MINISTRY OF FINANCE
of the Republic of Lithuania

STABILITY PROGRAMME OF LITHUANIA FOR 2021

28 April 2021

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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
COVID-19	COVID-19 disease (coronavirus infection)
EC	European Commission
EDS	the Economic Development Scenario prepared by the Ministry of Finance, which has been made public on 19 March 2021 on the website of the Ministry of Finance[1], and approved by the fiscal institution[2]
ESA	2010 European System of Account
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 2020 at the prices of that period, which is 48,794.2 million euros, is used in the Programme.
Government Programme Implementation Plan	Plan for the Implementation of the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania[3]
HICP	average annual inflation calculated according to the consumer price index methodologically harmonized with other EU Member States
Law on the Budget for 2020	Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2020
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
Lithuanian RRF plan	the 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*
Measures related to COVID-19	measures related to the management of the COVID-19 pandemic and the mitigation of its adverse effects
MMW	minimum monthly wages
NPP	2021-2030 National Progress Plan[4]

[1] **EDS**, https://finmin.lrv.lt/en/actual-financial-data/economic-development-scenario.
[2] **Opinion of the fiscal institution on the approval of the EDS**, https://www.ifi.lt/isvados.aspx.
[3] Resolution No 155 of the Government of the Republic of Lithuania 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.

PIT	personal income tax
Programme	Stability Programme of Lithuania for 2021
Recommendation for Lithuania	Council Recommendation of 20 May 2020 on the 2020 National Reform Programme of Lithuania and delivering a Council opinion on the 2020 Stability Programme of Lithuania
Reform of the budget system	reform of the budgeting and strategic planning system which is being carried out in Lithuania
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[5]
SGP	Stability and Growth Pact[6]
SIP	state immovable property
SODRA	State Social Insurance Fund Board under the Ministry of Social Security and Labour of the Republic of Lithuania
SP2020	the Stability Programme of Lithuania for 2020 approved by Resolution No 433 of the Government of the Republic of Lithuania of 29 April 2020 on the Stability Programme of Lithuania for 2020
SSIF	State Social Insurance Fund
STI	State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania
Structural balance	structural balance indicator of the general government sector
USA	United States of America
VAT	value added tax

[4] Resolution No 998 of the Government of the Republic of Lithuania 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.

[5] 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).

[6] 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 presents the fiscal projections of the general government prepared under conditions of high uncertainty. Uncertainty caused by the COVID-19 pandemic and the need to manage the pandemic by setting the quarantine conditions and restrictions on economic activities have a negative impact on the economy. To mitigate this negative impact, fiscal measures of support for business and people are applied.

The fiscal policy, which is focused on economic recovery, is planned to be implemented in 2021-2024, while, at the same time, taking care of the sustainability of the finances of the general government sector. The economic growth is expected to be strengthened by the RRF and other EU support funds used in a timely and efficient manner, by investing them in areas that can increase the potential of the economy and in the implementation of structural reforms. In the background of the management of the COVID-19 pandemic in Lithuania and whereas restrictions on economic activity are being lifted, amounts of the general government sector funds, intended to implement aid measures, will be gradually reduced.

The financial assistance instruments, which were applied in 2020, contributed to the fact that the national economy of Lithuania shrank by only 0.8%. Even though, compared to the GDP of 2019, the change in the Lithuania's GDP in 2020 was negative, this indicator, however, was one of the best among EU countries. The economic growth of 2.6% is expected in 2021, and acceleration of the economic recovery is expected to occur in the later years of the medium-term – the GDP could grow on average by 3.2% per year.

In 2021 and other medium-term years, the economic development will depend on whether the vaccination campaign of the population will be successful in Lithuania, the EU and other countries of the world, as well as on how Lithuania's main trading partners will succeed in recovering from the COVID-19 pandemic crisis and on how strong the impact of the residual effects of this crisis will be.

In 2021, the value of expenditure on measures to combat the negative effects of the COVID-19 pandemic is anticipated to amount to 3.3% of the GDP, and the general government deficit, after assessing the impact of the planned amendment to the 2021 budget law on the general government finances, is anticipated to amount to 8.1% of the GDP. At this point in time, the general government sector is also projected to be in deficit in 2022-2024.

The medium-term objective of Lithuania is set in accordance with the SGP and the Constitutional Law. The medium-term objective of 2019-2021 established by the Seimas[7] – the structural balance not exceeding -1% of the GDP at current prices. The Seimas should set the medium-term objective for 2023-2025 during the Spring Session in 2022.

Due to the negative impact of the COVID-19 pandemic on general government finances, in 2020, there was a deviation from the medium-term objective. After exceptional circumstances had been announced in Lithuania in 2020, and as the general escape clause is

[7] Seimas Resolution No XIII-1058 of 22 March 2018 on Setting a medium-term objective.

applied by the EC, the national and SGP fiscal discipline rules are temporarily not applied. The structural balance should improve after economic growth will intensify and when aid measures or measures that promote economic recovery will no longer be required.

In 2019, the general government debt amounted to 35.9% of the GDP; in 2020, it increased to 47.3% of the GDP. Borrowing to finance aid measures related to COVID-19 and to stimulate the economy was the main reason for the increase in debt. The debt indicator was also affected by the funds of 1 billion euros, intended for the redemption of Eurobonds at the beginning of 2021, which were accumulated at the end of 2020. The debt is projected to amount to 52.1% of the GDP at the end of 2021.

PART I
INTRODUCTION

The Programme is the Lithuanian medium-term fiscal policy document which covers the period 2020-2024 and is prepared every year, as provided for in the procedure for strengthening the budgetary surveillance of the EU Member States and the coordination of economic policies that is established by the SGP. The Programme presents information about the updated EDS, the medium-term fiscal policy guidelines and fiscal projections of the general government.

In compliance 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 excessing deficit of the Member States in the euro area, Member States in the euro area shall make public their national medium-term fiscal plans in accordance with their medium-term budgetary framework. The Programme presents all this information. The Programme also presents information on the institutional set-up of general government finances and its latest amendments.

The Programme has been prepared in the conditions of still prevailing uncertainty surrounding the evolution of the COVID-19 pandemic and its potential impact on the economy, social environment and general government finances of Lithuania, pursuant to the Council Recommendation for Lithuania that was announced on 20 May 2020[8], the guidelines for fiscal policy-making submitted by the EC to the EU Member States on 3 March 2021[9], in accordance with the requirements of the Code of Conduct of 18 May 2017 regarding the content and presentation format of the stability programme[10]. The Programme presents information about impact on public finances of the Lithuanian RRF plan[11] and of the

[8] Council Recommendation COM (2020) 515 of 20 May 2020 on the 2020 National Reform Programme of Lithuania and delivering a Council opinion on the 2020 Stability Programme of Lithuania, https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1591720698631&uri=CELEX%3A52020DC0515.
[9] EC document of 3 March 2021 *One year since the outbreak of COVID-19: fiscal policy response*, https://ec.europa.eu/info/sites/info/files/economy-finance/1_en_act_part1_v9.pdf.
[10] Code of Good Practice, http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf.
[11] Draft Lithuanian RRF plan, https://finmin.lrv.lt/uploads/finmin/documents/files/LEGADP%20projektas%202021-04-16(2).pdf.

Government's forthcoming proposals regarding the amendment to Law on the Budget for 2021.

The Government of the Republic of Lithuania has declared a state of national emergency across the country due to the threat of the spread of COVID-19[12]. During the preparation of the Programme, the declaration of the national emergency has not been lifted. Due to the unfavourable epidemic situation, the Government has established a quarantine regime in the territory of the Republic of Lithuania[13], which ceased to be in force from 17 June 2020[14]. However, when the epidemic situation started to get worse rapidly, from 7 November 2020, the Government re-established the quarantine regime[15], which, at the time of preparing the Programme, is still in force.

Having assessed that the expenditure of implementing the measures applied to maintain the economic viability of the country, to ensure health protection and public safety will have a significant impact on the general government finances, the Government authorized the Ministry of Finance to initiate the establishment of exceptional circumstances in the Republic of Lithuania[16]. Exceptional circumstances are established and revoked in accordance with Article 7 of the Constitutional Law. According to the Constitutional Law and the SGP, exceptional circumstances shall mean an extraordinary event which cannot be controlled by the public authorities of the state and which has a significant impact on the financial position of general government, or severe economic downturn. On 27 March 2020, the fiscal institution has issued an opinion that the unusual situation in the country corresponds to the concept of exceptional circumstances[17].

After exceptional circumstances are established, in accordance with Article 7 (3) of the Constitutional Law, once a quarter the Ministry of Finance updates the EDS, makes it public, and the fiscal institution submits to the Seimas an opinion on the approval of this scenario.

Due to high level of uncertainty and risks related to the evolution of the COVID-19 pandemic and its impact on the general government finances, the exceptional circumstances are not revoked in 2021.

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[12] Government of the Republic of Lithuania resolution No 152 of 26 February 2020 Declaring a State of National Emergency, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/8feb1a7658a111eaac56f6e40072e018.

[13] Resolution No 207 of the Government of the Republic of Lithuania of 14 March 2020 on the Announcement of Quarantine in the Territory of the Republic of Lithuania, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/deaf8694663011eaa02cacf2a861120c/asr.

[14] Resolution No 579 of the Government of the Republic of Lithuania of 10 June 2020 repealing the resolution No 207 of the Government of the Republic of Lithuania of 14 March 2020 on the Announcement of Quarantine in the Territory of the Republic of Lithuania, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/99f1d6b6abcd11ea8aadde924aa85003?jfwid=-eiiqbfydh.

[15] Resolution No 1226 of the Government of the Republic of Lithuania of 4 November 2020 on the Announcement of Quarantine in the Territory of the Republic of Lithuania, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/9df56c401f4a11eb9604df942ee8e443?positionInSearchResults=0&searchModelUUID=a5af4b52-a781-4b02-a60e-0ab797756a58.

[16] Resolution No 230 of the Government of the Republic of Lithuania of 18 March 2020 on Granting Powers to the Ministry of Finance of the Republic of Lithuania, https://finmin.lrv.lt/uploads/finmin/documents/files/LRV_nutarimas_%20%C4%AFgaliojimas_FM.pdf.

[17] Opinion of the fiscal institution, https://www.vkontrole.lt/bp/isvada.aspx?id=10366.

In exceptional circumstances and given that in 2021-2024 the output gap, calculated according to the EDS, will be negative, the rules of fiscal discipline, which are established in the Constitutional Law, do not apply to the general government sector.

In 2020 and 2021, the SGP general escape clause applies[18] – the SGP flexibility condition, which is applied by the EC when, as a result of the COVID-19 pandemic, an economic crisis in the EU or in the euro area arises, when countries are experiencing economic downturns and high government spending. When the flexibility condition applies, deviation of the structural balance from the medium-term objective, in implementing measures to combat the consequences of the COVID-19 pandemic on the economy, healthcare system and social environment, shall not be considered to be non-compliant with the fiscal discipline rules that are set out in the SGP. In the opinion of the EC, the SGP general escape clause is likely to apply in 2022 too.

The Government approved the Programme on 28 April 2021.[19] The Programme is usually presented to the members of the Seimas Committee on European Affairs, of the Budget and Finance Committee, and of the Audit Committee. The fiscal institution is responsible for the assessment of the fiscal indicators presented in the Programme. On 30 April 2021, the Programme will be submitted to the EC and the Euro Group.

PART II
ECONOMIC OUTLOOK

SECTION 1
EDS ASSUMPTIONS

The key assumptions for the external economic environment (trading partner development, oil prices, the euro-dollar exchange rate) correspond to the projection under EC‘s 2021 winter forecast. Perspective of Lithuania's major export markets is the most important assumption of the EDS.

Table 1. Key assumptions

	2020	2021	2022	2023	2024
Short-term interest rates (average annual)	–	–0.2	–0.1	0.1	0.3
Long-term interest rates (average annual)	1.1	1.0	1.2	1.3	1.5
USD/EUR exchange rate (average annual)	1.14	1.21	1.21	1.21	1.21
Nominal effective exchange rate	3.9	2.3	0.0	0.0	0.0
Nominal effective exchange rate (for countries not in euro area or ERM II*) exchange rate vis-à-vis the € (annual average)	–	–	–	–	–
Global (excl. EU) GDP growth, %	–3.4	5.2	3.8	3.8	3.8

[18] Letter from the EC to the Minister of Finance dated 19 September 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/lt.pdf.
[19] Resolution No 279 of the Government of the Republic of Lithuania of 28 April 2021 on the Stability Programme of Lithuania for 2021, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/7d9cadf0a8b111eb98ccba226c8a14d7.

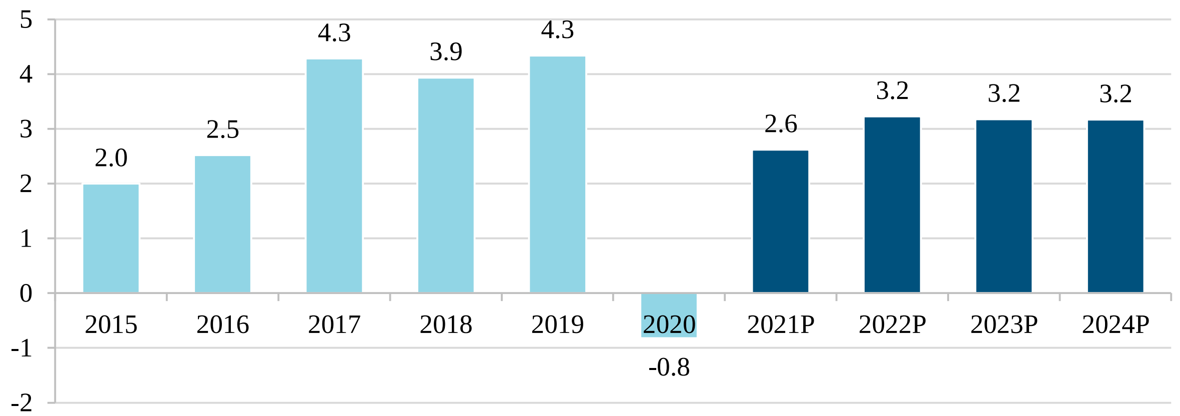
	2020	2021	2022	2023	2024
EU GDP growth, %	–6.3	3.7	3.9	3.9	3.9
Growth of main export markets, %	–5.8	3.6	3.9	3.9	3.9
Global (excl. EU) import growth, %	–9.4	7.5	4.9	4.9	4.9
Oil prices (Brent, USD per barrel)	43.4	54.7	52.4	52.4	52.4

Sources: Ministry of Finance, EC (2021 winter forecast).
* Exchange rate mechanism II.

SECTION 2
MEDIUM-TERM EDS

The EDS, which has been made public in March 2021 by the Ministry of Finance[20] and approved[21] by the fiscal institution, provides that, following the recession caused by the pandemic in 2020, the economy of Lithuania should recover in 2021. After the epidemic situation deteriorated markedly in the fourth quarter of 2020, adverse effect of the COVID-19 pandemic on the economy was also felt in the first quarter 2021, and whereas the mass vaccination of the public is gaining momentum from the second quarter of the year, the economic activity is likely to increase. Throughout 2021, the economy of Lithuania could grow by 2.6%, and acceleration of the economic recovery is expected in the later years of the medium-term – the GDP could grow at an average rate of 3.2% per year (Fig. 1).

Fig. 1. Changes in real GDP



Sources: Statistics Lithuania, Ministry of Finance.

In 2020, the COVID-19 pandemic caused concern to the public, the pandemic management measures have restricted access to certain services, part of trade processes, that has been temporarily disrupted, led to lower consumer spending last year. In 2020, the household consumption expenditure fell by 1.5%. In 2021, the household consumption expenditure could grow by 2.6%. In the medium-term, changes in the country in consumption expenditure of the residents will be largely determined by a situation in the labour market,

[20] **Detailed information about the EDS**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.
[21] **Opinion on the approval of the EDS**, https://www.ifi.lt/isvada.aspx?id=10447.

social policy implemented by the Government, and demographic processes. The household consumption expenditure in Lithuania in 2022-2024 could grow by an average of 3.3% per year.

Extremely high uncertainty caused by the pandemic has led to lower expenditure for implementing investment projects. Due to the COVID-19 pandemic, most companies postponed investment plans. In 2020, the gross fixed capital formation expenditure in Lithuania fell by 0.2%. In 2021, this expenditure could grow by 4.6%. With the economic activity growing in the medium-term both in Lithuania and abroad, with ever growing use of available production capacity and efficient use of the funds from the EU, investment growth in the country could accelerate and, in 2022-2024, it could grow by an average of 5.6% per year. Because of foreign trade markets adversely affected by the pandemic, in 2020, Lithuanian exports of goods and services decreased by 1.3%. Based on assumptions about the recovery of foreign demand, in 2021, exports of goods and services are expected to grow by 4.8%. In the later years of the medium-term, exports of goods and services could grow on average by about 6.2% per year (Table 2).

