme, while contributing to the initiatives envisaged in this programme aimed at reducing poverty and inequality, what is particularly relevant in view of the increased prices of essential consumer goods, the Government, together with the draft Law Amending the 2022 Budget Law, has submitted a proposal to further increase the applicable NTA, thus reducing the taxation of labour for low and middle-income earners for 2022 and subsequent tax periods. Draft Law No XIVP-1501 Amending Article 20 of Republic of Lithuania Law No IX-1007 on Personal Income Tax proposes to increase the maximum monthly NTA from EUR 460 to EUR 540 (annual NTA would increase from EUR 5, 520 to EUR 6, 480, accordingly), but only for residents whose monthly income does not exceed EUR 1, 704 (about one average monthly gross wage projected for 2022). Applying the NTA to residents whose income exceeds this amount, the level of the current NTA would be maintained. At the same time, it is proposed to increase proportionately the fixed NTA for persons with disabilities and persons with reduced working capacity.

In order to ensure that residents, who have left Ukraine for Lithuania as a result of Russian military actions, continue to pay taxes on their income as paid by residents of Ukraine, the Rules for the Calculation of These Periods for a Natural Person Who has been Staying in Lithuania Continuously or Intermittently for 90, 183 and 280 Days have been amended, providing that the number of days spent by war refugees from Ukraine in Lithuania does not include the period from the date of registration of a war refugee from Ukraine in the Migration Department to the end of war crimes in Ukraine.[28]

The amendments to the Republic of Lithuania Law on Charity and Sponsorship, which came into force in April 2022, allow the Lithuanian legal entities providing support to the Ukrainian non-profit organisations and state institutions to benefit from tax reliefs.

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[28]**Minister for Finance Order No 300 of the of 25 September 2002 on the Approval of the Rules for the Calculation of These Periods for a Natural Person Who is Staying in Lithuania Continuously or Intermittently for 90, 183 and 280 Days.**

At the same time, the Ministry of Finance has recently applied to the EC with a request to apply import duty and VAT reliefs for support granted to Ukraine (such reliefs can only be granted after the EC has taken a decision), at the same time enclosing a preliminary list of goods to which such reliefs would apply. In the event of an EC decision authorising a Member State to exempt goods (intended for disaster victims) from import VAT, a VAT reduction with the possibility of deduction to supplies of such goods and services and acquisitions from other Member States in connection with these goods may be granted under the same conditions (the provisions of the new VAT Directive adopted on 5 April 2022). Following the adoption of the amendments to the VAT Directive, the amendments to the Republic of Lithuania Law on Value Added Tax have been drafted, which stipulate that the 0 % VAT rate applies to the goods, specified in the EC decision on exemption from import VAT, as well as related goods and services.

COVID-19-related support measures

Tax related support measures for taxpayers applied since 16 March 2020:

- exemption from default interest and penalties for late payment of taxes;
- non-enforced tax recovery;
- exemption from interest on a tax loan.

COVID-19-related support measures were applied in 2021 to tax arrears incurred before 31 August 2021. Also, for further 2 months after the deadline, until 31 October 2021, such arrears were not subject to forced recovery actions and default interest.

As of 1 September 2021, taxpayers' requests for inclusion in the list of affected companies and requests for interest-free tax loan agreements are no longer accepted. As of 1 September 2021, taxpayers must pay newly calculated taxes in accordance with the procedure laid down by the law.

The interest-free fees specified in the tax loan agreement will have to be paid by the end of 2022. After this period, the interest will have to be paid for the use of the loan.

The STI outstanding sum of arrears of taxpayers affected by the COVID-19 pandemic at the beginning of 2022 amounted to EUR 444.3 million, of which EUR 302.1 million were deferred VAT payments. Given that for the major part of such arrears the interest-free tax loan agreements by which companies have committed to cover the arrears by the end of 2022 have been signed, a larger part of the deferred taxes is expected to be paid in 2022. Recovered amounts of the deferred VAT will not be considered as revenue of 2022 (on an accrual basis, deferred payments of taxpayers affected by the COVID-19 pandemic are attributed to the revenue of the year in which the payment obligation arose).

In 2021, the principles for applying tax related support measures were revised and the criteria for recognising individuals as affected by the COVID-19 pandemic were tightened. In

2021, the STI drew up a new list of taxpayers subject to tax support measures. This list was based on a list of economic activity codes restricted and indirectly restricted during quarantine approved by a joint order of several ministers, as well as other criteria such as a decrease in turnover, reliability of taxpayers, insolvency. Taxpayers who were not on the list of companies affected by the COVID-19 pandemic, but who were also in financial difficulties as a result of the COVID-19 pandemic, until 31 August 2021 were able to apply to the tax administrator for tax related support measures by submitting an application in accordance with an approved form.

From 1 January 2021 to 31 December 2022, a 0 % VAT rate applies to supplies of vaccines against COVID-19 and in vitro diagnostic medical devices for COVID-19 diagnostics.

As of 1 January 2022, the amendments to the Law on Value Added Tax entered into force, which, in response to the COVID-19 pandemic, introduced appropriate VAT reliefs for supplies of certain goods (imports) and services acquired or imported by the EC or bodies and agencies established by the EU institutions for their official activities and uses. This amendment applies to goods and services in respect of which VAT or import VAT became chargeable as of 1 January 2021.

In response to the COVID-19 situation and in order to mitigate the impact of this pandemic on the lowest income workers, while contributing to reducing poverty and income inequality, the amendments to the Republic of Lithuania Law on Personal Income Tax were adopted on 23 June 2020, according to which already for 2020 and subsequent tax periods the NTA of EUR 400 per month (EUR 4, 800 per year) instead of the maximum EUR 350 per month (EUR 4, 200 per year) has been set, while at the same time the fixed NTA for persons with disabilities and persons with reduced working capacity have been increased (afterwards, when the amendments to the Law on Personal Income Tax came into force on 25 November 2021, this maximum applicable NTA has been increased from EUR 400 to EUR 460 as of 1 January 2022 (annual NTA − up to EUR 5, 520, accordingly), thus further reducing the taxation of labour for low and middle-income earners, and at the same time proportionally and gradually increasing the fixed NTA for persons with disabilities and persons with reduced working capacity).

A quantification of discretionary revenue measures for 2021-2025 is provided in Tables 23 and 27 of the programme.

Revenue projections

During the preparation of revenue projections for 2023-2025 on an accrual basis, the impact of the EDS and of new discretionary revenue measures, as compared to the 2022 Budget Law, on the revenue has been taken into account.

The State budget revenue from four main taxes (VAT, PIT, excise duties and corporate income tax), which represent about 93 % of total State budget revenue, excluding EU funds, is expected to increase by 0.3 percentage points of GDP in 2023, as compared to 2022, 0.3 percentage points of GDP in 2024 and 0.1 percentage points of GDP in 2025.

While forecasting revenue from the main taxes, revenue actually collected in 2021 and at the beginning of 2022, development of tax bases projected in the EDS, as well as loss of revenue due to valid tax reliefs which will expire in the medium term, were taken into account. It is also considered that deferred tax payments and tax refunds from companies affected by the COVID-19 pandemic in 2020-2021 will no longer have a significant impact on revenue collection as of 2023.

The medium-term revenue projections presented in the programme may change due to changes in economic developments, new tax policy decisions. In the medium term, changes in the tax system may be expected especially if uncertainty decreases and the tax review resumes.