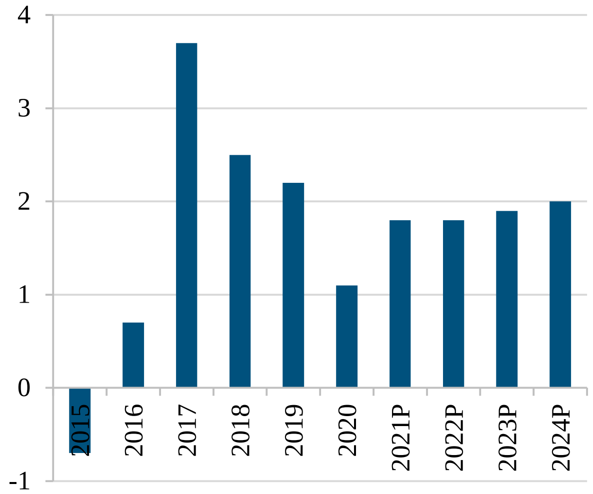
Table 2. Macroeconomic indicators

Title of the indicator	ESA code	Value of the indicator in 2020, MEUR	Rate of change, %				
			2020	2021	2022	2023	2024
GDP, chain-linked volume	B1g	42,942.2	–0.8	2.6	3.2	3.2	3.2
GDP, at current prices	B1g	48,794.2	0.0	4.5	5.1	5.1	5.2
Components of GDP (chain-linked volume)							
Household consumption expenditure + consumption expenditure of non-profit institutions serving households (NPIs)	P.3	26,572.2	–1.5	2.6	3.2	3.3	3.3
General government final consumption expenditure	P.3	6,445.6	0.2	0.2	0.1	0.1	0.1
Gross fixed capital formation	P.51	9,619.3	–0.2	4.6	5.3	5.7	5.7
Change in stocks and acquisition of valuables, minus loss, % of GDP	P.52 + P.53	–	–	–	–	–	–
Exports of goods and services	P.6	35,290.5	–1.3	4.8	6.7	6.0	6.0
Imports of goods and services	P.7	31,919.9	–6.0	5.3	7.5	7.4	7.4
Impact on real GDP development percentage point							
Final domestic demand		42,628.1	–0.9	2.6	3.1	3.3	3.3
Change in stocks and acquisition of valuables, minus loss	P.52 + P.53	–	–	–	–	–	–
Balance of goods and services	B.11	3,370.6	3.3	0.1	0.0	–0.5	–0.6

Sources: Statistics Lithuania, Ministry of Finance.

In the second half of 2020, inflationary pressures in Lithuania decreased due to more favourable prices for imported goods, which resulted from the global economic downturn caused by the pandemic and weakened demand for energy and food raw materials in international markets, as well as due to the negative impact of the pandemic on the Lithuanian economy, especially on the services sector, which led to lower demand and prices for some consumer services. In 2020, the average annual inflation fell to 1.1%, and in 2019, it stood at 2.2% (Fig. 2). After assessing trends in consumer price evolution and the changed technical assumptions on oil prices, the average annual inflation in 2021 and 2022 is anticipated to stand at 1.8%, and at the end of the medium-term it will remain sustainable and will stand at 2%. In the medium-term, the price evolution of imported goods, especially of energy, foodstuffs and services, the situation in the country's labour market and decisions on administered prices will have a significant impact on the evolution of prices (Table 3).

Fig. 2. Development of inflation, percentage



Sources: Statistics Lithuania, Ministry of Finance.

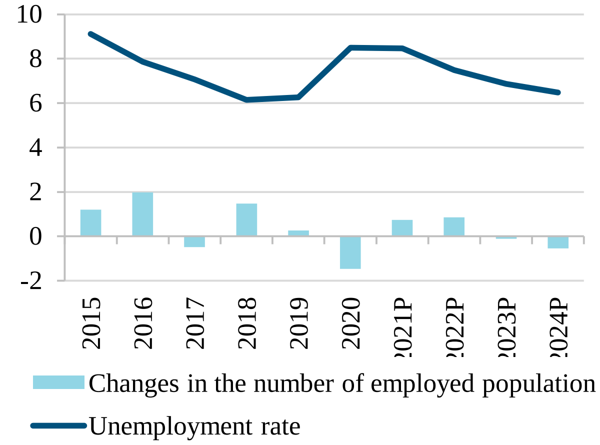
Table 3. Price indicators

	Value of the indicator in 2020	Rate of change, %				
		2020	2021	2022	2023	2024
1. GDP deflator	113.6	0.8	1.8	1.8	1.9	2.0
2. Private consumption deflator	110.4	0.8	1.8	1.8	1.9	2.0
3. HICP (in 2015 = 100)	110.6	1.1	1.8	1.8	1.9	2.0
4. General government consumption expenditure deflator	135.6	6.6	4.0	2.0	2.0	2.0
5. Gross fixed capital formation deflator	110.0	1.7	2.0	2.0	2.0	2.0
6. Export (goods and services) price deflator	101.3	–4.1	2.8	0.5	1.5	1.5
7. Import (goods and services) price deflator	98.1	–5.5	4.0	0.0	1.3	1.3

Sources: Statistics Lithuania, Ministry of Finance.

In 2020, the COVID-19 pandemic has significantly worsened the labour market situation in the country. In 2020, the unemployment rate, calculated according to the Labour Force Survey methodology, increased by 2.2 percentage points to 8.5%, and the number of employed population decreased by 1.5%. The situation in the labour market was mitigated by the Government subsidies to companies for downtime and support for the self-employed persons, which reduced the risk of unemployment and mitigated the impact of the crisis on workers, and helped avoid high number of dismissals. In 2021, the number of employed people is expected to grow by 0.7%, and the unemployment rate calculated according to the Labour Force Survey methodology will remain at the same level as in 2020 – the unemployment rate will stand at 8.5%. In 2021, with faster growth in economic activity, the number of employed population will increase by 0.9%, and the unemployment rate will fall to 7.5%. In the later years of the medium-term, due to the ageing of society and employed population of working age the number will gradually decrease, and due to a significant level of structural unemployment that will persist the unemployment rate will decrease more slowly and at the end of the medium-term it will stand at 6.5% (Fig. 3).

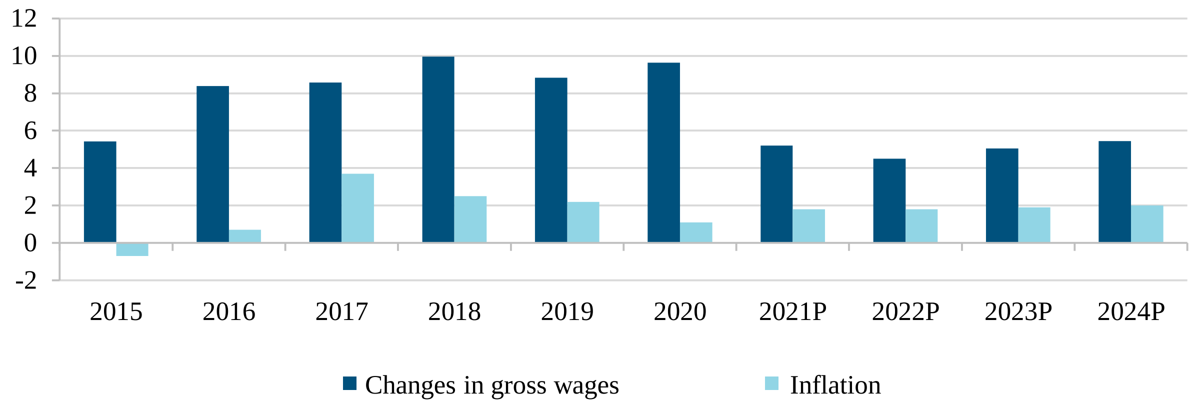
Fig. 3. Development of unemployment rate and number of employed population, percentage



Sources: Statistics Lithuania, Ministry of Finance.

In 2020, the average monthly gross wages in the country increased by 9.6%. With the rise in unemployment rate and while high uncertainty regarding the economic development of Lithuania and export partners persists, in 2021, wages, compared to 2020, are anticipated to grow more slowly in both the public and private sectors, although 5.8% higher MMW will slightly boost growth of wages. In 2021, the growth rate of the average monthly gross wages could reach 5.2%. In 2022, due to anticipated slower wages growth in the public sector, the wages growth will slow to 4.5%. With declining unemployment level in the later years of the medium-term, the pace of wages growth in the country will accelerate mainly due to the impact of growth in the productivity of labour in the private sector, and at the end of the period will reach 5.5%. The pace of wages growth in the medium-term is anticipated to exceed inflation, and, therefore, the purchasing power of workers will become stronger (Fig. 4 and Table 4).

Fig. 4. The rate of wages growth will further exceed inflation



Sources: Statistics Lithuania, Ministry of Finance.

Table 4. Labour market indicators

	ESA code	Value of the indicator in 2020	Rate of change, %				
			2020	2021	2022	2023	2024
1. Employment, persons, thou.*		1,358.1	–1.5	0.7	0.9	–0.1	–0.5
2. Employment, hours worked, thou.		2,467,484	–5.7	–	–	–	–
3. Unemployment rate, %**		8.5	8.5	8.5	7.5	6.9	6.5
4. Labour productivity (gross value added per person employed), EUR thou.		31.6	0.7	1.9	2.3	3.3	3.7
5. Labour productivity, hours worked, EUR		–	–	–	–	–	–
6. Compensation of employees, million EUR	D.1	24,016.5	6.4	7.9	5.5	5.5	5.2
7. Compensation per employee, EUR		19,858.2	7.9	7.1	–	–	–

Sources: Statistics Lithuania, Ministry of Finance.
* Labour Force Survey methodology.
**Value of the indicator.

SECTION 3
LITHUANIA‘S BALANCE OF PAYMENTS

In 2020, the balance of Lithuania's current account was positive, and its surplus has more than doubled (from 3.3% of the GDP in 2019 to 8.4% of the GDP in 2020). This was mainly due to a very improved trade balance. The surplus of the balance of trade in services was still almost the same as in 2019. However, after imports fell more than exports due to the pandemic situation, deficit of trade in goods significantly decreased. In 2020, the primary revenue balance improved (was less negative), and the surplus of the balance of the secondary revenue, which has previously little changed, decreased significantly last year. Most of this change is related to personal transfers – flow of personal transfers to Lithuania fell more than the flow of these transfers from the country.

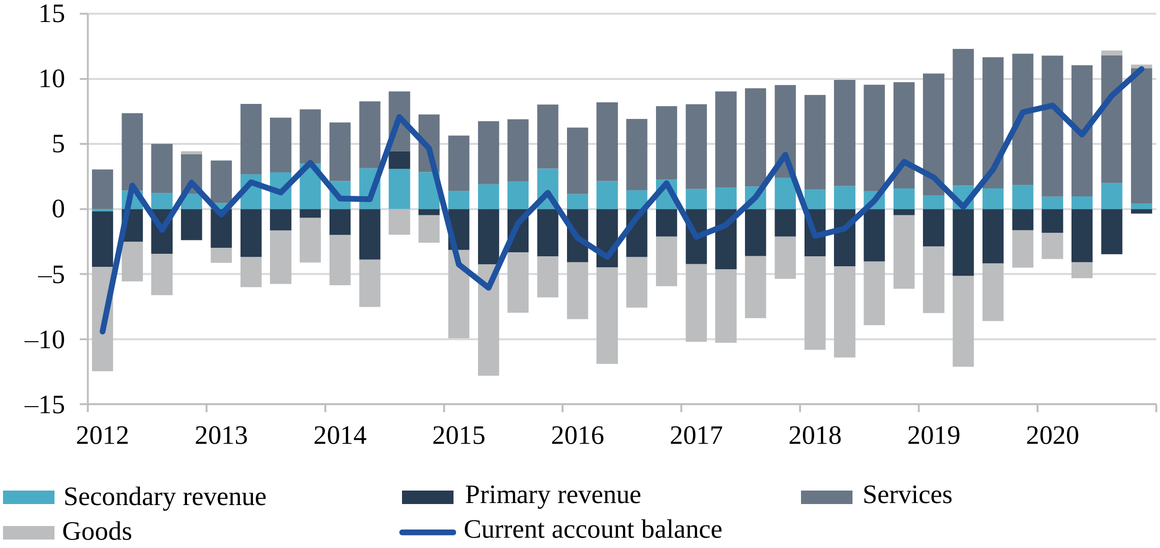
In 2018, the current account was positive – it accounted for 1.6% of the GDP. The foreign trade balance has improved – the surplus of the services balance has increased significantly and compensated increase in the goods deficit. However, the increase in the foreign trade balance was lower than in 2017, the deficit of primary revenue balance has decreased, and the surplus of the secondary revenue balance was lower than in 2017.

The surplus of the service balance has not changed substantially – in 2020, it accounted for 10.3% of the GDP, and the various components of this balance changed unequally. Travel services were hit hardest during the COVID-19 pandemic and they have most reduced overall trade in services. Their exports fell 69% last year (their imports also decreased by the same extent). International trade in some other services also declined, for example, exports of culture and recreation organisation, maintenance and repair, transport services decreased. The latter services continue to account for the largest share of total exports of services. The transport sector faced various challenges last year (movement restrictions related to the management of the COVID-19 pandemic were applied, the EU Mobility Package entered into force, uncertainty about the follow-up of UK Brexit prevailed). Therefore, as expected, the development of this sector has paused. In 2020, exports of some services, such as telecommunications and information services have, however, increased markedly. This can be associated with the volume of teleworking and telecommuting that increased during the pandemic.

The deficit of the goods balance has declined significantly – in 2020, it accounted for 0.6% of the GDP and a year ago it stood at 4.8% of the GDP. This decline was due to both shrinking domestic demand and the relatively successful performance of export-oriented producers, and due to other factors. Imports of goods fell sharply during the first wave of the pandemic, and later it remained subdued. Imports were reduced by changes in demand for final consumption goods. Lower prices of raw materials, in particular of oil, also contributed to the fall in imports at nominal value. Exports of goods were affected particularly favourably demand for essential goods, that are purchased by both final consumers and producers of other goods, that has only slightly decreased. Exports were also boosted by good last year's harvest of agricultural products, such as grain, and by increased production and exports of goods related to the management of the COVID-19 pandemic, such as reagents.

In the coming years, the foreign trade balance should gradually deteriorate. The recovering domestic demand, which will lead to a higher demand for imported raw materials, intermediate products and final consumption products, will contribute to that. With the improving epidemic situation, the export volume should continue to grow, though, as usual, the prospects for certain export components are characterized by relatively high uncertainty. For example, export volumes of agricultural and food products will mostly depend on next year’s harvest.

Fig. 5. Components of the current account balance, % of the GDP



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

Deficit of the primary revenue balance has also decreased – last year it accounted for 2.4% of the GDP, and a year ago the deficit stood at 3.5% of the GDP. Development of investment revenue contributed mostly to improvement in this balance – after the fall in economic activity, revenue from investment (mainly direct investment) transferred to foreign countries has significantly decreased. Not only investment transferred to foreign countries declined, but also income from employment. However, the balance of income from employment has not changed substantially, because income from employment received from other countries also fell. Revenue other than revenue from investment and other than income from employment, which is most related to EU subsidies for agriculture, had a more positive effect on the primary revenue balance. Development of the primary revenue balance, like of the foreign trade balance, will continue to be highly dependent on changes in economic development. With the recovering economic activity in Lithuania, income of foreign companies operating in the country will begin to draw oneself up, and the transfer of this income to foreign countries should have an increasingly negative effect on the primary revenue balance.

Unlike other components of the current account, the balance of secondary revenue has deteriorated – last year, the surplus of this revenue accounted for 1.1% of the GDP, and in previous years it stood at 1.6% of the GDP. The largest change in secondary revenue is related to personal transfers. The positive balance of these transfers dropped sharply due to decreased flow of personal transfers to the country. The secondary revenue balance of the general government has slightly improved. This, however, had only a small effect on the secondary revenue balance. It is likely that in the near future the surplus of the secondary revenue balance will not start to increase because it is expected that the situation of the economy of Lithuania will gradually improve and the situation in the labour market will change for the better.

The surplus of the capital account continued to increase. In 2020, it was a tenth higher than in 2019 and accounted for 2% of the GDP. This was due to the increasing use of EU funds in financing various investment projects in the country.

The changes in the financial account were due to foreign direct investment flows, which still were positive, the borrowing needs of the general government and changes in the financial assets. Although economic activity was less intense, in 2020, the flow of foreign direct investment was still positive. As usual, it was mainly due to the reinvestment of previously earned profits. The net financial flow was also positively affected by portfolio investment. It was partially increased by distribution of the securities of the Government of the Republic of Lithuania in foreign markets. The net financial flow was affected in the opposite direction by changes in financial assets. After the formation of extremely high surplus of foreign trade, the net financial assets abroad grew strongly.

Table 5. Sector balances

	ESA code	% of GDP				
		2020	2021	2022	2023	2024
1. Net borrowing	B.9N	9.6	9.4	8.6	8.0	7.3
o/w:						
- balance of goods and services		9.2	8.3	8.4	7.8	7.1
- balance of primary incomes and transfers		–1.7	–1.7	–2.4	–2.4	–2.4
- capital account		2.1	2.8	2.6	2.6	2.6
2. Net lending/net borrowing of the private sector		17.0	17.5	14.6	12.0	9.5
3. General government net lending / net borrowing	B.9N	–7.4	–8.1	–6.0	–4.0	–2.2
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

*Sources: Ministry of Finance, * Bank of Lithuania.*

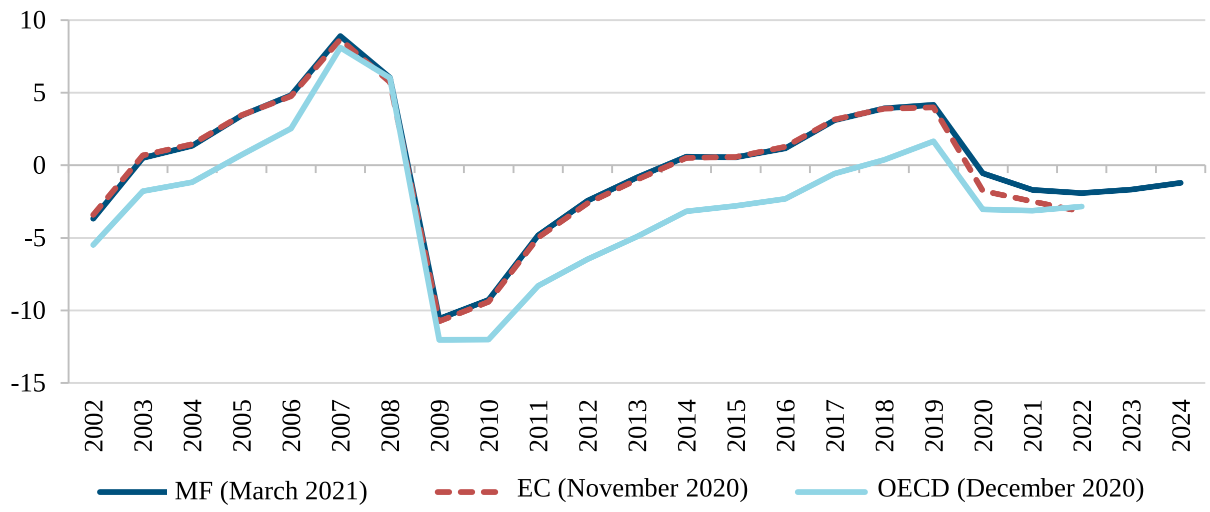
SECTION 4
ECONOMIC CYCLE ASSESSMENT

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 a theoretical economic output level attainable which would be attained if the output factors, i.e. labour and capital, were utilised to their full potential without pressure on prices and wages. The output gap measures the difference between the actual output of an economy and its potential output. The potential GDP and the output gap are unobservable indicators, statistical as well as econometrical methods are applied to their assessment. For this reason, their estimates are very indistinct. In applying different methods, parameters or assumptions, significantly different estimates of the potential GDP level are obtained, which determine different output gap evaluations. Differences in estimates are also due to different indicator projections (forecasts) and the length of their period, different length of data time series used for the calculations, different smoothing measures for data time series and their parameters, different statistics on indicators known at the time of calculation, and statistics revisions.

To reduce indeterminacy of estimates of the potential GDP and output gap, and to maintain their comparability with the estimates of the EC and other EU Member States, and to comply with the provisions of the SGP, the Ministry of Finance calculates the estimates of these indicators by applying the potential GDP calculation methodology[22] approved and being improved by the EC, and harmonized with other Member States, that is based on Cobb-Douglas production function. Despite the aim to maintain comparability, estimates calculated by the Ministry of Finance and the EC are not identical, differences between them are largely due to different projections (forecasts) of economic indicators used for calculations, different length of their horizon (of the Ministry of Finance – up to $T + 3$ years, of the EC – up to $T + 1$ year spring, up to $T + 2$ year autumn, when T is current year); the EC uses the output gap “closing” rule in $T + 5$ year; scheduled revisions of national accounts statistics whose deadlines for completion do not coincide with the deadlines for concluding the EDS of the Ministry of Finance and for calculating the potential GDP.

The results of the calculations carried out by the Ministry of Finance according to the data and projections of the EDS show that in the medium-term, the output gap will remain negative. In 2021, it will account for -1.7% of the potential GDP. At the end of the medium-term, after the slowdown, mainly due to the negative impact of demographic factors, in the growth of the potential GDP, the negative output gap will narrow to -1.2%. In calculating estimates of the potential GDP, the latest known projections of the demographic no migration scenario prepared by Eurostat and published in July 2020 have been used.

Fig. 6. Estimates of output gap, % of the potential GDP



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

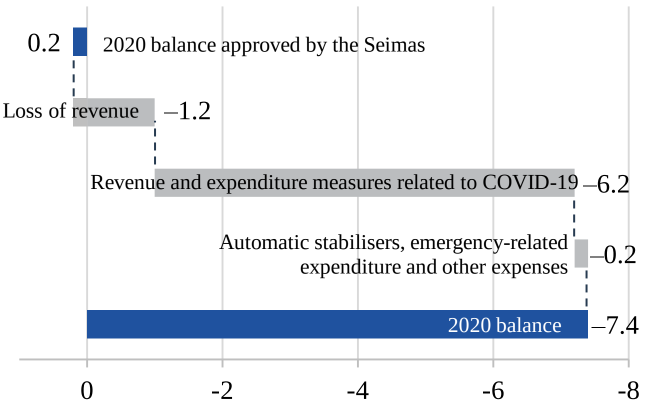
[22] Detailed description of the methodology published in the EC Journal ‘The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps‘, Economic Papers 535, 2014.

PART III
FINANCIAL SITUATION AND PROSPECTS OF THE GENERAL GOVERNMENT

SECTION 1
GENERAL GOVERNMENT FINANCES IN 2020-2021

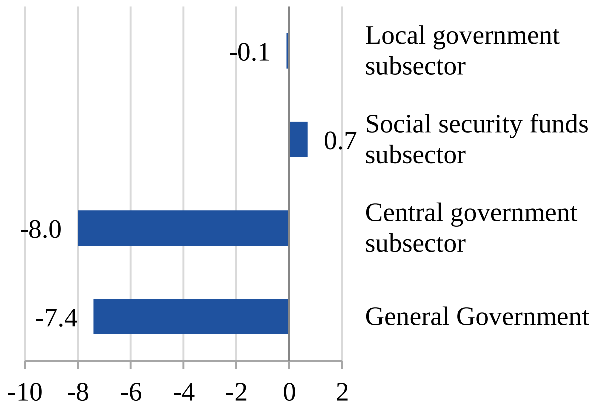
The general government surplus of 0.2% of the GDP, that was planned in Law on the Budget for 2020, was not achieved. Due to the adverse effects of the COVID-19 pandemic on the economy, social environment, and public finances, which manifested in the form of economic downturn, deferral of payment of taxes, and higher-than-planned government expenditure due to financing of aid measures relating to COVID-19, in 2020, the general government deficit accounted for 7.4% of the GDP.

Fig. 7. Change in the general government balance in 2020, compared to that approved in the Law on the Budget for 2021, % of the GDP



Source – Statistics Lithuania.

Fig. 8. General government and subsector balances for 2020 , % of the GDP



Source – Statistics Lithuania.

In 2020, 3.3 billion euros or 6.7% of the GDP were allocated for the implementation of COVID-19 related expenditure measures, of them 2.7 billion euros or 5.5% of the GDP were allocated for balance affecting measures. Due to COVID-19 related revenue measures that were applied – deferral of payment of taxes, in 2020, in assessing on an accrual basis, 343 million euros or 0.7% of the GDP in general government revenue were lost.

The general government deficit of 7% of the GDP is planned in the Law on the Budget for 2021. Given the uncertainty surrounding the evolution of the COVID-19 pandemic, and to ensure the necessary resources for the efficient operation of health and public protection systems, to help retain jobs and maintain the income level of the population, to help businesses maintain liquidity, and to stimulate the economy, an amount of 1 billion euros (2% of the GDP) to finance aid measures is provided for in the 2021 budget law. In providing for specific aid measures and amounts of funds for the implementation of these measures, the measures are assessed in terms of their relevance, temporariness and effectiveness.

The Government is preparing and plans to submit to the Seimas in May this year a draft amendment to the Law on the Budget for 2021 in order to supplement the budget with the measures of the Lithuanian RRF plan and to increase by 544 million euros an amount of 1 billion euros provided for financing measures related to COVID-19.

In amending the 2021 budget law, the RRF grants for Lithuania are planned to be provided for 2021. The distribution of the RRF grant for years 2021-2026 is presented in Table 6 of the Programme.

Table 6. The planned distribution of the RRF funds over the medium-term*

	million EUR					
	2021	2022	2023	2024	2025	2026
RRF Grants	149.3	448.6	543.6	552.3	378.8	152.4

* The information provided in the Programme on the projected distribution of the RRF funds over the medium-term corresponds to the latest information on the Lithuanian RRF plan that was available during the preparation of the Programme. The information may change before the submission of the Lithuanian RRF plan to the EC.

The need to provide more funds for financing measures related to COVID-19 arises due to the epidemic situation in Lithuania, which still remains complicated, persisting restrictions on certain economic activities, and due to the need to support economic recovery. Additionally, funds are provided for health care – to purchase vaccines and to implement other measures related to the management of the COVID-19 pandemic; for social security - to support self-employed individuals, to pay temporary job-search allowance for unemployed individuals; for economy – to help businesses retain jobs during and after the pandemic, to encourage creation of new jobs after the pandemic (Table 7). Detailed information on measures to combat the negative effects of the COVID-19 pandemic, including loss of income due to payment of deferred taxes and their impact on the general government finances is presented in Tables 23 and 24 of the Programme. The description of the measures of the Bank of Lithuania aid is presented in Part VII of the Programme.

Table 7. The general government expenditure measures, related to COVID-19, which affect the general government balance, as per economic classification

General Government Expenditure	million EUR		
	2020	2021 (according to Law on the Budget for 2021)	2021 (foreseen additional expenditure)
Compensation of employees	97.1	45.0	48.5
Intermediate consumption	231.1	156.7	108.2
Social benefits	571.8	210.5	74.1
Subsidies	1,057.3	562.0	122.2
Fixed capital formation	529.9	0	0
Capital transfers	122.1	0	0
Other	53.8	78.5	190.5
Total:	2,663.1	1,052.7	543.5

Source – Ministry of Finance.

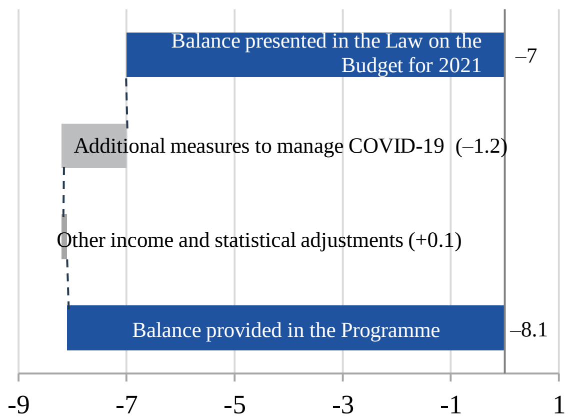
Most of the temporary measures related to COVID-19 will be financed from the State budget. As a result, the central government expenditure and the deficit will increase accordingly. Compared to the indicator provided for in the Law on the Budget for 2021, increase in the central government deficit is the main reason for the increase in the general government deficit.

The local government subsector deficit is anticipated to amount to 0.1% of the GDP, and the surplus of the social security funds subsector is anticipated to amount to 0.3% of the GDP.

Given that in 2021, the economy of Lithuania will grow more slowly than it potentially could, and that the output gap will be negative, the municipal and CHIF budget balances are broadly in line with the assumption of structural balance. The projected surplus of the SSIF budget is determined by the share of income that increases due to wage growth and by the fact that most of the aid measures related to COVID-19 are financed from the State budget rather than from the SSIF budget.

After assessing the latest data on the implementation of general government budgets, received by the Ministry of Finance by 27 April 2021, the EDS, estimates of the output gap, and updated revenue and expenditure projections for the state, municipal and social security funds, the local government sub-sector balance trends, in 2021 the general government deficit is anticipated to account for 8.1% of the GDP. Compared to the indicator presented in the 2021 budget law and the draft budget of Lithuania for 2021, the general government deficit in 2021 will increase by 1.1 percentage point of the GDP (Fig. 9).

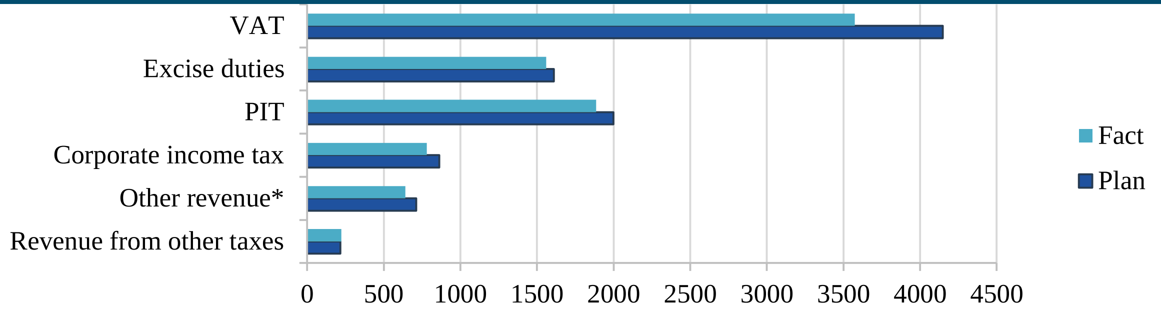
Fig. 9. Comparison of the 2021 general government balance presented in the Programme and that presented in the Law on the Budget for 2021, % of the GDP



Source – Ministry of Finance.

Following the declaration of the quarantine in the country and the restriction of some economic activities, and after businesses adversely affected by the COVID-19 pandemic were given the opportunity to defer payment of taxes and contributions, in 2020, the State budget received 883.6 million euros or 9.3% less revenue than was provided for in the 2020 budget law. At the beginning of 2021, arrears of taxpayers affected by the COVID-19 pandemic, measured on a cash flow basis, amounted to 801.9 million euros. In 2020, 22.8 thousand legal persons and 26.2 thousand natural persons took advantage of the opportunity to defer taxes. In March-December 2020, companies have paid 79.9% of taxes and contributions paid during the relevant period a year ago (Fig. 10).

Fig. 10. Execution of 2020 State budget revenue, million euros

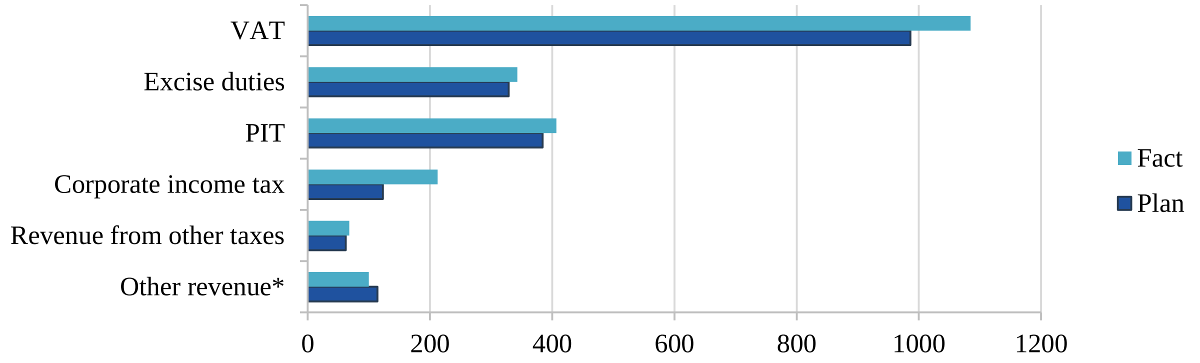


Source – Ministry of Finance.
** Dividends, revenue from state-owned natural resources, state-owned land lease, property sales, etc.*

It is planned in the Law on the Budget for 2021 that in 2021, the State budget will receive 8,988.6 million euros or 3.7% more than in 2020, excluding EU funds. During the preparation of the draft 2021 budget law, the moderate improvement in fulfilment of tax obligations was provided for, assuming that in the second half of 2021 taxpayers will no longer be subject to tax aid measures by deferring payment of taxes. It is planned to receive in 2021 4.8% more from the four main taxes (VAT, PIT, excise duties and profit), which account for 91% of the State budget revenue (excluding EU funds), than was received in 2020.

During the first quarter of 2021, the State budget revenue plan was exceeded by 10.8% or by 216.7 million euros, 8.2% or 167.4 million euros more revenue was collected than in the same period a year ago (Fig. 11). The plan for all major taxes was exceeded. 98.4 million euros or 10% more than planned revenue from VAT was received due to faster-than-planned refunds of 2020 deferrals of this tax. Despite the high level of uncertainty in relation with the evolution of the COVID-19 pandemic, its impact on revenue collection, and the application of the tax deferral measure, that has been extended by 31 August 2021, revenue collection for the first quarter of this year, which is better than was forecasted, and the EDS allow to forecast the State budget revenue for 2021, which is about 155 million euros or 1.7% higher than planned in the Law on the Budget for 2021.

Fig. 11. Implementation of the State budget for the 1st Quarter of 2021, million EUR



Source – Ministry of Finance.
** Dividends, revenue from state-owned natural resources, state-owned land lease, property sales, etc.*

SECTION 2
GUIDELINES FOR MEDIUM-TERM FISCAL POLICY

In the light of the European Commission's recommendation for the EC recommendation on the economic policy of the euro area[23], the Recommendation for Lithuania and the state of the Lithuanian economic cycle, the fiscal policy focused on economic recovery and aimed as fiscal sustainability will be pursued in 2021-2024.

To avoid compromising the fragile economic recovery and considering the residual effects of the crisis caused by the COVID-19 pandemic on business, the labour market, human health and the health care system, the volume of aid measures will be reduced gradually.