Priorities and measures of the expenditure policy

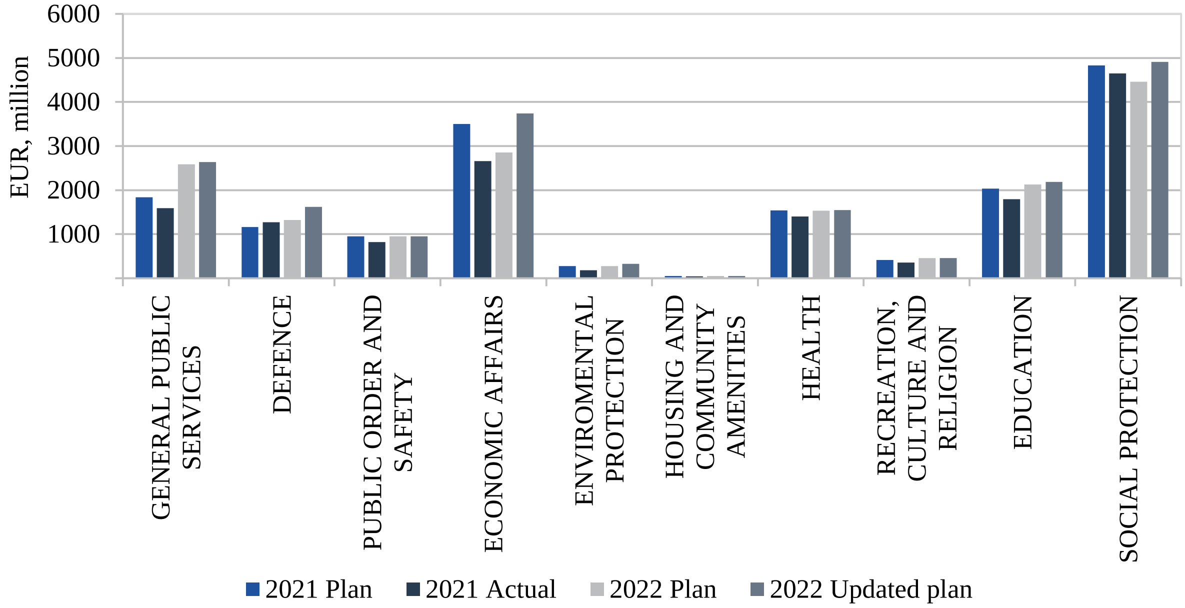
In order to contribute to sustaining the economic recovery, taking into account the consequences caused by the COVID-19 pandemic, uncertainty due to geopolitical tensions, as well as the hybrid attack on Lithuania by the Belarusian regime — the influx of illegal migrants — the measures provided for in the 2022 Budget Law are designed to implement the following expenditure policy priorities:

- ensuring national and public security;
- investments in a sustainable and progressive future of Lithuania;
- education;
- increasing personal income and reducing the risk of poverty.

The draft Law Amending the 2022 Budget Law focuses on mitigation of the consequences of Russian military actions in Ukraine, as well as on anti-inflation measures for businesses and residents.

A quantification of discretionary expenditure measures is provided in Table 25 of the programme.

Fig. 14. Structure of the State budget expenditure



Source– Ministry of Finance.
Note. The State budget expenditure does not include the EU funds and RRF funds.

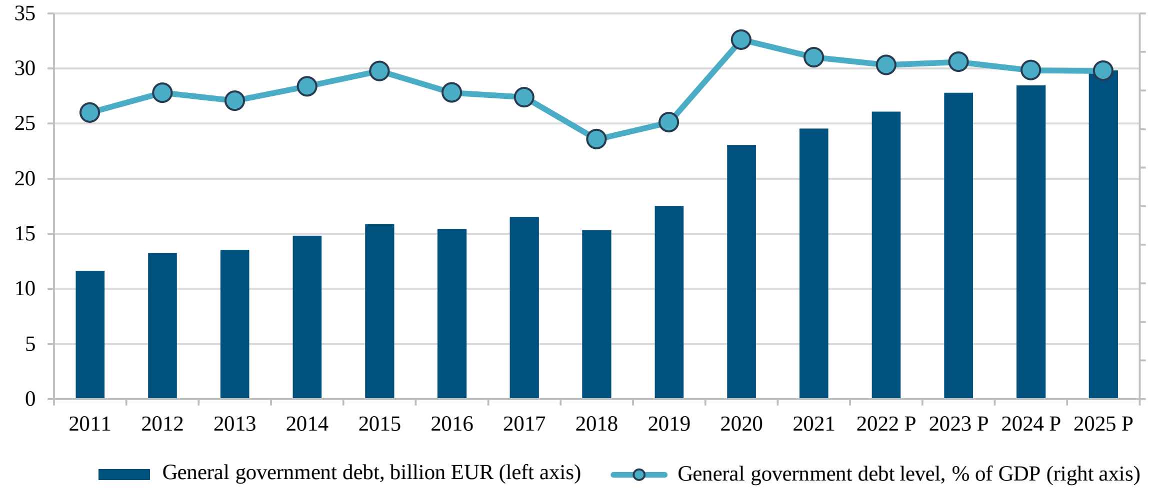
SECTION 5
GENERAL GOVERNMENT DEBT AND ITS PROJECTIONS

General government debt level, structure, dynamics and risk management

The general government debt after financial derivatives made up 44.3 % of GDP at the end of 2021 and was by 2.3 percentage points lower than at the end of 2020, when it reached 46.6 % of GDP. The decline in debt was driven by a decreasing State budget deficit (Fig.15).

In 2021, the Government complied with all statutory borrowing and debt limits. Short-term liabilities by residual maturity amounted to 10.1 % at the end of 2021 (9.4 % − at the end of 2020), the weighted average residual maturity of debt on behalf of the State and the weighted average residual maturity of debt on behalf of the State prior to the change in interest rates was 8.8 and 8.7 years, respectively, in 2020 - 9.1 years. The floating debt on behalf of the State amounted to 1.5 % of total debt (1.8 % − at the end of 2020). Considering financial derivatives, the total debt on behalf of the State was denominated in euro. The State-guaranteed debt amounted to 1.2 % of GDP.

Fig. 15. General government debt , % of GDP



Source– Ministry of Finance.

The general government debt level is projected to remain stable over the medium term, reaching about 42.5 % of GDP at the end of 2025. The general government debt projections are presented in Table 22 of the programme.

Government borrowing and debt management guidelines for 2022-2025

The objective of the Government borrowing and debt management for 2022-2025 is to ensure the financing of public expenditure as laid down in the laws of the Republic of Lithuania and the fulfilment of assumed debt obligations with borrowed funds at the lowest possible costs and acceptable risk. In order to achieve this objective, two main tasks of the Government borrowing and debt management for 2022-2025 and the criteria for their implementation are listed below.

The first task is to attract as much of the monetary resources temporarily not used by entities classified as general government to the State Treasury. This task aims to improve the liquidity of financial assets of the State Treasury and to manage public monetary resources more efficiently. The raising of temporarily idle monetary resources into the State Treasury is an additional liquid asset that can cover net outflows in the short term in a context of adverse economic conditions. The criterion for the implementation of the task is the preparation of implementing legal acts necessary for the operation of the consolidated accounts management system of the State Treasury.

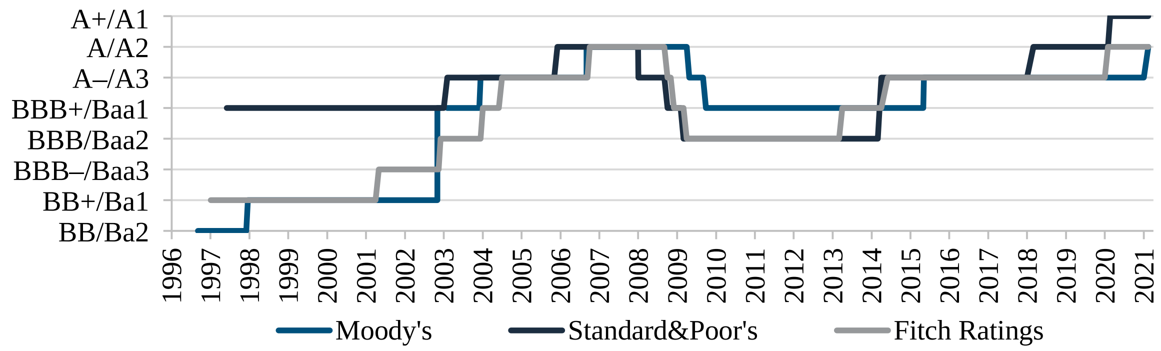
The second task covers the management of interest rate fluctuations, refinancing, exchange rate changes and guaranteed debt risks. Risk management is an important factor in achieving the underlying debt objective − to ensure debt stability and the ability of the Government to meet its obligations. The criterion for the achievement of the objective is the compliance with risk limits consistent with international practice: the debt ratio of short-term debt on behalf of the State in terms of residual maturity and total debt on behalf of the State must not exceed 25 %; the weighted average residual maturity of debt on behalf of the State must exceed 4 years; the weighted average residual maturity of the debt on behalf of the State prior to the change in interest rates should exceed 3.5 years; the ratio of the floating debt to the total debt on behalf of the State should not exceed 10 %; the debt denominated in euro, taking into account the financial derivative transactions entered into, must represent 100 % of the total debt; the overall level of State liabilities under guarantees must not exceed 5 % of GDP.

The forecast of the Government's borrowing needs, after assessing the applicable refinancing risk management measures for the redemption of Eurobond issues, on average will amount to EUR 4.3 billion in 2022-2025.

Credit ratings

The credit ratings issued by international credit rating agencies Moody's, Standard & Poor's and Fitch Ratings for long-term foreign currency borrowing of Lithuania on 31 March 2022 were A2, A+, A, accordingly (Fig.16).

Fig.16. Development of credit ratings on long-term foreign currency borrowing of Lithuania



Source – Ministry of Finance.

In December 2021, the international credit rating agency Fitch Ratings confirmed A long-term borrowing rating previously granted to Lithuania and left a stable outlook. The decision of the Agency's experts on Lithuania's rating was determined by a sound political direction supported by the EU membership and the fact that Lithuania's governance indicators exceed the median values of governance indicators in the countries with A rating. Lithuania's economy is small and open, but a resilient export sector and small macroeconomic imbalances have helped to mitigate the impact of the COVID-19 pandemic on the country's economy. The international credit rating agency Fitch Ratings last improved Lithuania's credit ratings in January 2020, when the long-term credit rating was raised from A- to A.

In January 2022, the international credit rating agency Standard & Poor's confirmed the A+ long-term borrowing rating previously granted to Lithuania and left a stable outlook. According to the experts of the Standard & Poor Agency, Lithuania's economy will continue to grow in 2022-2025 due to a strong domestic demand and EU-funded investment, which would contribute to the management of budget expenditure and maintenance of the general government debt at the current level of about 43 % of GDP. The Agency last improved Lithuania's credit ratings in February 2020, when the long-term credit rating was raised from A- to A.

PART IV
QUALITY OF PUBLIC FINANCES

SECTION 1
TAX ADMINISTRATION

In the area of improving tax administration, better management of tax risks will be sought by reducing the potential for the shadow economy and the VAT gap, enabling nationally more efficient prevention of deliberately chosen shadow activities, digitisation of activities of tax administrators, preventing new ways of tax avoidance, raising the level of voluntary tax payment, and reducing the tolerance of residents to tax non-payment.

Minister of Finance Order No 1K-317 of 6 October 2021 on the Approval of the Action Plan to Reduce the Shadow Economy and the Value Added Tax Gap approved an the action plan aimed at creating an improved digitalised data collection and analysis network, promoting voluntary tax payment, ensuring better tax administration, preventing tax infringements in risky sectors, improving the prevention of tax infringements and raising public awareness in the area of tax payment.

The amendments to the Republic of Lithuania Law on Tax Administration, adopted in 2021, established the obligation in stages, starting from 1 January 2023, to permanently submit the data on economic transactions recorded by cash registers to the STI electronically through the Subsystem of Smart Electronic Cash Registers (i.EKA) of the Smart Tax Administration Information System (i.MAS). The law will make it possible to digitise the administration of payment data for sales of goods and services and to create a new permanent monitoring process for taxpayers aimed at preventing tax avoidance, while expanding the electronic services provided by the tax administrator to taxpayers so that they could calculate and pay taxes as easily as possible.

The amendments to the Law on Tax Administration adopted in 2021 establish the obligation for payment service providers (credit institutions, electronic money institutions and other entities) to accumulate, store and submit data on cross-border payment transactions carried out through them. The law, which will enter into force on 1 January 2024, will allow to fight against VAT fraud in the field of e-commerce at EU level.

In 2022, decisions are expected to be taken that starting from 2023 to obtain data from digital commerce and service delivery platforms, while enabling the development of international cooperation.

By 2025, the aim will be to modernise the processes of data acquisition, analysis and decision-making carried out by the STI and the Lithuanian Customs by using advanced analytical methods and technologies based on the application of artificial intelligence methods, to improve the competencies of the employees of tax administrators ensuring the performance of everyday functions by using advanced methods, to create conditions for the development of the use of electronic documents in business.

By raising public awareness in a consistent manner, it is foreseen to develop the knowledge of the tax system of children and young people in a targeted manner, while allowing them to learn how to settle non-cash in practice, to monitor costs and pay taxes.

SECTION 2
REFORM OF THE BUDGETARY FRAMEWORK

Lithuania is continuing to implement the reform of the budgetary framework aimed at establishing an efficient medium-term budgeting and programme management system closely linked to the state strategic management system.

The Strategic Management Methodology elaborating the provisions of the Republic of Lithuania Law on Strategic Management was approved in 2021, which introduces the distinction of funds in the budget designated for strategic changes in the country from the funds for ongoing activities carried out by bodies whose heads are managers of State budget appropriations. As of 2022, all changes in the country are planned and implemented in accordance with the NPP, for the implementation of the strategic objectives and progress tasks of which, the 10-year financial projections from all sources of funding available to the country are made. For the implementation of NPP tasks, bodies prepare national development programmes, plan progress measures and funds for progress.

In the 2022 Budget Law, the State budget appropriations were approved according to the fields of activities of the State and bodies assigned to them, the heads of which are managers of the State budget appropriations. Also, in 2022 the fields of activities of the state indicate the main progress tasks set in the NPP, their monitoring indicators and targets for these indicators. Segregation of the fields of activities of the State in the State budget links the processes of budgeting and strategic management and allows to strengthen the budget focus on results.

As part of the ongoing work on the reform of the budgetary framework, the Plan for the Implementation of the Provisions of the Eighteenth Government Programme[29] provides for the Government's strategic work "Planning of general government finances focused on strategic objectives", during the implementation of which it is planned by the second quarter of 2024 to draw up medium-term budgeting rules, methodology for calculating the funds for continuing activities, to develop an information technology tool for calculating the need for funds for continuing activities and to implement the State budget expenditure reviews. After the completion of these works, it is planned to submit to the Seimas for approval an objectively and reasonably planned medium-term draft State budget for 2025-2027. In 2022, the rules for the medium-term budgeting and management will be prepared, and public expenditure reviews will be launched, the results of which are planned to be used during the meetings on the appropriations planned for 2024-2026 and the results sought. It is also planned to start the works of preparation of methodological recommendations for the calculation of funds for continuing activities.

SECTION 3
REVIEW OF EXPENDITURE

In 2022, expenditure reviews are carried out in order to review the practices, means and methods applied in planning funds for continuing activities of the Ministry of Culture of the Republic of Lithuania and the Ministry of Education, Science and Sport of the Republic of Lithuania. These expenditure reviews have two objectives: both to identify potentially inefficiently planned funds for continuing activities and to analyse in detail the specifics of the planning of funds for continuing activities of ministries as well as methods and means used for calculating funds. It is planned to present the results of the expenditure review in the consultations on the planned appropriations and results for 2023-2025, and to use them to continue the work on the reform of the budgetary framework as well as to develop methodological recommendations for the calculation of funds for continuing activities and an information technology tool.