During the crisis caused by the COVID-19 pandemic, the general government debt increased and at the end of 2020, it stood at 47.3% of the GDP. Stabilization of the general government debt growth is necessary to ensure the long-term sustainability of general government finances. With persisting high uncertainty about the management of the COVID-19 pandemic and the impact of the pandemic on the Lithuanian and EU economy in the medium-term, as well as there is the need to address the challenges relating to the aging population, maintaining the long-term sustainability of general government finances is a challenge. Therefore, the Government Programme Implementation Plan provides that the general government debt management strategy, the implementation of which would ensure a sustainable level of debt in the long run will be prepared and presented in the Lithuania's Stability Programme for 2022.

Review of tax burden inequalities and the improved structure of taxes and social benefits, thus contributing to the reduction of income inequality, tax exemptions being reviewed, including those that are important in implementing the tasks of the Green Reform, by developing an action plan to reduce the shadow economy and the VAT gap, will help implement these fiscal policy guidelines. More information on the measures of the revenue policy is available in Section 4 of Part III of the Programme.

In search for internal financial resources and to increase the efficiency of public expenditure, in 2020, a review of expenditure in the areas of education and social security was carried out. The functions performed by the state are also planned to be reviewed. The budget orientation to results that is being increased, the medium-term budget planning that is being strengthened, state property management that is being optimized and the quality of public finances, that is being improved by other measures, will also contribute to the development of internal resources. More information on measures to improve the quality of public finances is provided in Part IV of the Programme.

The general government financial projections for 2021-2024, which are presented in the Programme, show a scenario of consistent and gradual reduction in the general government deficit, which would lead to stabilization of the debt level in 2023-2024. The

[23] EC Recommendation for a Council Recommendation on the economic policy of the euro area, https://ec.europa.eu/info/sites/info/files/2021_recommendation_for_euro_area_recommendation.pdf.

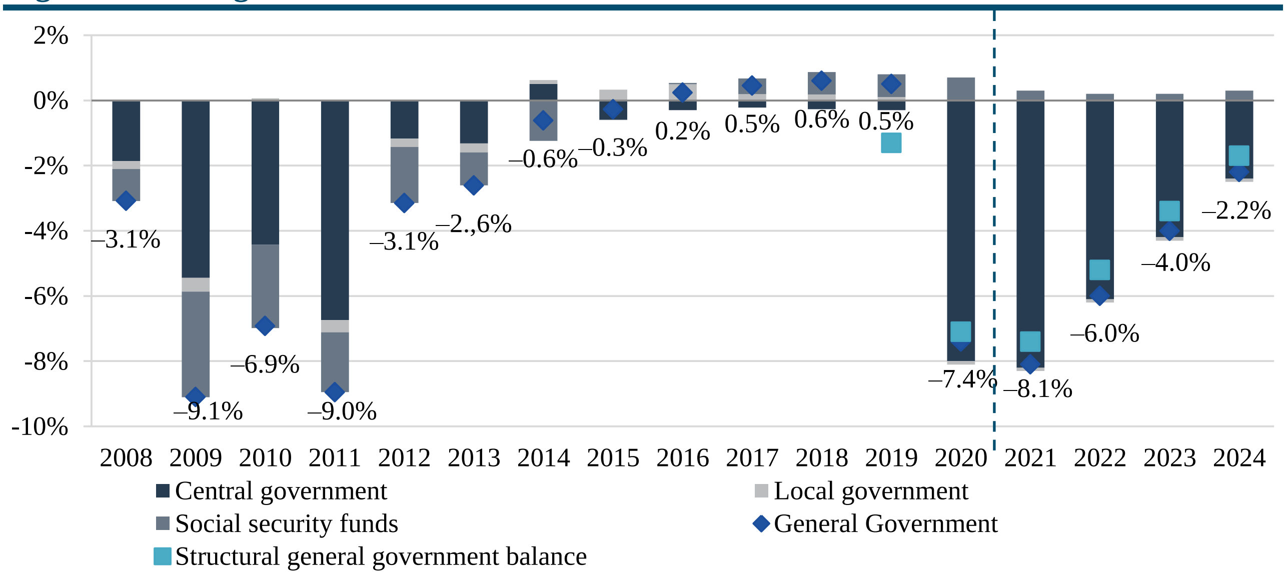
contribution to the implementation of such a policy and, at the same time, to strengthening the economic recovery in the medium-term will be made by implementing the measures provided for in the Lithuanian RRF plan and financed by other EU funds.

Considering the need to gradually reduce the general government deficit over the medium-term, and taking into account the state of the economic cycle, there are plans to accelerate the preparation and implementation of EU-funded projects during that period in order for the EU funds to have the strongest possible positive and economic growth-enhancing effect. To this end, the distribution of the use of EU funds in 2022-2024 will be adjusted during the preparation of the draft 2022 budget law, after having reviewed the NPP.

There are plans to use in 2021-2024 1.7 billion euros of the RRF funds from the 2.2 billion euros that are intended for Lithuania. This amount is estimated in the general government financial projections presented in the Programme as revenue for 2021-2024 and, respectively, as expenditure, by maintaining the principle of neutrality of EU funds on the budget balance. The planned allocation of the RRF funds over the medium-term is presented in Table 22 of the Programme. The rest of the RRF funds are planned to be used in 2025-2026.

The medium-term financial projections of the general government have been prepared in a context of still high uncertainty, taking into account the EDS, obligations of the state assumed under legal acts, by assessing the anticipated effect of the RRF and EU funds on the levels of the revenue and expenditure of the general government (Fig. 12 and Table 17).

Fig. 12. General government and subsector balances for 2008-2024, % of the GDP



Sources: Statistics Lithuania, Ministry of Finance.

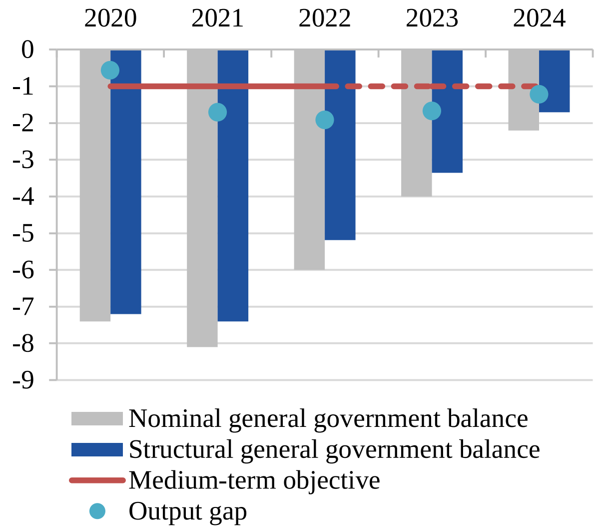
The general government financial projections, which are presented in the Programme, will be updated in autumn 2021, during the preparation of the Lithuanian draft budgetary plan for 2022. During the projection update, the epidemic situation at the time, the state of the economy of Lithuania and the medium-term prospects, the materialization of fiscal risks (information on fiscal risks is provided in Part VI of the Programme), as well as the need and possibilities to form the budget for 2022 in accordance with the general government financial projections – guidelines, which are provided for in the Programme, will be assessed.

Due to the general escape clause applied by the EC and due to exceptional circumstances established in Lithuania in accordance with the Constitutional Law the EU and national rules on fiscal discipline do not apply in 2021, and they are unlikely to apply in 2022. After decrease in uncertainty about the evolution of the COVID-19 pandemic and after the economy will resume sustainable growth, the fiscal discipline rules will start to apply again. Applying the rules may adjust the medium-term general government balance projections, which are provided in the Programme, depending on the financial situation of the general government at the time of updating the application of the rules, and on how the state of the economic cycle is assessed.

SECTION 3
2020-2024 STRUCTURAL BALANCE

Due to the negative impact of the COVID-19 pandemic on the general government finances and due to the general government expenditure in implementing the aid measures related to COVID-19, in 2020, there was a deviation from the medium-term objective. The 2020 structural deficit accounts for 7.2% of the GDP. In assessing the structural balance, general escape clause applies, when the effect of the COVID-19 plan measures, as one-offs, is not eliminated. A negative annual change of the 2020 primary structural balance by 6.1 percentage points of the GDP, also taking into account the negative output gap, shows that the fiscal policy, that was pursued in 2020, is countercyclical and stimulating the economy. The structural balance for 2020, without having included the impact of COVID-19 related aid measures, would make up a deficit of 1% of the GDP, and the change in the primary structural balance would account for 0.2% of the GDP (Table 18).

Fig. 13. General government balance indicators for 2020-2024 and output gap

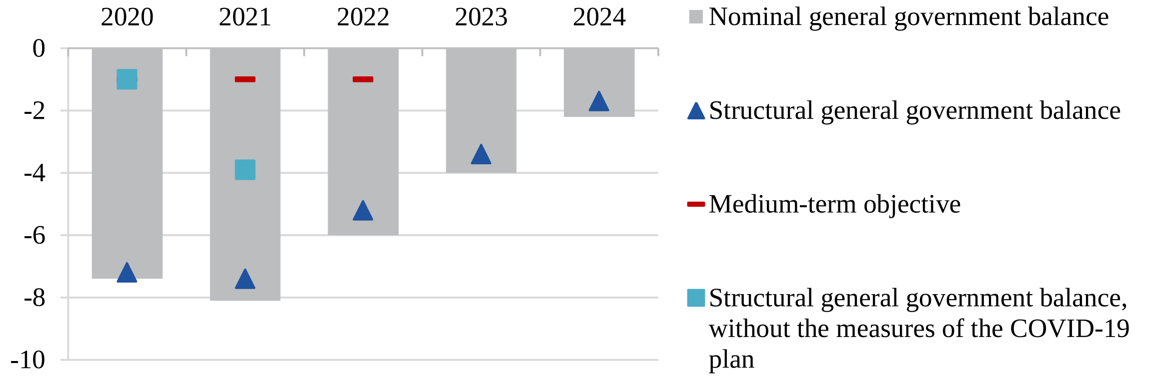


Source – Ministry of Finance.

The general government balance of -8.1% of the GDP is projected in 2021. The structural balance, accordingly, will account for -7.4% of the GDP, and the change in the primary structural balance will account for -0.5 percentage points of the GDP. The structural balance for 2021, without having included the impact of short-term COVID-19 related aid measures, would account for -3.9% of the GDP.

Changes in economic development, compared to the development provided for in the EDS, updated assessment of the state of the economic cycle, the application start time of the rules of fiscal discipline may adjust estimates of the general government structural balance.

Fig. 14. 2020-2024 structural balance, including and excluding the impact of COVID-19 related measures, % of the GDP



Source – Ministry of Finance.

Table 8. Economic cycles

	ESA code	% of GDP*				
		2020	2021	2022	2023	2024
1. Real GDP growth (%)		–0.8	2.6	3.2	3.2	3.2
2. Net lending (+) / net borrowing (–) by subsector	B.9	–7.4	–8.1	–6.0	–4.0	–2.2
3. Interest payment	D.41	0.7	0.5	0.3	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 revenue		0.0	0.0	0.0	0.0	0.0
One-off measures – general government expenditure		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		3.9	3.8	3.4	2.9	2.7
O/w:						
- labour		0.4	0.7	0.4	–0.1	–0.4
- capital		1.6	1.6	1.6	1.7	1.7
- total productivity		1.9	1.5	1.4	1.4	1.4
6. Output gap (% of potential GDP)		–0.6	–1.7	–1.9	–1.7	–1.2
7. Cyclical component of the budget (% of potential GDP)		–0.2	–0.7	–0.8	–0.7	–0.5
8. Cyclically adjusted balance (2 – 7) (% of potential GDP)		–7.2	–7.4	–5.2	–3.4	–1.7
9. Cyclically adjusted primary balance (8 + 3) (% of potential GDP)		–6.5	–6.9	–4.8	–3.0	–1.4
10. Structural balance (8 – 4) (% of potential GDP)		–7.2	–7.4	–5.2	–3.4	–1.7

Sources: Statistics Lithuania, Ministry of Finance.

* In some years due to rounding the sum of the lines may not coincide with the values of the calculated indicators

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

Priorities and measures of the revenue policy

COVID-19 related revenue measures are implemented in 2020-2021. From 16 March 2020, taxpayers are subject to tax aid measures:

- exemption from default interest and fines for late payment of taxes;
- compulsory tax recovery is not carried out;
- exemption from tax loan interest.

In autumn 2020, before the declaration of the second quarantine, the decision was made at the Government level that the aid measures apply to tax arrears that arose from 16 March 2020 to 31 December 2020. During the quarantine, that was declared in the spring of 2020, the tax measures were applied without a separate request to all taxpayers which were listed on the STI's list of taxpayers affected by the COVID-19 pandemic. Companies whose activities have been directly terminated or restricted as a result of the quarantine were listed on the list on the basis of the Government resolutions in force at the time.

Following the declaration of the quarantine in autumn 2020, in January 2021, the tax aid measures were extended until 30 April 2021 and in April 2021, a decision was made to extend them for another four months. So, currently aid measures related to COVID-19 are intended to be applied to tax arrears that accrued until 31 August 2021, and, also, for another two months after the established deadline, i.e. until 31 October 2021, such arrears will not be subject to compulsory recovery actions and no default interest will be charged. The taxes without interest, which are specified in the tax loan agreement, will have to be paid by the end of 2022. After this deadline, interest will have to be paid on the use of the loan.

During the quarantine that was declared in autumn 2020, principles for the application of tax aid were reviewed and the criteria according to which individuals are recognised as affected by the pandemic have been tightened. In 2021, the STI has drawn up a new list of taxpayers which are subject to tax aid measures. This list was based on the list of codes of the economic activities restricted and indirectly restricted during the quarantine, that was approved by a joint order of several ministers. Other criteria, such as decrease in turnover, the reliability and/or insolvency of taxpayers, were also assessed.

Taxpayers, who are not listed on the list of companies affected by the pandemic, but also suffered financial difficulties as a result of the COVID-19 pandemic, may apply to the tax administrator for the application of tax aid measures by submitting a request as per the approved form.

In April 2021, the initiative to apply temporarily – from July 2021 to the end of 2022 a lower VAT rate of 9% for catering services, cultural and sporting event activities received support in the Seimas. Other tax-related business support measures are also being discussed.

Other revenue policy measures that are being implemented in 2021

In order to improve the situation of VAT payers by refusing from freezing of their working capital, which arises from operational characteristics, business cycles, seasonality and other factors, after the adoption of amendments to the Law on Value Added Tax of the Republic of Lithuania, from 1 January 2021 the restrictions, that apply to refund of VAT difference, were lifted and the VAT difference accrued for the relevant tax period is refunded to such VAT payers in accordance with the general procedure established by the Law on Tax Administration of the Republic of Lithuania. Amendments to the Law on Value Added Tax, by which the provisions of the EU directives that make up the so-called e-commerce package, which are related to the distance marketing of goods, sales via online marketplaces and the import of small consignments, are implemented in Lithuania, as in other Member States, from 1 January 2021, were also adopted.

In order to create additional conditions for faster adaptation to changing needs of the labour market, the amendment to the Law on Personal Income Tax of the Republic of Lithuania, which implemented an additional tax incentive for lifelong learning, was adopted. This amendment extended the tax exemption applicable to residents of Lithuania who are learning or studying, by providing for the possibility of reducing payable income tax by deducting from income expenditure incurred for higher education or vocational studies leading to the acquisition of the relevant qualification or competence upon their completion (if the person studied according to the module of the vocational training programme), regardless of the qualification or competence (first, second, etc.) being acquired. This exemption is related to the implementation of the recommendation for Lithuania and it is applied in calculating and declaring income for tax period of 2020 and later periods.

To reduce the administrative burden on taxpayers, in justifying the compliance of pricing of low value-added services and any domestic transactions (performed between Lithuanian taxpayers) with the arm's length principle, as well as to expand the possibilities of the tax administrator in pricing control on transactions related to intangible assets, the value of which is difficult to determine, the Minister of Finance approved amendments to the implementing rules of Paragraph 2 of Article 40 of the Law on Corporate Income Tax of the Republic of Lithuania and of Paragraph 2 of Article 15 of the Law on Personal Income Tax.

In maintaining sustainability of public finances as priority in the field of taxation in 2021-2024, a stable and predictable tax environment will be ensured, a tax structure that is in line with the need for public spending and which does not constrain economic growth will be ensured. Inequalities in the tax burden will be reviewed consistently, the structure of taxes and social benefits will be improved thereby also contributing to the reduction of income inequality, tax exemptions will be reviewed in terms of expenditure and benefits, including those that are important in implementing the tasks of the Green Reform.

The cost-benefit analysis of indefinite tax exemptions and of special terms of taxation is planned to be performed in 2021 and 2022, by preparing at the same time legislation to waive inefficient indefinite exemptions and special terms of taxation, which distort the fairness of taxation, and imposing excise duties on new products. Most of these changes are expected to take effect no earlier than 2023. There are also plans to adapt the EUROMOD[24] model to administrative data, to carry out on the basis of this model an analysis of the effectiveness of personal income taxation and social benefits, and, on the basis of the said analysis, to make proposals in these areas. In order to further expand the base of the taxes that do not flag down economic growth, the analysis of immovable property tax exemption due to the change of the model of non-commercial asset of tax-free value, including decisions on offsetting of tax and review administration, is planned to be performed. At the same time, an assessment of the possibility of extending the existing income tax exemption for reinvested profit and a review of the model of investment and long-term saving measures are planned to be carried out.