[29] **Government of the Republic of Lithuania Resolution No 155 of 10 March 2021 on the Approval of the Plan for the Implementation of the Provisions of the Eighteenth Government Programme,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/bef7d43286fe11eb998483d0ae31615c?positionInSearchResults=6&searchModelUUID=98674a8c-8953-4d90-8c3a-93d9e4a41b6a

SECTION 4
SIP MANAGEMENT REFORM

At the beginning of 2021, the portfolio of centrally managed SIP amounted to 1.2 million square meters, or 12 % of the total SIP. ASIP accounted for 55.5 %, while SIP not used for the functions of the State intended for sale constituted 44.2 % of the total centrally managed SIP. From the beginning of the SIP reform in 2017, until 2021 the volume of centrally managed SIP doubled. Optimisation of the volume of centrally managed ASIP is carried out in accordance with the Investment Plan for the Renewal of Centrally Managed ASIP for 2021-2030[30]. This plan aims to centrally manage a non-excessive, high-quality portfolio of ASIP in 2030, where at least 85 % of which would be ASIP in good condition used to perform the functions of public bodies. According to the Investment Plan for the Renewal of ASIP, in 2021-2023 the focus will be on energy efficiency improvement projects through the implementation of the Programme of Energy Efficiency Improvement of Public Buildings[31].

In order to implement the NPP objective of optimising the volume of state assets by means of effective management, so that the State had it to the extent necessary to perform the functions of the State, on 21 June 2021 the Ministry of Finance presented the recommendations drawn up by independent experts on SIP used in the fields of education, science and sport, health, culture, social security, internal affairs and justice. The strategic SIP effective management objective of optimising the volume of SIP used in the fields of education and sport, health, social protection, culture, internal affairs and justice through the implementation of centralised management of SIP in these fields has been approved by Protocol Decision of the Government of 21 June 2021[32], and entrusted the Ministry of Finance, in cooperation with the ministries of the specified areas, to establish the horizontally shaped measures for the implementation of SIP centralised management of those fields, and to include them in the strategic management and planning documents — the Programme for the Development of Sustainable Public Finances prepared by the Ministry of Finance.

The effective SIP management was pursued in transferring unused SIP of all kinds, as well as derelict and state inherited immovable property for central management. In order to

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[30]**The Investment Plan for the Renewal of ASIP was approved by Minister of Finance Order No 1K-326 of 7 October 2020 on Approval of the Investment Plan for the Renovation of Centrally Managed Administrative State Immovable Property for 2021-2030.**
[31] **Government of the Republic of Lithuania Resolution No 1328 of 26 November 2014 on Approval of the Programme of Energy Efficiency Improvement of Public Buildings.**
[32] **Protocol Decision of the Government Meeting of 21 June 2021 (Protocol No. 34, Item 2 “Guidelines for the Effective Management of State Immovable Property Used in the Fields of Education and Sport, Health, Social Security, Culture, Justice and Internal Affairs).**

relinquish the SIP not used for functions of the State, in 2021 more than EUR 5 million was received from sale of SIP via public auctions to the State budget.

SECTION 5
ENSURANCE OF FINANCIAL STABILITY

Macroprudential policy and bank resolution function pursued by the Bank of Lithuania contribute to ensuring financial stability of Lithuania. Detailed information on macroprudential policy and bank resolution can be found in the 2021 Report of the Bank of Lithuania[33].

PART V
LONG-TERM SUSTAINABILITY OF GENERAL GOVERNMENT FINANCES

Strengthening the long-term sustainability of general government finances is of particular importance in the current context of geopolitical tensions and uncertainty. In 2021, the general government deficit was only 1 % of GDP (although the deficit of 7 % of GDP was planned), therefore the general government debt did not increase as much as planned, and was significantly lower (44.3 % of GDP) than the 60 % Maastricht debt criterion. If the general government deficit declines gradually in 2022 and beyond, as foreseen in the Programme, the general government debt-to-GDP ratio will remain at 43 % of GDP. Maintaining a persistent debt-to-GDP ratio in the medium term, implementing structural reforms that can increase the economic potential, and efficient investment of national and EU funds would strengthen the long-term sustainability of general government finances.

SP2021 provides information on the integrated projection of long-term general government expenditure for Lithuania[34] (hereinafter – long-term projection) (Table 10) carried out by the EC services together with the Working Group on Ageing Society and published in 2021, which allows to identify the impact of demographic changes on the sustainability of pensions, health and education systems in the long term and to anticipate actions to ensure their future stability. The purpose of the long-term projection is to identify public finance challenges linked to demographic change.

The long-term projection for Lithuania and other EU countries is updated every 2 years. The Commission is expected to publish an updated projection in 2023.

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[33] **2021 Report of the Bank of Lithuania**, https://www.lb.lt/lt/leidiniai/metu-ataskaita-2021-m.
[34] **The 2021 Ageing Report**: Economic and Budgetary Projections for the EU Member States (2019-2070), https://ec.europa.eu/info/publications/2021-ageing-report-underlying-assumptions-and-projection-methodologies_en.

Table 10. Projections of long-term general government expenditure

	% of GDP					
	2019	2030	2040	2050	2060	2070
Age-related expenditure:	15.3	16.5	17.2	17.3	17.5	16.9
Pensions:	7.1	7.9	8.4	8.2	8.1	7.5
social security pensions	7.1	7.9	8.4	8.2	8.1	7.5
old-age and early pensions	5.5	6.1	6.6	6.5	6.5	6.0
other pensions (disability, widow, and orphan pensions)	1.7	1.8	1.7	1.7	1.6	1.5
occupational pensions (general government)	–	–	–	–	–	–
Health care	4.2	4.4	4.6	4.8	4.8	4.7
Long-term health care	1.0	1.2	1.4	1.6	1.7	1.8
Education	3.0	3.0	2.9	2.7	2.9	2.9
Assumptions						
Increase in labour productivity (per hour)	2.4	3.0	2.1	2.0	1.8	1.5
Potential GDP growth	3.8	1.4	1.0	0.7	0.8	1.1
Participation rate males (aged 20-64)	85.2	86.1	87.0	87.2	87.9	87.9
Participation rate females (aged 20-64)	82.1	82.7	83.6	83.8	84.6	84.7
Total participation rate (aged 20-64)	83.6	84.4	85.4	85.6	86.3	86.4
Unemployment rate (20-74 years)	6.2	6.9	6.8	6.7	6.7	6.7
Population aged 65+ over total population (at the beginning of the year)	19.8	25.1	29.6	31.6	33.5	32.9

Source – The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member states (2019–2070), https://ec.europa.eu/info/publications/2021-ageing-report-underlying-assumptions-and-projection-methodologies_en).

Note. Due to rounding, an amount of expenditure on pensions, health, long-term health care and education may not match the data "Age-related expenditure " in the table.

PART VI
COMPARISON OF MACROECONOMIC AND FISCAL PROJECTIONS, RISK AND SENSITIVITY ANALYSIS

SECTION 1
COMPARISON OF PROJECTIONS

Comparison of indicators of economic development scenarios

Lithuania's GDP projections have been changed taking into account actual data for 2021 published by Statistics Lithuania on 1 March 2022, current trends in economic development, Government decisions affecting economic activity foreseen in the 2022 Budget Law, changes in geopolitical tensions and uncertainty.

Table 11. Comparison of GDP projections

	2021	2022	2023	2024	2025
Change in real GDP, %:					
SP2021 projection	2.6	3.2	3.2	3.2	–
projection in the programme	4.9	1.6	2.5	3.0	3.0
decrease (–) / increase (+)	2.3	–1.6	–0.7	–0.2	–

Source– Ministry of Finance.

Comparison of the general government finance and debt projections

In 2021, the actual balance of the general government sector is better than planned in the 2021 Budget Law, projected in the SP2021 (in spring 2021) and draft 2022 Lithuanian Draft Budgetary Plan (in autumn 2021). The differences between planned, projected and actual data for 2021 are due to the evolving need for funds for COVID-19-related measures as quarantine conditions were tightened and in more favourable periods of the COVID-19 pandemic liberated, as well as increasingly improving economic situation in the country during 2021 and accordingly foreseen more revenues. Actual data on economic development and on the collection of revenue of general government budgets point to a much better than previously expected situation in general government finances.

The projections for the general government balance for 2022 presented in SP2021 are based on a no-policy-change scenario, taking the year 2021 as the reference year for the period of deficit reduction, in which, at the time of drawing up the SP2021, a high general government deficit of 8.1 % of GDP was projected (Table 12).

Table 12. Comparison of the general government balance projections

	ESA code	2021	2022	2023	2024	2025
General government net lending (+) / borrowing (–):	B.9	% of GDP				
SP2021		–8.1	–6.0	–4.0	–2.2	–
projection in the programme		–1.0	–4.9	–2.4	–1.3	–1.0
decrease (–) / increase (+)		7.1	1.1	1.6	1.0	–

Sources: Statistics Lithuania, Ministry of Finance.
Note. The value for 2021 represents actual general government deficit.

The results of refinancing risk management, updated GDP, revenue and expenditure projections lead to differences in debt-level projections (Table 12).

Table 13. Comparison of the general government debt projections

	2021	2022	2023	2024	2025
General government debt:	% of GDP				
SP2021	52,1	54,2	57,9	57,9	–
projection in the programme	44,3	43,3	43,7	42,6	42,5
decrease (–) / increase (+)	–7,8	–10,9	–14,2	–15,3	–

Sources: Statistics Lithuania, Ministry of Finance.
Note. The value for 2021 represents actual general government deficit.

The differences between the programme projections and those of the EC are likely to be due to the inconsistent timing of the projections, rapidly changing and difficult to project economic situation, which was particularly affected by the negative consequences of the COVID-19 pandemic in 2021, and increased uncertainty and geopolitical tensions in 2022 (Table 14).

Table 14. Comparison of the projections of the Ministry of Finance and those of the EC

	Year	% of GDP		
		Ministry of Finance (programme indicators)	EC forecast	Difference between the projection of the Ministry of Finance and the EC forecast in absolute terms, in percentage points
1. General government balance	2021	–1,0	–4,1	3,1
	2022	–4,9	–3,1	1,8
2. Structural balance of general government	2021	–1,2	–4,0	2,8
	2022	–4,7	–2,8	1,9
3. General government debt	2021	44,3	45,3	1,0
	2022	43,3	44,1	0,8
4. Change in GDP, %	2021	4,9	2,2	2,7
	2022	1,6	3,1	1,5
5. HICP, %	2021	4,6	1,7	2,9
	2022	9,8	1,8	8,0

Sources: Ministry of Finance, EC.

Notes:

1. The data column of the Ministry of Finance shows the actual values of the 2021 indicators.
2. Lines 1 - 3 contain the EC 2021 autumn forecast, lines 4 and 5 — EC 2021 winter forecast.

SECTION 2
SENSITIVITY ANALYSIS

Sensitivity analysis of GDP

Geopolitical tensions in Europe have greatly increased uncertainty. Though the EU's trade relations with Russia are not particularly intense, the strong energy dependence of some EU countries on Russian resources presupposes a significant negative impact on the EU economy, if imports of energy raw materials from Russia suddenly and significantly decrease while acceptable supply alternatives are not found. International institutions (EC, European Central Bank) have estimated that under a sharp drop or rupture of the EU imports of energy raw materials from Russia, a hike in energy prices would significantly increase inflation and slow down the economic growth of the block of the EU countries. Lithuania is a small and open economy with exports accounting for more than three quarters of GDP (80.4 % of GDP in 2021). The EU is Lithuania's main trading partner, its economic situation and future prospects have a significant impact on Lithuania's economic development, so the potential negative impact on the EU economy would reach the Lithuanian economy through trade channels, common raw materials and commodity markets.

Two alternative hypothetical scenarios were developed to assess the impact of possible higher EU inflation and slower economic growth on the Lithuanian economy. In the first case, the inflation rate in the EU is assumed to be by 1 percentage point higher in 2022, and GDP growth by 1 percentage point lower than the assumption of the EDS (1 hypothetical scenario).

In the second case, the inflation rate in the EU was assumed to be by 3 percentage points higher, and GDP growth by 3 percentage points lower than the assumption of the EDS (2 hypothetical scenario). The results of the technical calculations based on the multi-annual statistical relationships between Lithuania's and the EU economic growth and inflation rates show that under 1 hypothetical scenario, Lithuania's real GDP would grow 0.3 % in 2022, inflation would amount to 11.9 %, while under 2 hypothetical scenario, the change in Lithuanian GDP would be - 2.5 %, inflation would amount to 16 %.

Table 15. Alternative scenarios for GDP and HICP

	2021	2022
EDS		
Change in GDP at constant prices, %	4.9	1.6
Change in HICP (average annual), %	4.6	9.8
1 hypothetical scenario		
Change in GDP at constant prices, %	4.9	0.3
Change in HICP (average annual), %	4.6	11.9
2 hypothetical scenario		
Change in GDP at constant prices, %	4.9	–2.5
Change in HICP (average annual), %	4.6	16.0

Sources: Statistics Lithuania, Ministry of Finance.

Sensitivity analysis of revenue and central government interest payable

In the medium term, an increase of 1 percentage point in the market between variable and fixed interest rates would result in EUR 54 million, EUR 98 million and EUR 138 million increase (respectively between 2023 and 2025) in interest payable on new liabilities acquired by central government, , i.e. an average of 11 basic points of GDP per year (Table 16).

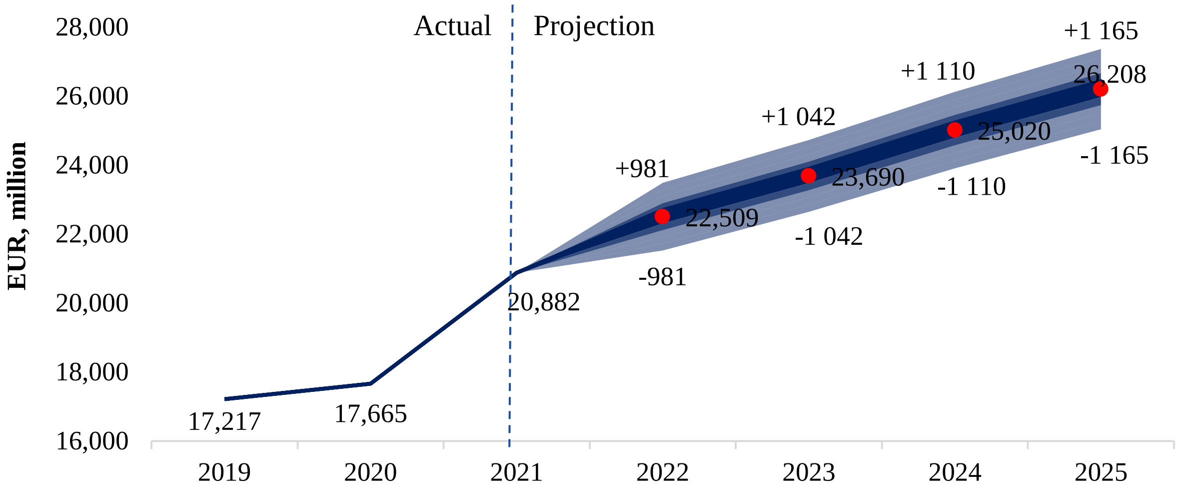
Table 16. Change in the general government balance and interest payable by central government

	2023	2024	2025
Change in interest payable by central government with 1 percentage point increase (decrease) in floating and fixed interest rates, EUR million	54 (–54)	98 (–98)	138 (–138)
Change in the general government balance in case of increase (decrease) of interest payable by central government, % of GDP	–0.1 (0.1)	–0.1 (0.1)	–0.2 (0.2)

Source: Ministry of Finance.