There are plans to improve the taxation of small business in 2022, by carrying out an assessment on the possibilities to eliminate obstacles that impede the growth of small business, at the same time seeking reduction of administrative burden.

The intended tax review will be performed based on the relevant five principles: expediency, efficiency, social justice, climate-friendliness in relation to green objectives, and administrative simplicity.

Discretionary measures of the revenue policy planned for 2020-2024 and their quantitative evaluation are presented in Table 23 of the Programme.

Revenue projections

In forecasting the medium-term government budget revenue under the cash flow principle, the updated EDS and current tax changes have been assessed. Compared to the revenue expected to be received in 2021, the State budget revenue is expected to grow by 11.5% in 2021, in 2023 – by 2.7%, and in 2024 – by 4.2%.

In April 2021, the initiative to apply temporarily – from July 2021 to the end of 2022 a lower VAT rate of 9% for catering services, cultural and sporting event activities received support in the Seimas. After passing such a decision, in 2021 and 2022, the State budget revenue could decrease by around 125 million euros in total. Given that the decision of the Seimas on the application of a reduced VAT rate has not yet been passed, the possible effects of applying a reduced VAT rate are not included in the revenue projections presented in the Programme. Other tax-related business support measures, such as the possibility for companies to deduct the loss incurred in 2020 from the corporate income tax declared in 2019, are also discussed. Such a decision would be neutral for the State budget revenue in the long run. However, revenue from corporate income tax in 2021 could be around 66 million euros lower. A further plan to increase excise duties on tobacco and alcohol products, in order to set tariffs for a period of three years, is also being considered.

[24] EUROMOD - a tax-benefit microsimulation model for the European Union developed by the Institute for Social and Economic Research.

Forecasted revenue from taxes

In 2022-2024, revenue from four main taxes – VAT, PIT, excise duties and corporate income tax – will account for about 92% of the total State budget revenue.

In forecasting revenue, from main taxes, the payment amounts of taxes deferred in 2020 and 2021, as well as loss of income due to existing tax exemptions were assessed. At the end of 2020, deferred tax payments to the State and municipal budgets accounted for about 800 million euros. During the first quarter of 2021, 127 million euros of deferred amounts, that accrued in 2020, were refunded. However, new deferrals were also forming - taxpayers affected by the COVID-19 pandemic had deferred 82 million euros of taxes and other contributions.

Revenue from **PIT** is forecasted taking into account the dynamics of the ratio of revenue from this tax to the wage fund and the forecasted annual indicator of the wage fund growth. In 2022-2024, this revenue will grow by 11.8%, 6% and 6.3%, respectively, i.e. faster than the wage fund (in 2022 and 2023 – by 5.5% each year, and in 2021 – by 5.2%), mainly due to anticipated payments of deferred amounts of PIT (most relevant in 2022 for revenue growth) and due to currently unforeseen increase of tax-exempt amount of income.

Revenue from **VAT** is forecasted after assessing the expected change in nominal final consumption expenditure (growth of 4.4% is expected in 2022, in 2023 – of 4.5%, in 2024 – of 4.7%) and the dynamics of the percentage ratio of the final consumption expenditure and the tax base of VAT. In forecasting revenue from VAT in accrual terms, 75% of VAT deferrals, that have formed in the respective year, are considered revenue for that year. VAT in accrual terms is anticipated to grow by 7.7% in 2022 – such growth is driven by a low base in 2021, which is reduced by the assumption on losing 25% of revenue from VAT deferrals in case of insolvency of some companies and by one-off negative effect of the change in the VAT refund procedure. In 2023, the growth of VAT revenue will account for 4.5% and in 2024 - 5.1%. In forecasting revenue from VAT for 2022-2024 on a cash flows basis, newly formed tax deferrals have an adverse effect in the year in which they occur and a positive effect – when they are refunded. For this reason, the growth of revenue from VAT in 2022-2024 will stand at 16.1%, 1.7% and 4.1%, respectively.

If a decision to apply a lower VAT rate of 9% to catering services, activities of cultural and sports events were passed during the spring session of the Seimas in 2021, in 2021 and 2022, the State budget revenue could fall by about 125 million euros. This factor, that could reduce the revenue, is not included in the projections provided in the Programme.

The forecast of revenue from **excise duties** has been prepared taking into account the projected sales figures of excise goods of individual groups, based on multiannual data on interdependence between changes in the sale of excise goods and changes in household consumption expenditure or final consumption expenditure and excise duty rates. The growth of revenue from excise duties in 2022-2024 will stand at 1.3%, 1.2% and 1.3%, respectively.

Revenue from **corporate income tax** is forecasted after assessing the anticipated growth of the nominal GDP (in 2022 and 2023 – the growth of 5.1% each year, and in 2024 –

of 5.2%), the trends of the anticipated payments of deferred corporate income tax and of the payment of advance corporate income tax contributions. Compared to the projected revenue for 2021, revenue from corporate income tax is forecasted to grow by 20.1% in 2022. Payments of advance corporate income tax, which are relatively lower than would normally be under the conditions of economic upturn, led to such significant growth together with refunded amounts of deferred corporate income tax. For this reason, in 2022, significant growth in revenue from annual corporate income tax is likely. In 2023, the growth in revenue from corporate income tax is anticipated to stand at 9.1%, and in 2024 – at 7.9%.

Other forecasted revenue

In forecasting other state budget revenue for 2022-2024, it was taken into account that from 1 January 2023 there will no longer be a road user charge, which, taking into account the Law Amending Articles 2, 6, 9 of and Annexes 2 and 5 to the Law on the Financing of Road Maintenance and Development Programme No VIII-2032 (wording of the Law No XIII-3420 of 10 November 2020) is replaced with a road toll. This toll will be the revenue of the State Enterprise Lithuanian Road Administration rather than of the State budget. Each year, the State budget received about 50 million euros of revenue in the form road user charge. No significant changes are anticipated in other taxes and revenue, compared to revenue planned in 2021.

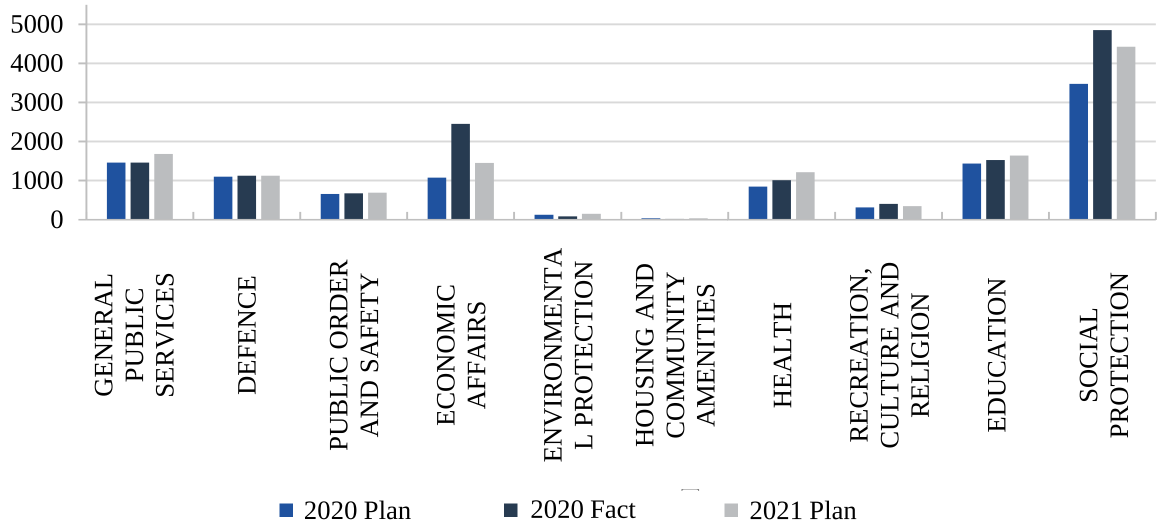
Priorities and measures the expenditure policy

In 2021, to contribute to the recovery of the economy, given the negative consequences of the COVID-19 pandemic and the uncertain economic situation, additional funds, compared to 2020, have been allocated for the following priorities:

- to fulfil the obligations, whose planned amount is provided for by the legal acts (for example, for social benefits, individuals insured using the funds from the State budget);
- to mitigate the consequences of the COVID-19 pandemic;
- to implement projects financed with the funds of the EU, by ensuring the financing of the national part;
- to finance national defence by ensuring commitments to NATO;
- to ensure transfer of contributions to the EU budget (of own resources);
- to compensate revenue that was planned to be received by municipalities in 2020 but not received.

In addition to funds intended to combat the negative effects of the COVID-19 pandemic, the 2021 budget law provides funds to increase the MMW, for indexation of pensions, to increase the child benefits, and to fulfil other earlier assumed obligations. In 2021, about 353 million euros from the State and SSIF budget funds have been allocated to increase pensions. In 2021, the average old-age pension increases by 37 euros (from 377 to 414 euros), and for those with the required length of service – by 41 euros (from 399 to 440 euros). 29 million euros are additionally foreseen in the State budget for 2021 for indexation of social assistance benefits and state pensions. The minimum monthly wages before tax of the employees of the state and municipal institutions financed from the State budget increases by 35 euros (from 607 to 642 euros). In 2021, the child benefits also increase from 60 to 70 euros, and for disabled, children from large and needy families – from 100 to 110 euros. 63 million euros are provided in the State budget for this purpose. The distribution of the State budget expenditure by areas of the public administration is presented in Figure 15.

Fig. 15. Structure of the State budget expenditure*



Source – Ministry of Finance.
**Excluding the EU funds, the RRF funds.*

The list and quantitative evaluation of discretionary expenditure measures, including those related to COVID-19, are presented in Table 24 of the Programme.

2022-2024. The Government Programme Implementation Plan identifies four horizontal themes of open data, digital transformation, regional policy and the green course.

During the term of office of the Eighteenth Government, the greatest attention is planned to be paid to five reforms: the civil service restructuring, the progress programme Millennium Schools, digital transformation of education, innovation ecosystems in science centres, innovation agency and development of mission-based science and business innovation programs, the development of a model for the provision of long-term care social services.

The budgets for 2022-2024 will be prepared after evaluating the funds required for the implementation of the works provided for in the Government Programme Implementation Plan and the country's financial capabilities. More information on which strategic works the biggest attention is planned to be made is presented in Part III "Priorities of the Eighteenth Government" of the Government Activity Report for 2020[25]. The issues of financing these

[25] Resolution No 186 of the Government of the Republic of Lithuania of 31 March 2021 on Submission of the Activity Report of the Government of the Republic of Lithuania for 2020 to the Seimas of the Republic of Lithuania, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/aad30121923111eb998483d0ae31615c?positionInSearchResults=0&searchModelUUID=436ea229-2356-4580-8cf3-134149cd5607.

works will be addressed in May-July this year, after the preparation of the 2022 budget will commence.

The general government revenue and expenditure projections under the policy pursued and the no-policy-change scenario are presented in Tables 17 and 19 of the Programme, respectively.

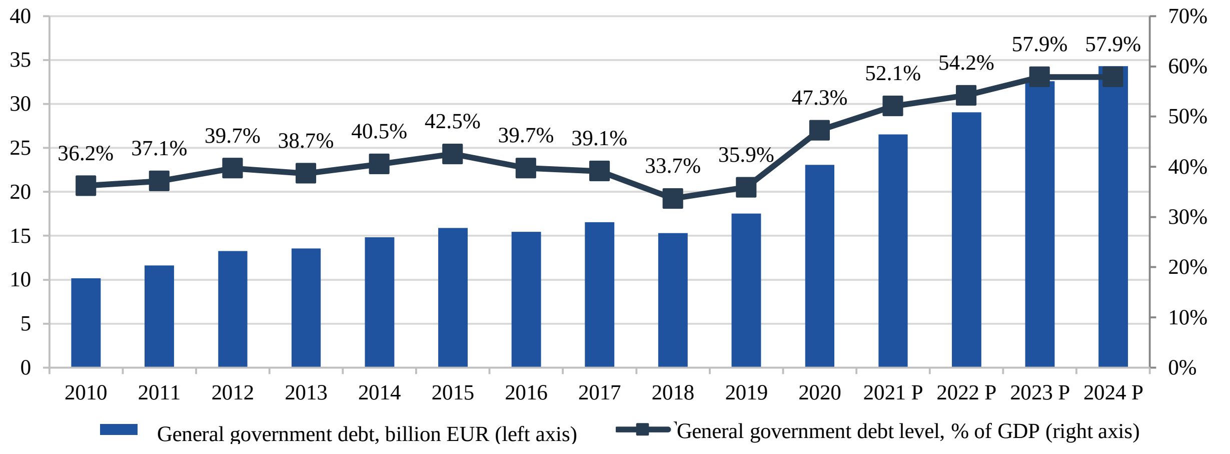
SECTION 5
GENERAL GOVERNMENT DEBT AND ITS PROJECTIONS

General government debt level, structure, dynamics and risk management

At the end of 2020, the general government debt, taking into account the derivatives entered into, accounted for 47.3% of the GDP and was 11.3 percentage points higher than at the end of 2019 when it stood at 35.9% of the GDP. The increase in debt was due to the Government decisions to increase borrowing given the uncertain situation due to the COVID-19 pandemic, the need to stimulate the economy during this difficult period, and to take measures to mitigate the negative effects of the pandemic. In 2020, 3.2 billion euros from the funds borrowed on behalf of the state were allocated to stimulate the economy and to finance COVID-19 related measures. The need for additional borrowing also arose because the state budget did not collect about 0.9 billion euros of planned revenue.

Notwithstanding increased borrowing in 2020, the structure of debt on behalf of the state remained risk-free. At the end of 2020, current liabilities by residual maturity of which is shorter than or equals one year accounted for 9.4% (at the end of 2019 – for 12.7%), the weighted average residual maturity of debt on behalf of the state and weighted average residual maturity of debt on behalf of the state until the change in interest rates was the same – 9.1 years, and in 2019 – 7.6 and 7.4 years, respectively. Debt on behalf of the state for floating interest rates accounted for 1.8% of the total debt (at the end of 2019 – 0%). After assessing derivatives, debt on behalf of the state was 100% denominated in euros. The state-guaranteed debt accounted for 1.1% of the GDP.

Fig. 16. General government debt



Source – Ministry of Finance.

The level of the general government debt is projected to stabilize in the medium-term and at the end of 2024 it will stand at approximately 57.9% of the GDP. The increase in the general government debt level in 2021 is still due additional expenditure for financing COVID-19 related measures. In 2022 and 2023, the planned higher-than-usual imbalance of EU funds leads to an increase in debt. The general government debt projections are presented in Table 20 of the Programme.

Government Borrowing and Debt Management Guidelines for 2021-2024

Management of the Government 2021-2024 borrowing and debt is aimed at ensuring financing of state expenditure established by the laws of the Republic of Lithuania, and fulfilling the debt obligations assumed with borrowed funds by incurring as low expenditure as possible and at acceptable risk. In pursuing this objective, two key tasks of management of the Government 2021-2024 borrowing and debt, and the criteria for their implementation are identified below.

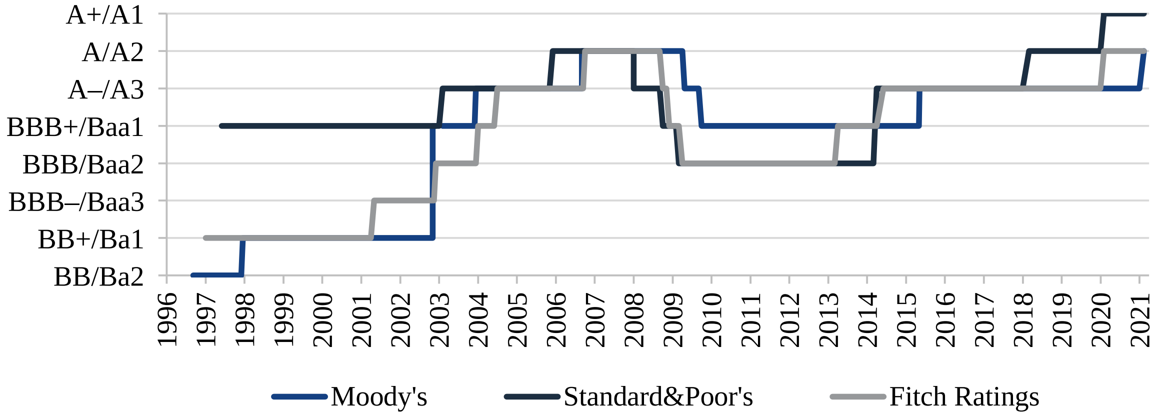
The first task is to attract to the State Treasury as much as possible of the monetary resources that are temporary not used by entities and which are classified as resources of general government. This task is aimed at improving the liquidity of the State Treasury financial assets and at more effective management of the state's monetary resources. Attracting to the State Treasury of the monetary resources that are temporary not used is an additional liquid asset, which, under extremely unfavourable economic conditions, can cover the net liquidity outflow in the short term. Analysis and adoption of legislation that enables the liquidity of the State Treasury assets to be increased represent the criterion of implementing the task.