Based on the interrelation between the general government tax revenue and nominal GDP, a static sensitivity analysis has shown that a change in nominal GDP by 1 % can change the revenue projection presented in the programme from EUR 196 million in 2022 to EUR 233 million in 2025 (Fig.17).

Fig 17. Sensitivity analysis of the general government tax revenue (D.2 + D.5 + D.61 + D.91 – D.995)



Source – Ministry of Finance.
Note. The sensitivity analysis of projected tax revenue (red points) is carried out on the assumption that nominal GDP increases or decreases by 1 % (dark blue stretch), by 2 % (blue stretch) and by 5 % (light blue stretch) relative to GDP projection in the EDS.

SECTION 3
RISK ASSESSMENT

EDS fulfilment risk

Heightened uncertainty due to geopolitical tensions, increased long-term inflation risk, financial market tensions and uncertainty about global economic growth are key negative risk factors that may lead to changes in estimates of the EDS main indicators. Though the impact of the COVID-19 pandemic on economic development significantly weakened recently, the challenges posed by new strains of the virus also remain one of the key negative risk factors.

Uncertainty about the scale of the economic and social consequences of the COVID-19 pandemic lasting more than 2 years and geopolitical tensions poses additional negative risks to the fulfilment of the EDS scenario. Inequality of personal income developments and the uneven pace of recovery in individual sectors of the economy may become long-term phenomena and hamper economic development.

Changes in technical assumptions would change the outlook for inflation. If the current unbridled global growth in energy and other commodity prices and supply disruptions persists, inflation may be higher over the medium term than expected in the EDS. Protracted high inflation could lead to macroeconomic imbalances in the price, labour market and real estate sectors and limit economic development.

The development of inflation could also be affected by new decisions related to changes in administered prices, changes in monetary and fiscal policy measures. The impact of the liberalisation of the electricity market on the average electricity price was also not known at the time of drafting the EDS. A prolonged rise in energy raw material prices may lead to a bigger part of corporate costs being shifted to retail commodity prices and increasing inflation rates. If the strong wage growth rate is protracted over the medium term, part of the costs of production of goods and services linked to wage increases may be passed on to final output prices to a greater extent and have a stronger impact on inflation rates over the medium term.

A large number of the Ukrainians may arrive in Lithuania, fleeing from Russian military actions in Ukraine. If a significant part of them were integrated into the Lithuanian labour market in the medium term, this would have a double effect on the labour market. An increase in the number of workers would increase the growth potential of the economy, but could also increase the number of the unemployed and job-seekers and dampen wage growth.

A more efficient use of the EU Structural Funds and other resources in the medium term can increase Lithuania's GDP more than forecasted in the EDS. The greater impact of the unprecedented application of the EU recovery measures in other EU countries — Lithuania's foreign trade partners — and its caused effect on the Lithuanian economy in the medium term can also boost Lithuania's economic growth more than expected in the EDS.

Fiscal risks

In the short term, major risks to general government finances will be linked to developments in the geopolitical situation. In 2022, the amount of funds allocated to finance national defence was already increased as compared to the 2022 Budget Law. The draft law amending the 2022 Budget Law foresees funds for measures related to help Ukrainian people fleeing from Russian military actions in Ukraine. Following Russia's military actions in Ukraine, the EU and the countries of the world impose sanctions on Russia and Belarus. Geopolitical tensions and sanctions imposed change global, EU and Lithuanian economic development trends (more information on the risks related to the development of the Lithuanian economy is presented in the Subsection "EDS fulfilment risk" of Section 3 of the programme,), among those trends are rapidly rising prices. With a sharp rise in inflation, the Government proposes the measures to support the most socially vulnerable groups of the Lithuanian population and businesses. If geopolitical tensions rise, the economic situation deteriorates, prices, especially of energy sources, rise even more strongly, other risks (Table 17) materialise, in such a case more or larger than expected in the draft law amending the 2022 Budget Law and in the Programme expenditure and/or revenue policy measures would be needed, and/or this would affect the general government finances.

Table 17. Risks that may affect general government finances and other risks

Risk	Source of Risk	Degree of Risk	Likelihood of materialisation of the risk
Fiscal Risks			
Geopolitical tensions caused by Russian military actions in Ukraine	As the number of people fleeing from Russia's military actions in Ukraine increases, geopolitical tensions in Europe, significant increases in energy raw material prices and, accordingly, inflation, worsening performance of businesses and/or public sector enterprises may lead to additional expenditure and/or revenue policy measures	high	high
COVID-19 pandemic	The emergence of new COVID-19 mutations may lead to a higher incidence of diseases leading to an increase in the general government expenditure due to application of COVID-19-related measures	medium	medium
Changes in the activities of state-owned enterprises	Improvement or deterioration of performance may increase or decrease the amount of dividends paid to the State budget	medium	medium
Deposit and investment insurance	Bankruptcies of credit institutions would lead to higher expenditure of central government in meeting liabilities to depositors	low	low
Big changes in statistical corrections of national defence expenditure data	Significant differences in forecasts of military equipment, arms and stock acquisition costs and actual data in general government finance statistics on an accrual basis (acc. to ESA) may increase or reduce the general government expenditure	high	high
Political Cycle	Increased pressure before and during the elections to make long-term commitments before and during the election year, without providing for sustainable additional sources of funding to meet those commitments, may increase expenditure	high	high
Changes in global financial market conditions	Changes in global financial markets may increase the Government borrowing costs	medium	medium
Natural disasters	Storms, fires, epidemics can increase the general government expenditure	medium	medium
Risks related to climate change and its management	The costs of implementing all agreements related to climate change will put pressure on the general government finances, but the real risk is non-compliance with the agreements entered into, as the real impact of climate change on the society, industry and the economy would cause even higher negative affect.	high	medium
Demographic developments	Changing age structure of the society, better or worse-than-expected migration balance can affect the general government balance both positively and negatively	medium	medium

Risk	Source of Risk	Degree of Risk	Likelihood of materialisation of the risk
Other risks			
Risks to the stability of the financial system of Lithuania	Financial stability could be most strongly affected by the possible impact of Russian military actions in Ukraine on Lithuania's financial system. The record-breaking activity in the housing market in 2021 led to a demand gap from supply and a very rapid price rise, and in case of market overheating and price adjustment, it would have negative consequences for households, real estate developers and credit institutions. High inflation and interest rates likely to increase in the short or medium term may have a significant negative impact on the financial situation of residents and companies with loans and on debt administration opportunities, credit and economic growth prospects and financial stability in Lithuania. Detailed information on risks to the financial system will be provided in the 2022 Financial Stability Review [35].		

Sources: Ministry of Finance, Bank of Lithuania.

It is currently not possible to quantify the impact of the risks listed in Table 17 on general government finances, and the likelihood of the risk materialisation in the medium term varies from low to high. Budgets allocated to the general government should therefore be planned with caution in order to avoid undermining of the long-term sustainability of general government finances in case the risks materialise.

State guarantees

The state-guaranteed loan portfolio, according to the latest data of 28 February 2022, amounted to 1.1 % of GDP. Where, COVID-19-related state guarantee instruments constituted 0.4 % of GDP. Taking into account the expected guarantees to be issued for debt obligations assumed by guarantee institutions in 2022, regarding loans granted to students, loans granted to finance public investment projects and/or used to replenish turnover funds of enterprises referred to in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security loans, loans and non-equity securities used to implement the objectives of promoting the economy affected by emergencies and to increase the financial liquidity of the business, it is projected that the state-guaranteed debt may increase and reach 2.3 % of GDP at the end of 2022. Tables 18 and 27 of the programme show the maximum amounts of guarantee instruments available for 2022 and data on guarantee obligations actually issued by 28 February 2022.

[35] **2022 Financial Stability Review**, https://www.lb.lt/lt/lfsb-finansinio-stabilumo-apzvalga.