The second task involves managing interest rate fluctuations, refinancing, exchange rate changes and guaranteed debt risk. Risk management is an important factor in achieving the key debt objective – to ensure debt stability and the Government's ability to meet its obligations. Adherence to risk limits that are consistent with international practice represents the criterion of the task: the relative indicator of short-term debt on behalf of the state by the residual maturity and debt obligations of the total debt on behalf of the state will not exceed 25%; the average weighted residual maturity of the debt on behalf of the state will be longer than 4 years; the average weighted residual maturity of the debt on behalf of the state before changes in interest rates will be longer than 4 years; the weighted average residual duration of debt on behalf of the state until the change in interest rates must be longer than 3.5 years; the ratio of the floating interest rate debt and the total debt on behalf of the state will not be greater than 10%; the debt in euros, having assessed the entered into transactions of financial derivatives, must make 100% of the total debt; the total level of the state obligations under guarantees must not exceed 5% of the GDP. The forecasted general government borrowing requirement, having assessed the applicable refinancing risk management measures for redemption of eurobond issuances, in 2021-2024 will on average account for 5.1 billion euros each year.

Credit rating

On 31 March 2021, credit ratings of Lithuania's long-term foreign currency borrowing established by international credit rating agencies *Moody's*, *Standard & Poor's* and *Fitch Ratings* were accordingly A2, A+, A (Fig. 17).

Fig. 17. Development of credit ratings of Lithuania's long-term foreign currency borrowing



Source – Ministry of Finance.

In February 2021, the international credit rating agency *Moody's* upgraded A3 (positive outlook) long-term borrowing rating, that was awarded to Lithuania in 2015 to A2 (stable outlook). Two main reasons, stated below, determined the decision of the *Moody's* experts to upgrade the Lithuania's rating: positive medium-term prospects for the development of the Lithuanian economy, which are based on increasing investment of EU funds in structural reforms that boost productivity growth and improved migration trends. In addition, this agency expects that, regardless of the impact of the crisis, Lithuania's debt will remain lower than of most countries with the same (A2) credit rating, and the fiscal position will be further strengthened by low debt management expenditure and a reduction in foreign currency debt.

In February 2020, the international credit rating agency *Standard & Poor's* upgraded Lithuania's long-term debt rating from A to A +. In August 2020 and February 2021, the Agency endorsed A+ long-term borrowing rating, that was awarded to Lithuania and left a stable outlook. The Agency endorsed a high long-term borrowing rating, by welcoming expectations related to the rapid recovery of the country after the COVID-19 pandemic and the improved balance of foreign payments. The monetary policy pursued by the European Central Bank, which will make it easier for EU countries to survive for the next few years a temporary, likely, deterioration in the fiscal position, was also taken into account.

In January 2020, the international credit rating agency *Fitch Ratings*, after having positively evaluated the public finance and economic situation in Lithuania, has upgraded the long-term borrowing rating of the country from A- to A. In July 2020 and in January 2021, the Agency endorsed the long-term borrowing rating that was awarded to Lithuania in January 2020, and left a stable outlook. The decision of the Agency's experts on Lithuania's rating was determined by a strong institutional framework and a credible political system, which is supported by EU membership. Although the economy of Lithuania is open, due to the small share of the tourism sector, however, the impact of the COVID-19 pandemic on it is relatively smaller compared to other EU countries. The macroeconomic balance also has a positive impact on the country’s economy. A stable outlook reflects the belief that authorities will abide by strategy ensuring the long-term sustainability of public finances.

PART IV
QUALITY OF PUBLIC FINANCES

Tax administration

Better tax risk management will be pursued in the field of improving tax administration, by reducing the possibilities for the shadow economy to emerge and the VAT gap, it will also be pursued to create conditions for more effective prevention at national level of deliberately chosen shadow activities, to digitize the activities of tax administrators, to prevent new forms of tax evasion, to raise the level of voluntary tax payment, and to reduce the population's tolerance for tax evasion.

In 2021, the plan of actions to reduce the shadow economy and the VAT gap, the implementation of which will be coordinated by a special commission formed by the Government, is planned to be approved, and there are also plans to take decisions on the STI data analysis and further activities of the competence centre aimed at reducing the shadow economy at the national level.

The intelligent tax administration information system administered by the STI will be further developed by introducing in 2023 a subsystem of smart electronic cash registers (i.EKA), which will enable the digitization of administration of data of settlements for goods sold and for services provided, and to develop a new on-going taxpayer monitoring process focused on the prevention of tax evasion, while expanding the electronic services provided by the tax administrator to taxpayers so that they could calculate and pay taxes as easily as possible. It will be pursued to increase by 2024 the potential of data analytics and to optimize the profiling of risky entities, primarily seeking to reduce the VAT gap by implementing the organisational and technical measures necessary for that purpose; to create conditions for expanding the volume of use of electronic documents (e-receipts) in business; to improve comprehensively the assessment and management, carried out by the Lithuanian Customs, of fiscal risk arising from smuggling of goods and violations of customs law, using the latest data analysis and forecasting technologies; to increase the quality of personal service by creating digital services and introducing new ways of providing tax administration services.

Amendments to the Law on Tax Administration are planned to be prepared and there are also plans to provide for the receipt of data from digital trade and service platforms and payment intermediaries. Data for 2023 and later years will be received from digital trading and service provision platforms, and from payment intermediaries – data for 2024 and later years, while creating the conditions for development of international cooperation.

There are plans, in consistently raising public awareness, to purposefully develop children's and young people's knowledge of the tax system, while creating the conditions for learning in practice to pay in non-cash way, to monitor expenses and payment of taxes.

Reform of the budget system

Lithuania is undergoing a reform of the budget system, which is aimed at creating a reliable and efficiently operating medium-term budgeting and program management system, which will be linked to the updated state strategic management system.

In 2020, the Law on Strategic Management of the Republic of Lithuania, also amendments to the Law on the Structure of the Budget of the Republic of Lithuania and other related legal acts were adopted. All of them have established a new integrated model of strategic management, have developed and are expanding the result-oriented strategic management system by integrating strategic planning, regional development and spatial planning processes, in order to ensure long-term and sustainable progress of the state and efficient planning and use of the government finances. 15 areas of the state activities were also identified. In preparation the draft Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2022, the Seimas will be proposed to approve the State budget appropriations by the areas of the State activities and all the institutions assigned to them, whose executives are the managers of State budget appropriations, thus disclosing to the public and decision-makers what amounts of appropriations are allocated for different areas of the state activities and what institutions and bodies operate in these areas. It will be also proposed to establish in the draft 2022 budget the key tasks for progress, established in the NPP, which are pursued in the areas of the state activities and the indicators for their assessment, and the values of these indicators to be achieved in the relevant budget year. Distinguishment of the areas of the state activities in the State budget will link together budgeting and strategic management processes and will strengthen the budget targeting to results.

In the course of the implementation of further work of the reform of the budgetary system, during the preparation of the Programme, a draft Strategic Management Methodology, the application of the provisions of which would ensure clear separation in the budget of funds allocated for the state's strategic changes planned for the decade – funds for progress – from the funds of the follow-up activities of the institutions, was prepared and submitted to the Government. All changes will be planned and implemented in accordance with the NPP, for the implementation of the strategic objectives and progress tasks of which 10-year financial projections are made of all sources of funding available to the state, and which is implemented through national development programs.

The Government strategic work "The general government financial planning focused on strategic objectives" is provided for in the Government Programme Implementation Plan – the medium-term budgetary rules and the methodology for calculating baseline expenditures[26]

[26] Baseline expenditure

are planned to be prepared, and also a systematic review of state budget expenditure is planned to be carried out. These works are planned to start already in 2021, and the successful implementation of these works would allow for more efficient planning, distribution and use of the State budget funds already in 2024.

Expenditure review

In preparation for the formation of the budget for 2022-2024, as in previous years, the aim was to identify which budget expenditure is used inefficiently or is allocated for non-priority activities. In view of the COVID-19 pandemic that began at the beginning of 2020, and in response to the rapidly deteriorating economic situation, measures related to COVID-19 were taken (for example, measures to retain jobs and the income of the population were also provided for). Therefore, in order for the public funds to be invested as efficiently as possible, in preparation for negotiation on the planned state budget appropriations and expected results for 2022-2024 and the results to be achieved, in the middle of 2020, two reviews of public expenditure were carried out in accordance with the public expenditure review methodology, that was developed in 2019. Expenditure on the measures of the active labour market policy implemented by the Employment Service have been reviewed in the area of social security and employment, and in the area of education, science and sport – the main operating expenses of vocational training institutions (including labour market training centres). The results of these expenditure reviews will be used during the negotiation on the planned state budget appropriations for 2022-2024 and the results to be achieved. Following the approval of the Strategic management methodology by the Government, the public expenditure reviews will be included in the budgeting cycle, and it is expected that regular reviews will make it possible to find internal financial resources of the institutions, which could contribute to the funding of priority follow-up activities, and which would allow more efficient use of the allocated state budget appropriations.

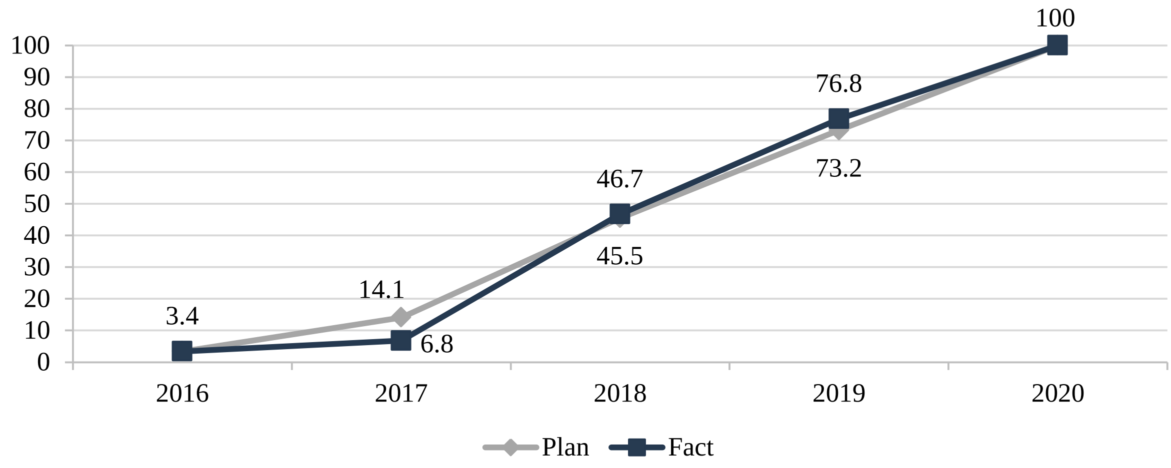
Reform of the SIP management

In 2020, the takeover of the ASIP for centralized management was completed. From 2015 to 2020, 100% (more than 707 thousand square meters) of the transferable ASIP were transferred for centralized management to the State Enterprise Turto bankas (hereinafter – Turto bankas) in six stages approved by the Government. After the transfer, the management and maintenance expenditure of this property decreased by 12% (this expenditure were planned to be reduced by 10%) (Fig. 18).

In 2020, the ASIP centralized management model was changed. The lease relationship between the manager of the centrally managed state property and the users of the ASIP (state institutions and bodies) became the basis of this model.

Following the formation of the portfolio of the centrally managed ASIP and after assessing its condition, new challenges await its manager Turto bankas. A 10-year strategic plan, according to the ASIP Renewal Investment Plan approved by the Minister of Finance, is to optimize the ASIP volume. In other words, to manage centrally in 2030 not only a nonsurplus but also a high-quality ASIP portfolio, at least 85% of which would consist of the ASIP in good condition, which is used to perform the functions of public bodies. It is provided for in the NPP that by 2025 Turto bankas should achieve a 10% ASIP optimization rate, and in 2030 – 25% decrease in the ASIP portfolio, by comparing the volumes of the ASIP portfolio for the relevant year with the volume of the centrally managed ASIP portfolio established at the end of 2021.

Fig. 18. Share of the ASIP transferred for centralized management, %



Source – Ministry of Finance, Turto bankas.

In addition to the centralization of the ASIP, centralized management of the SIP is constantly carried out in another direction too: by transferring for centralized management property of any purpose of use, which is not used, also orphaned, confiscated and state-inherited immovable property. In order to relinquish the SIP, which is not used to perform the state functions, another 221 new objects of property were added to the Government-approved list of the SIP sold at public auctions. In 2020, about 7 million euros of revenue were received to the State budget for the SIP sold at public auctions.

In 2020, recommendations for efficient management of the SIP, which is used in the fields of education, science and sports, health, culture, social security, interior affairs and justice, have been finalized. Based on the results of the analysis of the management and use of the SIP as well as of the services for the provision of which this SIP is used, which are presented in the recommendations, after assessing the aspects of the financing of services and property management and foreign practices, in 2021, the system of effective centralized management of the SIP used in the areas of education, sport, health, social security, culture, justice, and interior affairs is being developed.

Ensuring financial stability

Macroprudential policy. The Responsible lending regulations, which apply from 2011, help ensure responsible lending and borrowing practices and sustainable household debt levels. The macroprudential measures to protect debtors, which are set out in the Responsible lending regulations (the minimum initial contribution – 15%; the highest ratio of total financial liabilities to revenue – 40%, with the interest shock test – 50%; the maximum repayment term – 30 years) remain unchanged.

Following the transposition of the provisions amending the Capital Requirements Directive[27] into national law in 2021, the Bank of Lithuania will be able to apply more flexibly the requirements to specific lending segments, if they would have a significant impact on the growth of systemic risk. These changes will create the conditions to apply one of the additional capital requirements – systemic risk reserve – for lending to specific segments, and this will allow for a targeted response to structural and cyclical risks. In addition, the maximum allowable size of the O-SII[28] capital buffer will be increased from 2 to 3% of risk-weighted assets.

Restructuring of the credit union sector. The aims and objectives of the credit union reform continued to be pursued in the credit union sector. From 1 January 2018, amendments to the laws implementing the reform of the credit union sector entered into force. These amendments provide for the possibility for central credit unions not only to provide financial services but also the obligation to maintain the liquidity of the credit unions of their members, to ensure their solvency, to monitor and control the risks they take. The credit union sector, which became stronger after the reform, has been operating profitably for the third year in a row and it sustainably increases the scope of the activities (result in 2020 – 6.6 million euros of unaudited profits; during 2020, loans at net value increased by nearly 17%). Credit unions that have decided to become specialized banks must prepare for this by 2023.

Execution of the bank resolution function. In acting as a resolution authority, the Bank of Lithuania helps ensure that banks in difficulty could be resolved promptly and ensure their continuous operation without state aid. To this end, the Bank of Lithuania, together with the Joint Resolution Board, the resolution authorities of Sweden, Denmark, Estonia and Latvia, prepares bank resolution plans. In 2020, during the planning of the resolution, the resolution plans of the Swedish SEB and Swedbank banking groups, which also include the subsidiary banks operating in Lithuania, were updated. During this period, the resolution plans of two local capital banks – AB Šiaulių bankas and UAB Medicinos bankas – were also updated; the resolution plans of two more credit institutions – the Central Credit Union of Lithuania and the Joint Central Credit Union – were prepared for the first time at the individual level. The resolution plans for Estonian bank Luminor, for Latvian bank Citadele and for Danish bank Danske were also updated. In strengthening proper preparation for the resolution, the manual for crisis management has been consistently improved.

A mandatory level of the minimum requirement for own funds and eligible liabilities (hereinafter – MREL) was set for six Lithuanian credit institutions (for subsidiary banks – the internal MREL). This is an additional financial protection measure to ensure that banks in difficulty have sufficient resources to absorb losses and recapitalize. This measure would

[27] Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
[28] Other systemically important institutions, O-SII).

ensure the smooth implementation of their resolution strategy. The MREL has been set in accordance with the new EU legal regulation, which came into force at the end of 2020. All three largest banks (AB SEB, AB Swedbank and AB Šiaulių bankas) will have to execute the MREL from 1 January 2024, and other three credit institutions – from 1 January 2022.

Funds continued to be accumulated consistently in the General Resolution Fund, which in 2020 stood at approximately 42 billion euros. In 2020, an amount of 5.9 million of *ex ante* contributions was collected from the banks operating in Lithuania and transferred to the General Resolution Fund, and 9.2 billion euros from the banks of all 19 countries in the euro area. The Fund will be formed in the first eight years (2016-2023); at least 1% of the amount of insured deposits held with all credit institutions of the Banking Union, which is about 70 billion euros, is planned to be accumulated in the Fund by 2024.

PART V
LONG-TERM SUSTAINABILITY OF GENERAL GOVERNMENT FINANCES

Ensuring the long-term sustainability of public finances is a concern for all EU countries, and it is exacerbated even more by the crisis caused by the COVID-19 pandemic, when the governments of the EU countries, including of Lithuania, borrow funds to finance measures intended to help business, people and the health care sector. Following the end of the COVID-19 pandemic and after the economy will return to a path of sustainable growth, in order to ensure the long-term sustainability of public finances it will be important to achieve a sustainable level of government debt, to increase employment and implement structural reforms that can strengthen the potential of the economy.

The Programme presents a complex projection for Lithuania of long-term general government expenditure[29] (hereinafter – the long-term projection), performed by the EC services together with the Working Group on Ageing, which makes it possible to determine the impact of demographic changes on sustainability of pension, health and education systems in the long run and to envisage actions to ensure their stability in the future. The long-term projection was performed assuming that decisions in the fields of health, pensions and education, which have been taken in the medium-term, will continue in the long run. It is therefore important to emphasize that the projection does not reflect the most likely future scenario. The purpose of the long-term projection is to identify the public finance challenges related to demographic changes.