Table 18. State guarantees in 2022

Guarantee instrument	Maximum amount of guarantees available for 2022		Guarantees issued, acc. to the data of 28 February 2022	
	MEUR	% of GDP	MEUR	% of GDP
State guarantees related to COVID-19	550	0.9	218	0.4
State guarantees not related to COVID-19	641	1.1	442	0.7
Total:	**1, 355**	**2.3**	**660**	**1.1**

Source: Ministry of Finance.

PART VII
DATA ON PUBLIC FINANCES

Table 19. General government indicators for 2021–2025

	ESA code	2021		2022	2023	2024	2025
		MEUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (+)/net borrowing (−) (B.9) by subsector							
1. General government	S.13	–554.6	–1.0	–4.9	–2.4	–1.3	–1.0
2. Central government	S.1311	–1, 530.9	–2.8	–5.7	–2.9	–1.7	–1.3
3. State government	S.1312	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
4. Local government	S.1313	174.3	0.3	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	802.0	1.4	0.7	0.5	0.4	0.3
General government (S13)							
6. Total revenue	TR	20, 881.8	37.7	37.4	37.3	37.5	37.4
7. Total expenditure	TE	21, 436.4	38.7	42.3	39.7	38.7	38.4
8. Net lending/borrowing	B.9	–554.6	–1.0	–4.9	–2.4	–1.3	–1.0
9. Interest expenditure	D.41	246.7	0.4	0.3	0.2	0.3	0.3
10. Primary balance		–307.9	–0.6	–4.7	–2.2	–1.0	–0.7
11. One-off and other temporary measures		–7.3	0.0	0.0	0.0	0.0	0.0
Items of revenue							
12. Total taxes (12 = 12a + 12b + 12c)		12, 253.3	22.1	22.0	22.2	22.6	22.7
12a. Taxes on production and imports	D.2	6, 773.4	12.2	11.8	12.1	12.2	12.1
12b. Current taxes on income, wealth, etc.	D.5	5, 477.3	9.9	10.2	10.1	10.4	10.6
12c. Capital taxes	D.91	2.6	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	5, 932.9	10.7	10.6	10.6	10.6	10.5
14. Property income	D.4	211.8	0.4	0.3	0.3	0.3	0.3
15. Other		2, 483.8	4.5	4.4	4.2	4.0	3.9
16 = 6. Total revenue	TR	20, 881.8	37.7	37.4	37.3	37.5	37.4
p.m.: Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		18, 204.8	32.9	32.6	32.8	33.2	33.2

	ESA code	2021		2022	2023	2024	2025
		MEUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Items of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	8, 631,3	15.6	16.7	16.8	16.3	16.2
17a. Compensation of employees	D.1	6, 018.0	10.9	11.6	11.6	11.6	11.5
17b. Intermediate consumption	P.2	2, 613.3	4.7	5.1	5.1	4.8	4.8
18. Social payments (18 = 18a + 18b)	D.6M	8, 485.1	15.3	16.4	16.3	16.2	16.2
o/ w unemployment benefits	D.6M	285.8	0.5	0.5	0.5	0.5	0.5
18a. Social transfers in kind	D.632	1, 171.9	2.1	2.0	2.1	2.1	2.2
18b. Social transfers other than social transfers in kind	D.62	7, 313.2	13.2	14.4	14.3	14.0	13.9
19 = 9. Interest expenditure	D.41	246.7	0.4	0.3	0.2	0.3	0.3
20. Subsidies	D.3	886.4	1.6	1.9	0.4	0.3	0.3
21. Gross fixed capital formation	P.51G	1, 754.4	3.2	3.8	3.3	3.3	3.3
22. Capital transfers	D.9	243.6	0.4	0.8	0.4	0.4	0.4
23. Other		1, 188.9	2.1	2.4	2.3	1.9	1.7
24 = 7. Total expenditure	OTE1	21, 436.4	38.7	42.3	39.7	38.7	38.4

Sources: Statistics Lithuania, Ministry of Finance.
Note. Due to rounding, the sum of revenue and expenditure lines may not match the data “Total revenue” and “Total expenditure” in the table.

Table 20. General government structural balance

	2021	2022	2023	2024	2025
	% of GDP				
1. General government structural balance	–1.2	–4.7	–2.0	–1.0	–1.0
2. Change in general government primary structural balance	5.6	–3.6	2.6	1.1	0.0
3. Impact of COVID-19 related revenue and expenditure measures	1.9	0.5	–	–	–
4. Impact of other temporary measures	0.0	1.1	–	–	–
5. General government structural balance, taking into account the impact of COVID-19-related measures and other temporary measures	0.8	–3.0	–	–	–
6. Change in the general government primary structural balance, taking into account the impact of COVID-19-related and other temporary measures	1.5	–3.9	0.9	–	–

Source: Ministry of Finance.
Notes: 1. In some years, due to rounding, the sum of the lines may not coincide with the values of the estimated GDP percentage indicators. **2.** The amounts in line 4 correspond to temporary measures related to the risk management of migrants across the Lithuanian-Belarus border, to help for people fleeing from Russian military actions in Ukraine, the strengthening of Lithuania’s security and defence and the help to the Lithuanian people and businesses in the face of rising prices.

Table 21. General government revenue and expenditure under a no-policy-change scenario

	Value of the indicator in 2021, MEUR	% of GDP				
		2021	2022	2023	2024	2025
1. Total revenue based on no-policy change assumption	20, 881.8	37.3	37.1	37.0	37.4	37.4
2. Total expenditure based on no-policy change assumption	21, 436.4	34.7	37.4	39.3	38.7	34.7

Sources: Statistics Lithuania, Ministry of Finance.

Table 22. General government debt projections

	% of GDP				
	2021	2022	2023	2024	2025
1. General government statistical debt, including funds accumulated to manage refinancing risks	44.3	43.3	43.7	42.6	42.5
1.a. General government debt at year-end, excluding funds accumulated to manage refinancing risks	42.2	43.3	42.8	42.6	42.5
2.a. Change in general government debt	–2.3	–1.0	0.4	–1.1	–0.1
Determinants of general government debt					
3. Primary balance	–0.6	–4.7	–2.2	–1.0	–0.7
4. Interest expenditure	0.4	0.3	0.2	0.3	0.3
5. Stock-flow adjustment	1.7	–2.4	0.3	–0.2	1.0
o/w:					
difference between flows and commitments	–	–	–	–	–
net accumulation of financial assets, proceeds from its privatisation	–	–	–	–	–
implied interest rate on public debt, %	1.1	0.7	0.4	0.6	0.7
other relevant factors contributing to general government debt	–	–	–	–	–
6. Liquid financial assets	–	–	–	–	–
7. Net debt (7 = 1 – 6)	–	–	–	–	–
8. Debt amortisation from the end of the previous year	–	–	–	–	–
9. Percentage of debt denominated in foreign currency	–	–	–	–	–
10. Average debt term	–	–	–	–	–

Sources: Ministry of Finance, Statistics Lithuania.

Table 23. Expenditure taken into account in assessing the compliance of general government expenditure with the SGP expenditure rule

	Value of the indicator in 2021, MEUR	% of GDP				
		2021	2022	2023	2024	2025
1. Expenditure for the implementation of the EU programmes, fully corresponding to the revenue of the EU Funds	676.1	1.2	1.5	1.5	1.4	1.4
2. Cyclical unemployment benefit expenditure	27.3	0.05	0.08	0.06	0.05	0.02
3. Discretionary revenue measures	224.3	0.4	0.3	0.2	0.1	0.0
4. Revenue increase mandated by law	0	0	0	0	0	0

Sources: Ministry of Finance, Statistics Lithuania.