The long-term projection consists of the totality of four categories of long-term expenditure: pensions, health, long-term health care and education. The macroeconomic assumptions that were commonly agreed at EU level in the first half of 2020 and published in November of the same year, and the demographic projection of Lithuania, performed by Eurostat in 2020, according to which by 2070 the population of Lithuania will decrease by

[29] 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.

about 35% to 1.8 million, form the basis of the long-term projection. From 2019 to 2070, the working age population (20-64 years) in Lithuania will decrease from 60.2 to 49.8%, and the elderly population (65 years and older) will increase – this group of the population will make up from 19.8% to 32.9% of the total population. Due to the negative net migration and low birth rate projected by Eurostat, in 2021-2070, the working age population will decrease. According to the new demographic projections of Eurostat, from 2019 to 2070, the number of children aged between 0 and 14 years in Lithuania will decrease – from 19.9% in 2019 to 17.3% in 2070.

The actual demographic situation in the country is currently better than provided for in Eurostat projections. According to the data published by the Statistics Lithuania in March 2020, in 2019, 10.8 thousand more people immigrated to Lithuania than emigrated from the country, and in 2020, the net international migration rate, that is the best since 1990, was recorded – the net migration amounted to 20 thousand individuals.

The long-term expenditure projections for the general government finances (pensions, health care, education systems) for the period until 2070, which are presented in Table 9 of the Programme, show that the total age-related expenditure will increase in the long run by about 2 percentage points of the GDP. They are projected to increase from 15.3% of the GDP in 2019 to 16.5% in 2030, they will grow in the subsequent years and in 2060 they will be the highest – 17.3%, and in 2070 they will slightly decrease – to 16.9%.

Table 9. Projections of long-term general government expenditure

	% of GDP					
	2019	2030	2040	2050	2060	2070
Age-related expenditures*:	15.3	16.5	17.2	17.3	17.5	16.9
Pension expenditure	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 care	1.0	1.2	1.4	1.6	1.7	1.8
Education expenditure	3.0	3.0	2.9	2.7	2.9	2.9
Labour productivity growth	2.4	3.0	2.1	2.0	1.8	1.5
Real 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 rates females (aged 20-64)	82.1	82.7	83.6	83.8	84.6	84.7
Total participation rates (aged 20-64)	83.6	84.4	85.4	85.6	86.3	86.4
Unemployment rate	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 EC Ageing report 2021

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

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

SECTION 1
COMPARISON OF PROJECTIONS

Comparison of indicators of economic development scenarios

The Lithuania's GDP projections, compared to SP2020, have been changed taking into account the actual 2020 data published by the Statistics Lithuania, the existing economic trends, changes in the epidemic situation and assumptions about external environmental prospects (Table 10).

Table 10. Comparison of the GDP projections with projections of previous economic development scenarios (also with the projections presented in SP2020)

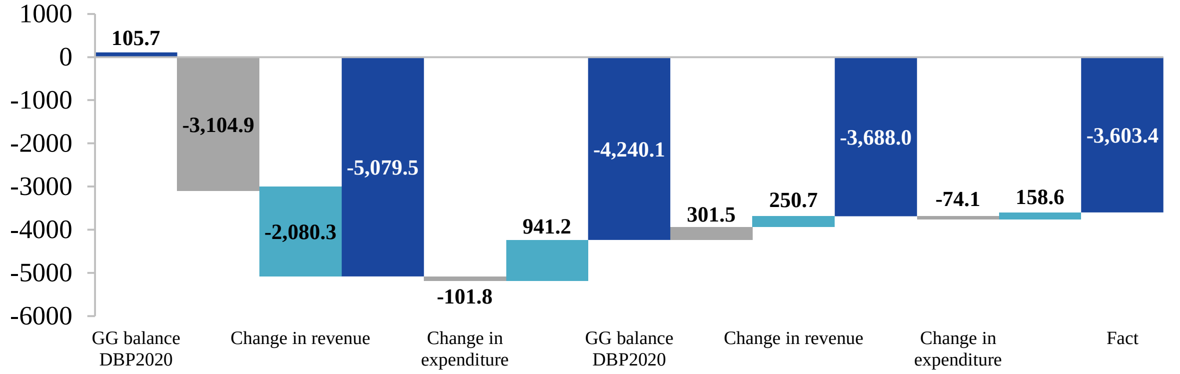
	2020	2021	2022	2023	2024
Real GDP change, %:					
projection of 20 March 2020	–1.3	2.2	2.2	2.2	–
projection of 19 March 2021	–0.8	2.6	3.2	3.2	3.2
worsening (–) / improvement (+)	0.5	0.4	1.0	1.0	–
Stability programme (scenario 1)	–2.8	5.4	–	–	–
projection of 19 March 2021	–0.8	2.6	3.2	3.2	3.2
worsening (–) / improvement (+)	2.0	–2.8	–	–	–
Stability programme (scenario 2)	–7.3	6.6	–	–	–
projection of 19 March 2021	–0.8	2.6	3.2	3.2	3.2
worsening (–) / improvement (+)	6.5	–4.0	–	–	–

Source – Ministry of Finance.

Comparison of the general government finance and debt projections

The actual general government balance in 2020 is better than projected in SP2020 (in spring 2020) and the draft budget of Lithuania for 2021 (autumn 2020), but worse than planned at the time of approving the 2020 budget (Fig. 19). The differences between the planned, forecast and actual data for 2020 were due to the changing need for funds for COVID-19 related measures, when the quarantine conditions were tightened and, during more favourable periods of the pandemic, they were mitigated, also due to high uncertainty about the depth of the Lithuanian economic downturn.

Fig. 19. General government balance projections for 2020 and actual data*



Source – Ministry of Finance.
* The change in expenditure and revenue with a negative sign worsens the balance, and with a positive sign – grades it up. The data are presented excluding EU funds that have no impact on the balance.

The general government balance projections for 2021, presented in SP2020, are based on a no-policy change scenario and assuming that COVID-19 related measures will account for only 0.1% of the GDP. The general government balance projection for 2021, which is presented in the Programme, reflects the approved budget for 2021 and the planned amendments to the 2021 budget, and is prepared with respect to expenditure and revenue measures, related to COVID-19, that amount to 3.5 percentage points of the GDP. The statistical adjustment related to evaluation on an accrual basis of expenditure for the acquisition of military equipment, weapons and supplies has a negative impact of 0.5% of the GDP on the general government balance of 2021 (Table 11).

Table 11. Comparison of the general government balance projections presented in the Programme with those presented in SP2020

	ESA code	2020	2021	2022	2023	2024
Net lending (+) / borrowing (–) of general government:	B.9	% of GDP				
Stability programme (scenario 1)		–9.1	–2.4	–	–	–
Programme		–7.4*	–8.1	–6.0	–4.0	–2.2
worsening (–) / improvement (+)		1.7	–5.7	–	–	–
Stability programme (scenario 2)		–11.4	–3.9	–	–	–
Programme		–7.4*	–8.1	–6.0	–4.0	–2.2
worsening (–) / improvement (+)		4.0	–4.2	–	–	–

Sources: Statistics Lithuania, Ministry of Finance.
* Actual value.

Refinancing risk management results, the updated GDP, revenue and expenditure projections lead to differences in the debt level projections (Table 12).

Table 12. Comparison of the general government debt projections with those presented in SP2020

	2020	2021	2022	2023	2024
General government debt:	% of GDP				
Stability programme (scenario 1)	46.8	47.9	–	–	–
Programme	47.3*	52.1	54.2	57.9	57.9
worsening (–) / improvement (+)	0.5	4.2	–	–	–
Stability programme (scenario 2)	50.6	52.7	–	–	–
Programme	47.3*	52.1	54.2	57.9	57.9
worsening (–) / improvement (+)	–3.3	–0.6	–	–	–

Sources: Statistics Lithuania, Ministry of Finance.
* Actual value.

The differences between the projections presented in the Programme and those of the EC are likely to be due to different time of preparing the projections, rapidly changing and difficult to predict economic situation, which in 2020 and 2021 is particularly affected by the negative effects of the COVID-19 pandemic (Table 13).

Table 13. Comparison of the projections of the Ministry of Finance and those of the EC

Indicator	Year	% of GDP		
		Ministry of Finance (Programme***)	EC	Difference between the projection of the Ministry of Finance and the EC's forecast, in percentage points
Government balance	2020	–7.4	–8.4*	1.1
	2021	–8.1	–6.0*	2.1
Structural government balance	2020	–7.2	–7.7*	0.5
	2021	–7.4	–5.0*	2.4
Government debt	2020	47.3	47.2*	0.1
	2021	52.1	50.7*	1.4
GDP growth, %	2020	–0.8	–0.9**	0.1
	2021	2.6	2.2**	0.4
HICP, %	2020	1.1	1.1**	0.0
	2021	1.8	1.7**	0.1

Sources: Ministry of Finance, EC.
*Autumn 2020 forecast of the EC, ** Winter 2020 forecast of the EC, *** the actual values of the indicators for 2020.

SECTION 2
SENSITIVITY ANALYSIS

GDP sensitivity analysis

Lithuania is a small and open economy, with export accounting for about three quarters of the GDP (73.3% of the GDP in 2020). Therefore, the economic situation and future prospects of trade partners have a significant influence on Lithuania's economic development. The medium-term economic development, as compared to that envisaged in the EDS, published on 19 March 2021, could be either faster or slower. There exists both a positive and a negative risk of deviating from the EDS, which is mainly due to the evolution of the COVID-19 pandemic and the uncertainty of external factors. Therefore, technical calculations were done and alternative scenarios developed assuming that GDP growth in the respective year in the medium-term will be by 1 percentage point lower than in the economic development scenario (pessimistic scenario) and assuming that GDP growth in the respective year in the medium-term will be by 1 percentage point faster than in the EDS (optimistic scenario). With a slowdown/acceleration in the GDP growth by 1 percentage point, the general government revenue would decrease/increase, on average, by about 0.4% of the GDP (Table 14).

Table 14. Alternative scenarios

	2020	2021	2022	2023	2024
EDS					
Change in GDP at constant prices, %	–0.8	2.6	3.2	3.2	3.2
GDP at current prices, million EUR	48,794.2	50,966.3	53,564.1	56,312.2	59,251.0
Change in GDP at current prices, %	0.0	4.5	5.1	5.1	5.2
Pessimistic scenario					
Change in GDP at constant prices, %	–0.8	1.6	2.2	2.2	2.2
GDP at current prices, million EUR	48,794.2	50,462.2	53,037.4	55,758.3	58,668.1
Change in GDP at current prices, %	0.0	3.4	4.1	4.1	4.2
Optimistic scenario					
Change in GDP at constant prices, %	–0.8	3.6	4.2	4.2	4.2
GDP at current prices, million EUR	48,794.2	51,470.5	54,091.0	56,866.4	59,834.1
Change in GDP at current prices, %	0.0	5.5	6.1	6.2	6.3

Sources: Ministry of Finance, Statistics Lithuania

Sensitivity analysis of revenue and interest payable by the central government

In the event of 1 percentage point increase in floating and fixed interest rates on the market in the medium-term, the central government's interest due on new liabilities assumed would respectively increase by 24 million euros, 51 million euros, and 86 million euros in 2022-2024, i.e. on average, by 9 basic points of the GDP per year (Table 15).

Table 15. Sensitivity analysis for revenue and interest payable by the central government

	2021	2022	2023	2024
Change in revenue if the pessimistic* scenario is realized, million EUR	–186.7	–199.9	–208.6	–218.5
Change in revenue if the optimistic* scenario is realized, million EUR	186.7	199.9	208.6	218.5
Change in the general government balance due to revenue change under pessimistic* scenario, million EUR	–0.4	–0.4	–0.4	–0.4
Change in the general government balance due to revenue change under optimistic* scenario, million EUR	0.4	0.4	0.4	0.4
Change in the central government interest due, as a result of a 1 p.p. increase/decrease in floating and fixed interest rates	–	24 (–24)	51 (–51)	86 (–86)
Change in the general government balance after a respective increase / decrease in the central government interest due	–	0.0	–0.1 (0.1)	–0.1 (0.1)

Source – Ministry of Finance

* Revenue sensitivity was assessed according to the scenarios projected in Table 14 of the Programme

SECTION 3
RISK ASSESSMENT

Risk of fulfilment of the EDS

The EDS has been developed under conditions of high uncertainty. At the beginning of 2021, the epidemic situation was still very unstable both in Lithuania and other countries of the EU and of the world. It required strict epidemic control measures. New strains of the virus, due to which COVID-19 may spread much faster and this may cause higher mortality, increase the risk of that, in order to control the virus outbreaks and protect healthcare systems from overheating, there may be necessary to apply measures with a negative impact on the economy in Lithuania and EU countries for a longer period than just the first quarter of 2021. Therefore, tension in the labour market caused by the pandemic, supply chain disruptions, and changes in business and consumer behaviour may be affected more than provided for in the scenario. Due to the ever-changing quantity of vaccines supplied and the plan of delivery deadlines, there are no reliable data yet on the end date of mass vaccination of society. The impact of mass vaccination of the society on individual groups of the population is also unknown; it is not known how long resistance to the virus that causes COVID-19 persists after the vaccination; it is not clear if the society will have to be vaccinated every year to prevent this disease.

High uncertainty regarding the deadlines for containment of the pandemic, uncertainty about the time and scale of recovery of the global economy, geopolitical tensions and potential tension in financial markets, irresponsible behaviour of society tired of long-lasting restrictions – these are the essential factors of negative risk, due to which the estimates of the key indicators provided for in the EDS may change.

If the pessimistic scenario announced by the EC in February would materialise, because of the main assumption, that has not materialised, of Lithuanian export market prospects applied in drawing up this scenario, the estimates of the indicators provided for in the scenario would also change accordingly. The EC envisages in the pessimistic scenario that due to a stronger and longer-lasting outbreak of COVID-19 and the related need to apply for a longer time more stringent measures to manage the pandemic or due to implementation of delayed vaccination programs, in 2021, the economy of the euro area may grow about 2 percentage points slower than is provided for in the EC baseline scenario that has been published in February.

There is also a risk that, after premature termination of the state financial support to business and the population, the number of corporate bankruptcies may increase, creation of new jobs may slow down, and long-term unemployment and the number of vulnerable people may increase. All this would slow down the economic recovery and put strain on public finances.

There may also be a positive risk of that effective implementation of mass vaccination plans in Lithuania and other EU countries will form the basis for the economy to grow this year faster than is provided for in the EDS. Faster recovery of the EU and the global economy, the use of the EU funds and the implementation of the RRF action plan[30] in pursuing reforms and investing in the medium-term may stimulate the growth of the economy of Lithuania by a greater extent than envisaged in the EDS.

If the essential assumptions, based on which the EDS was drawn up, would not hold true, the estimates of many EDS indicators would change.

Fiscal risks

In 2020, the Fiscal Risk Overview[31] was prepared for the first time. It analyses risks that could have an unintended negative and significant impact on the general government finances. The overview provides information on the likelihood of the materialisation of risks, potential impact on finances in the medium-term, measures that can reduce the likelihood of materialisation of risk or its impact on finances, or offset the negative impact on finances. Assuming that all risks materialise simultaneously, the impact on the general government finances would be around 5.6 billion euros or 11.5% of the GDP of 2020. Of them risks of low and very low likelihood of materialisation account for 4.9% of the GDP, risk of average and high likelihood – 3.1% of the GDP, and of very high likelihood – 3.5% of the GDP (Fig. 20).

In the near future, the COVID-19 pandemic and its further course remain among the most relevant risks. Combating the negative effects of the pandemic in 2020 led to the formation of the general government deficit and an increase in debt by 11 percentage points of the GDP to 47.3% of the GDP. In 2021, the evolution of the COVID-19 pandemic also determines the need for additional funds of the general government. 2% of the GDP for COVID-19 related measures are provided for in the Law on the Budget for 2021. In the event of the materialisation of the risk related to COVID-19, draft amendment to the Law on the Budget for 2021, which provides for an additional amount of funds accounting for 1.1% of the GDP to finance COVID-19-related measures, is being prepared.

It is important to assess in detail for which specific measures the funds need to be allocated, and to ensure the efficiency of their use. Purposeful and efficient use of funds is essential in ensuring effectiveness of the combat against the COVID-19 pandemic and its consequences, and in managing risks related the sustainability of the general government finances in the medium and long term.

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[30] RRF is not included in the EDS.
[31] Review of fiscal risks, https://finmin.lrv.lt/lt/veiklos-sritys/fiskaline-politika/fiskaliniu-riziku-apzvalga. Revie of fiscal risks is scheduled to be updated in 2022.