Table 24. Impact of RRF subsidies on general government financial projections, % GDP

	% of GDP							
	ESA code	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants								
RRF subsidies included in the revenue projection		–	–	196.5	498.4	585.9	496.0	447.3
Cash disbursements of RRF grants from EU		–	289.1	565.1	572.0	318.5	191.8	287.7
Expenditure financed by RRF grants								
Compensation of employees	D.1	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Intermediate consumption	P.2	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Social payments	D.62+D.632	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Interest expenditure	D.41	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Subsidies	D.3	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Current transfers	D.7	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL CURRENT EXPENDITURE		–	–	**57.5**	**204.1**	**264.1**	**240.7**	**229.9**
Gross fixed capital formation	**P.51g**	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
Capital transfers	**D.9**	–	–	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL CAPITAL EXPENDITURE		–	–	**139.1**	**294.3**	**321.9**	**255.3**	**217.4**
Other costs financed by RRF grants								
Reduction in tax revenue		–	–	–	–	–	–	–
Other costs with impact on revenue		–	–	–	–	–	–	–
Financial transactions		–	–	–	–	–	–	–

Source: Ministry of Finance.

Table 25. Discretionary expenditure measures

Category of discretionary expenditure measures	Short-term (S)/Long-term (L)	2021		2022		2023		2024	
		MEUR	% of GDP	MEUR	% of GDP	MEUR	% of GDP	MEUR	% of GDP
1. COVID-19	S	1, 295.4	2.3	323.4	0.5				
2. Assistance to the Ukrainian people fleeing from Russian military actions (food packages and food cards, education of the Ukrainian children, cash benefits and reimbursements, health services, etc.)	S			383.7	0.6				
3. Installation of the physical barrier and safety systems at the Lithuanian-Belarusian border	S	17.3	0.0	162.0	0.3				
4. Maintenance of infrastructure of the Lithuanian Railways	S			103.0	0.2				
5. Mitigation of strong price increases (reimbursement of increases in gas and electricity prices for residents and support for businesses in the context of higher energy commodity prices)	S			690.3	1.1				
6. Mitigation of strong price increases (increasing pensions, benefits, state-supported income, other social benefits)	L			155.6	0.3	111.1	0.2		
7. Other expenditure measures foreseen in the 2022 Budget Law	S	21.6	0.0	189.3	0.3	10.0	0.0		
8. Other expenditure measures foreseen in the 2022 Budget Law	L	828.0	1.5	975.4	1.6	91.7	0.1	38.6	0.1
9. Total discretionary expenditure measures		2, 162.4	3.9	2,982.7	5.0	212.8	0.3	38.6	0.1

Source: Ministry of Finance.

Notes:

1. The amounts refer to the price of the measure (not a change in the level of costs) in that year.
2. Due to rounding, the sum of lines may not match the data "Total discretionary expenditure measures" in the table.
3. In 2025, discretionary expenditure measures were not foreseen at the time of the preparation of the programme.
4. Other expenditure measures (line 8) in 2021 consist of an increase in the salaries of educators, medical staff, children's benefits, indexation of the basic amounts of social benefits, contribution for persons insured with public funds, indexation of state social insurance pensions, additional indexation of the basic pension.
5. Other expenditure measures (line 7) in 2022 include the provision of NATO host country support and the implementation of the EU co-financed infrastructure projects.
6. Other expenditure measures (line 8) in 2022 consist of an increase in the basic salary of the staff of budget institutions, salaries of educators, teachers, scientists and researchers, education support

specialists and other staff in the education system; increase in social allowances and targeted compensations; contributions for persons insured with public funds, single person pension benefits, indexation of state social insurance pensions, additional indexation of the individual pension component, increase in funding of national defence.

7. Other expenditure measures (line 8) in 2023 consist of contributions for persons insured with public funds, additional indexation of the individual pension component.

Table 26. Discretionary revenue measures

Discretionary revenue measures	Short-term (S)/Long-term (L)	2021		2022		2023		2024		2025	
		MEUR/ % of GDP		MEUR/ % of GDP		MEUR/ % of GDP		MEUR/ % of GDP		MEUR/ % of GDP	
COVID-19	S	247.4	0.4	122.2	0.2	51.5	0.1	–1.0	0.0	–1.0	0.0
Mitigation of consequences of strong price increases (VAT compensation)	S			–23.3	0.0	23.3	0.0				
Mitigation of consequences of strong price increases (increase of NTA)	L			–64.9	–0.1	–38.1	–0.1				
Other measures foreseen in the 2022 Budget Law	S	–30.0	–0.1	30.0	0.0						
Other measures foreseen in the 2022 Budget Law	L	6.9	0.0	123.7	0.2	101.1	0.2	58.0	0.1		
Total discretionary revenue measures		224.3	0.4	187.7	0.3	137.8	0.2	57	0.1	–1.0	0.0

Source: Ministry of Finance.

Notes:

1. The amounts in the table show a change in the level of revenue as compared to the level of revenue in the absence of a discretionary decision.
2. Due to rounding, the sum of the lines may not match the data ‘Total discretionary revenue measures’ in the table.

Table 27. State guarantees in 2022

Guarantee instrument	Date of application of the guarantee instrument	Maximum possible amount of guarantees for 2022 (MEUR/% of GDP)		Guarantees issued, acc. to the data on 28 February 2022 (MEUR/% of GDP)	
State guarantee instruments related to the COVID-19 measures					
Guarantees of tour operators	July 2020	15	0.02	3.1	0.01
Portfolio guarantees administered by INVEGA	June 2020	92	0.15	70.2	0.12
Individual guarantees administered by the ACGF	June 2020	14.7	0.02	10.8	0.02
State guarantees on loans and non-equity securities used to implement the goals of promoting the economy affected by emergencies and to enhance business financial liquidity	March 2020	300	0.50	50	0.08
State guarantees concerning the establishment of the European Instrument for Temporary Support to mitigate Unemployment Risks in an Emergency (SURE) following the COVID-19 outbreak	September 2020	84	0.14	84.0	0.14
State guarantees on the European Investment Bank, established the European Guarantee Fund for the	July 2020	44	0.07	0.0	0.0

Guarantee instrument	Date of application of the guarantee instrument	Maximum possible amount of guarantees for 2022 (MEUR/% of GDP)		Guarantees issued, acc. to the data on 28 February 2022 (MEUR/% of GDP)	
response to the COVID-19 pandemic					
Total State guarantees related to the COVID-19 measures		**549.6**	**0.9**	**218.0**	**0.4**
State guarantee instruments not related to the COVID-19 measures					
State guarantees for commitments entered into by INVEGA under guarantees	–	252.1	0.41	133.5	0.22
State guarantees for the commitments entered into by the EAGGF under the guarantees	–	242.5	0.40	103.0	0.17
State guarantees on loans granted to finance public investment projects and/or used to replenish turnover funds of enterprises important to national security referred to in the Republic of Lithuania Law on the Protection of Objects Important for National Security	–	195.0	0.32	120.4	0.20
State guarantees for state-sponsored loans referred to in the Republic of Lithuania Law on Science and Studies	–	113.0	0.19	82.8	0.14
State guarantees for loans from the European Investment Bank	–	2.9	0.00	1.9	0.00
Total State guarantees not related to the COVID-19 measures		**805.5**	**1.3**	**441.7**	**0.7**
Total State guarantees		**1, 355.1**	**2.3**	**659.8**	**1.1**

Source: Ministry of Finance.

Note. INVEGA —Investment and Business Guarantees UAB, ACGF — Agricultural Credit Guarantee Fund.

PART VIII
INSTITUTIONAL SET-UP OF GENERAL GOVERNMENT FINANCES

The draft Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2023 will be drawn up in accordance with the Plan for the Preparation of Draft Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2023[36].

Information on the rules on fiscal discipline laid down in national and EU legislation and the legal acts under which medium-term general government finances are planned is provided in the Stability Programme of Lithuania for 2019.

Information on the development of a green budgetary framework in Lithuania can be found in SP2021.

Information on institutional changes in the budgetary framework aimed at improving the efficiency of public finances is provided in subsection 2 of Section VI of the programme.

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[36] **Government Resolution No 284 of 30 March 2022 on the Approval of the Plan for the Preparation of Draft Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2023**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/11768544b0d711ecaf79c2120caf5094?positionInSearchResults=0&searchModelUUID=81d68ac8-e837-4165-aa4e-e76f4eef7aa2.