Fig. 20. Matrix of fiscal risks impact and probability of materialisation

Impact of risk (million euros)	Very low (1-2 points)	Low (3-4 points)	Average (5-6 points)	High (7-8 points)	Very high (9-10 points)
>1000					• COVID-19 pandemic
500	• Demand to increase Lithuania's share of capital in the international financial institutions	• Commitments when there is no sufficient source of funding available		• Increase in tax arrears during a crisis • Extreme events (ecological)	
100	• Fulfilment of state guarantee obligations (I) • ESM* requirement to pay up the remaining capital	• Delay in funding • Fulfilment of state guarantee obligations (II)	• Greater than planned loss of revenue due to exemptions	• Increase in the number of recipients of unemployment and sickness benefits during a crisis	• Extreme events (natural)
50	• PPP* attribution of off-balance sheet contracts to on-balance sheet contracts or termination of contracts			• Extreme events (technical) • Extreme events (other)	
0	• Reimbursement of liabilities of loss-making state-owned enterprises	• Failure to achieve tax administration goals • Recognition of income as super-dividends	• Failure to comply with the dividend plan • Deterioration in the assessment of credit rating agencies and an increase of 1 percentage point in the interest rate • Unplanned contributions to international financial institutions and funds	• Increase of Lithuania's contribution to the EU budget	

Probability of materialisation

*ESM – European stability mechanism, PPP – public-private partnership

In addition to the risk associated with the COVID-19 pandemic and its negative effects on the economy, health care system, social environment, a later start date for the implementation of the RRF plan may also have an impact on the level of the general government debt and its development. The RRF plan will be able to start being implemented only after all EU Member States will ratify the EU Own Resources Decision, which will enable the EC to borrow on the markets the required 750 billion euros for the implementation of the Next Generation EU programme (of which the RRF is a part). Although the ratification process is planned to be completed and the EU Own Resources Decision is scheduled to enter into force by summer 2021, there is a risk, however, that the ratification may be delayed in some Member States due to such an unprecedented, politically and legally sensitive decision to enable the EC to borrow on behalf of the EU on such a large scale.

Other risks may also affect the general government balance and/or the general government debt:

- decision of the supervisory authority of credit institutions to declare credit institution(s) insolvent may lead to the need to pay out benefits of depositors' insurance. According to the data at the end of 2020, the amount of insured deposits accounted for 16.2 billion euros;
- as funding needs have increased due to the consequences of the COVID-19 pandemic, the capital of international financial institutions may be increased. In this case, the obligations of the Republic of Lithuania to the EU and in international financial institutions would increase accordingly (paid-up capital and capital on demand);
- the cost of implementing all climate change agreements will put pressure on the general government finances. However, the real risk lies in non-compliance with the envisaged agreements, since the real impact of climate change on society, industry and the economy would lead to even greater negative effects. These effects would occur in the form of more extreme natural phenomena, changes in the labour market and working conditions caused by climate changes. Failure to comply with international obligations would also lead to fines that increase the general government expenditure;
- statistical corrections, for example, significant differences between forecast and actual data on expenditure on purchasing military equipment, weapons and supplies, which are evaluated on an accrual basis in the general government finance statistics (according to the ESA), may increase or decrease the general government expenditure;
- political cycle when before and during the election year, there is more pressure to assume long-term commitments, which will require higher-than-planned expenditure;
- changes in global financial markets may increase Government borrowing costs.

It is currently not possible to assess quantitatively the impact of the specified risks on the general government finances, and the likelihood of materialisation of risks in the medium-term ranges from very low to very high. Therefore, the budgets attributable to the general government sector should be planned carefully so that, in the event that risks materialise, the negative impact on the general government finances does not jeopardize the long-term sustainability of the general government finances. Implementation of measures to reduce risks or effects of risks, in the event that they materialise, is an important factor in ensuring the sustainability and quality of public finances.

State guarantees

According to the latest data of 1 March 2021, portfolio of state-guaranteed loans accounted for 1% of the GDP, of which the state guarantee measures related to COVID-19 accounted for 0.3% of the GDP. Given the guarantees to be provided in 2021 for debt obligations assumed by guarantee institutions, due to loans to students, loans to finance public investment projects and/or those used to replenish working capital of the companies specified in the Law on the Protection of Objects of Importance to Ensuring National Security of the Republic of Lithuania, due to loans, and due to loans and non-equity securities used to achieve the objectives of promoting the economy affected by emergencies and to increase the financial liquidity of the business, the state guaranteed debt is projected to increase and at the end of 2021 it may account for up to 2.3% of the GDP. The maximum amounts of the guarantee instruments that may be granted in 2021 and data on the guarantees actually granted as of 1 March 2021 are presented in Tables 16 and 25 of the Programme.

Table 16. State guarantees in 2021

Guarantee instrument	The maximum amount of guarantees that may be granted in 2021		Guarantees granted, according to the data of 1 March 2021	
	million euros	GDP, %	million euros	GDP, %
State guarantees related to COVID-19	741	1.5	163	0.3
State guarantees not related to COVID-19	1,113*	2.2*	354	0.7
Total:	**1,854***	**3.7***	**517**	**1.0**

Source – Ministry of Finance.
* The guarantees related to COVID-19, which are administered by UAB Investicijų ir verslo garantijos and the Agricultural Loan Guarantee Fund is part of this amount, which accounts for 113 million euros or 0.2% of the GDP.

Risk to the stability of the Lithuanian financial system

Financial stability could be affected by the elevated credit risk of companies and households directly affected by operational constraints during the COVID-19 pandemic. As the COVID-19 pandemic continues, and so do the restrictions imposed as a result, some companies are becoming more vulnerable. For example, financial indicators show that a service sector (catering and accommodation, administrative and servicing, entertainment activities, etc.) is the most sensitive to the shock caused by the consequences of the COVID-19 pandemic. Part of the loans granted to companies in this sector accounts for nearly 9% of the corporate loan portfolio of all monetary financial institutions. In addition, the credit risk of companies affected by the pandemic, especially of those operating in the service sector, may increase even more in the event of adverse prolonged epidemic situation, in the event that the economic recovery is weaker than expected, and in the event of disruptions in business-to-business settlement chains. Although in 2021, business liquidity is still supported by the state aid measures, and opportunity to defer the payment of loan instalments and taxes, the number of corporate bankruptcies may, however, increase after the end of these measures. This would further increase the credit risk of households that work or have worked in companies affected by operating constraints, which is already increased because of the COVID-19 pandemic as the financial situation of part of the households has deteriorated and their unemployment rate has risen. According to the data of the Department of Statistics, at the end of 2020, the unemployment rate stood at 9% and was one of the highest in the EU, and of the group of younger people (15-24 years of age) – at 19.2%. Nearly one-sixth of the value of consumer and other (non-housing) loans falls within the group of the younger population (up to 29 years of age). Therefore, the deteriorating financial situation of this group of the population increases the risk of loss for credit institutions having granted these loans. Furthermore, although the term of the moratorium on loans has been extended, there is a risk that, at the end of the loan deferral terms, part of restructured household loans, which in the third quarter of 2020 accounted for 1.7% of the value of the portfolio of household loans, are likely to become non-performing, especially in the event of a prolonged economic slowdown. However, the latest results of the stress-testing regularly performed by the Bank of Lithuania show that banks operating in Lithuania have accumulated reserves to cover possible losses and are able to withstand a significant economic downturn.

Uncertainty about the future prospects of commercial real estate, in particular of offices and retail premises, increases, while the housing market is still active. After a significant fall during the first quarantine, the price index of the real estate funds traded on the Baltic stock exchanges has returned to the level of the beginning of 2020. This indicates non-deteriorating investor expectations. The indicators of different commercial real estate segments differ: there has been a significant increase in the vacancy rate of retail premises, and rental prices of such premises located on the main shopping streets of Vilnius in the first year of the lease fell to 50% from the highest price level in 2019. Tension in the office market is also becoming more intense – the supply of new commercial space is being actively increased. However, due to the structural changes resulting from the COVID-19 pandemic demand will not grow so fast. Therefore, vacancy rate of offices may increase. This would increase pressure on rental prices and the value of commercial real estate, and potential impairment of commercial real estate would pose risk on and cause potential losses to funders. After stagnation during the first quarantine, the market of residential real estate has recovered and remains active during the second quarantine. Although in the last three years the growth rate of the housing loan portfolio was relatively fast, housing affordability is still at a historically high level. Since already for quite some time wages have been rising faster than housing prices, the evolution of the income-to-housing price ratio does not show signs of market overheating, and the relatively low private sector indebtedness and sustainable financial condition of real estate developers reduce the likelihood of materialisation of this risk. However, due to the household propensity to save during the pandemic, and as low interest rates prevail, more and more people may begin to consider the real estate market as an attractive alternative to invest. Should this happen, this could further increase the activity of the housing market in the future and pose a risk over materialisation of over optimistic expectations.

Lithuanian banks remain dependent on the decisions and condition of Swedish parent banks. Therefore, they would be affected, for example, by the correction of imbalances in Sweden. Since the Lithuanian banking sector is highly concentrated, financing opportunities for Lithuanian companies could be significantly deteriorated even by a decision of only one group of the bank to reduce risky positions by restricting lending to certain segments in Lithuania.

PART VII
COVID-19 RELATED MEASURES APPLIED BY THE BANK OF LITHUANIA

In order to contribute to mitigating the economic shock caused by the COVID-19 pandemic, the Bank of Lithuania implemented monetary policy, financial stability, and consumer protection measures[32]. These measures contributed to increasing the capacity of credit institutions to maintain the supply of lending, financial institutions were encouraged to provide residents and businesses in difficulty with an opportunity to defer credit payments. The Bank of Lithuania also reduced the administrative burden on supervised financial market participants.

The reduced capital requirements in force since spring 2020 continue to apply to credit institutions.

To help credit institutions in overcoming the challenge of potential losses resulting from deteriorated financial situation of businesses and households , as well as to plan further lending, the countercyclical capital buffer rate was reduced from 1 to 0% on 1 April 2020;

In May 2020 it was decided to postpone for a year the entry into force of the capital buffers of other systemically important institutions (O-SIIs), that have not yet entered into force. Therefore, a higher O-SII capital buffer of 1%, that has been earlier established for AB Šiaulių bankas, will start to apply a year later – from 31 December 2021;

Temporary relief from the Pillar II Guidance (P2G) requirement has been permitted, and also temporary relief from combined buffer requirement, consisting of the capital conservation buffer standing at 2.5% of risk-weighted assets and O-SII capital buffer, which applies to three systemically important banks.

Bank capital adequacy level remained high throughout 2020, and, according to data of 1 January 2021, it accounted for 21.8%. Decisions of bank shareholders not to pay dividends in 2020 contributed to ensuring a sustainable capital adequacy ratio of banks. Supervisory authorities such as the Bank of Lithuania, the European Central Bank, the European Systemic Risk Board, the European Insurance and Occupational Pensions Authority, also recommended refraining from paying dividends due to increased uncertainty. Due to continuing uncertainty surrounding the COVID-19 pandemic, banks and insurance companies were recommended to limit the payment of dividends in 2021 as well.

Encouraged by the Bank of Lithuania, in March 2020, the financial and credit institutions belonging to the Association of Lithuanian banks reached agreements on temporary moratoria, according to which borrowers complying with certain criteria could apply for the postponement of loan repayments for up to 6 or 12 months, without changing the terms and conditions of loan agreements or interest rates. Banks postponed loan payments

[32] More information at: https://www.lb.lt/en/covid-19-information-for-market-participants

of around 0.5 billion euros under these moratoria and around 1 billion euros under individual bilateral agreements with customers. Given the unfavourable epidemic situation in the country and new strict quarantine restrictions, at the beginning of 2021, an agreement was reached on renewal of moratoria for business and households until 31 March 2021.

In response to the circumstances and the recommendations of international institutions, measures have been taken to reduce the administrative burden on financial market participants and to ensure flexibility: inspections and investigations have been postponed, the deadlines for rectifying deficiencies have been extended, other reporting deadlines have been set according to the need, temporary simplifications for "know your customer" procedures have been allowed. In addition, flexibility for renegotiation of consumer loans and creditworthiness evaluation has been increased.

PART VIII
PUBLIC FINANCES DATA

Table 17. General government indicators in 2020-2024*

Title of the indicator	ESA code	Value of the indicator in 2020, MEUR	% of GDP				
			2020	2021	2022	2023	2024
Net lending (+) / net borrowing (–) (B.9) by subsector							
1. General government	S.13	–3,598.3	–7.4	–8.1	–6.0	–4.0	–2.2
2. Central government	S.1311	–3,901.3	–8.0	–8.2	–6.1	–4.2	–2.4
3. State government	S.1312	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
4. Local government	S.1313	–37.5	–0.1	–0.1	–0.1	–0.1	–0.1
5. Social security funds	S.1314	340.5	0.7	0.3	0.2	0.2	0.3
General government (S13)							
6. Total revenue	TR	17,614.5	36.1	36.7	37.7	37.3	37.2
7. Total expenditure	TE	21,212.8	43.5	44.8	43.6	41.4	39.4
8. Net lending / borrowing	B.9	–3,598.3	–7.4	–8.1	–6.0	–4.0	–2.2
9. Interest expenditure	D.41	338.0	0.7	0.5	0.3	0.3	0.3
10. Primary balance		–3,260.2	–6.7	–7.6	–5.6	–3.7	–1.9
11. One-off and other temporary measures		2.3	0.0	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes(12 = 12a + 12b + 12c)		10,046.1	20.6	20.6	21.4	21.3	21.3
12a. Taxes on production and imports	D.2	5,705.6	11.7	11.7	11.8	11.6	11.5
12b. Current taxes on income, wealth, etc.	D.5	4,338.6	8.9	8.9	9.6	9.7	9.8
12c. Capital taxes	D.91	1.95	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	5,293.3	10.8	10.9	11.0	11.0	10.9
14. Property income	D.4	188.0	0.4	0.4	0.3	0.3	0.3
15. Other		2,087.1	4.3	4.9	5.0	4.7	4.6
16 = 6. Total revenue	TR	17,614.5	36.1	36.7	37.7	37.3	37.2
p.m.: Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		15,327.8	31.4	31.4	32.3	32.3	32.2

Title of the indicator	ESA code	Value of the indicator in 2020, MEUR	% of GDP				
			2020	2021	2022	2023	2024
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	7,824.2	16.0	17.4	17.4	16.9	16.3
17a. Compensation of employees	D.1	5,601.5	11.5	11.8	11.6	11.6	11.6
17b. Intermediate consumption	P.2	2,222.6	4.6	5.6	5.7	5.3	4.7
18. Social payments (18 = 18a + 18b)	D.6M	8,295.0	17.0	17.2	17.3	16.9	16.4
o/w unemployment benefits	D.6M	288.9	0.6	0.7	0.8	0.5	0.5
18a. Social transfers in kind	D.632	9,84.0	2.0	2.1	2.2	2.3	2.3
18b. Social transfers other than in kind	D.62	7,311.0	15.0	15.0	15.1	14.6	14.1
19 = 9. Interest expenditure	D.41	338.0	0.7	0.5	0.3	0.3	0.3
20. Subsidies	D.3	1,309.6	2.7	2.3	1.3	0.5	0.4
21. Gross fixed capital formation	P.51G	2,007.3	4.1	4.0	4.0	3.8	3.8
22. Capital transfers	D.9	380.3	0.8	1.0	0.9	0.8	0.7
23. Other		1,058.4	2.2	2.5	2.3	2.0	1.5
24 = 7. Total expenditure	OTE1	21,212.8	43.5	44.8	43.6	41.4	39.4

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

Table 18. Structural balance of the general government

	% of GDP*				
	2020	2021	2022	2023	2024
Structural government balance	–7.2	–7.4	–5.2	–3.4	–1.7
Change in primary structural government balance	–6.1	–0.5	2.1	1.8	1.6
COVID-19 related revenue and expenditure measures	6.2	3.5	–	–	–
Structural government balance, taking into account the impact of COVID-19 related measures	–1.0	–3.9	–	–	–
Change in primary structural government balance, taking into account the impact of COVID-19 related measures	0.2	–3.2	–1.4	–	–

Source – Ministry of Finance.
* In some years due to rounding the sum of the lines may not coincide with the values of the calculated indicators

Table 19. General government revenue and expenditure under a no-policy change scenario

	Value of the indicator in 2020, MEUR	% of GDP				
		2020	2021	2022	2023	2024
1. Total revenue at unchanged policies	17,885.7	36.7	36.3	36.9	37.4	37.2
2. Total expenditure at unchanged policies	18,043.9	37.0	39.8	43.4	41.4	39.4

Source: Statistics Lithuania, Ministry of Finance.

Table 20. General government debt projections

	% of GDP*				
	2020	2021	2022	2023	2024
1. General government statistical debt, including funds accumulated to manage the refinancing risk	47.3	52.1	54.2	57.9	57.9
1.a. General government debt at the end of the year, without taking into account the funds accumulated to manage the refinancing risk	45.2	49.8	54.2	57.0	56.5
2. General government debt development	11.3	4.8	2.2	3.7	0.0
The main factors affecting the general government debt					
3. Primary balance	–6.7	–7.6	–5.6	–3.7	–1.9
4. Interest expenditure	0.7	0.5	0.3	0.3	0.3
5. Stock-flow adjustment	4.1	–1.2	–1.3	2.3	0.7
of which:					
difference between cash and accruals	–	–	–	–	–
net accumulation of financial assets of which privatization proceeds	–	–	–	–	–
implicit interest rate on government debt	1.5	0.9	0.5	0.5	0.5
other relevant variables leading to government debt	–	–	–	–	–
6. Liquid financial assets	–	–	–	–	–
7. Net financial debt (7 = 1 – 6)	–	–	–	–	–
8. Debt amortization since end of previous year	–	–	–	–	–
9. Percentage of debt denominated in foreign currency	–	–	–	–	–
10. Average debt maturity	–	–	–	–	–

Sources: Ministry of Finance, Statistics Lithuania

* In some years due to rounding the sum of the lines may not coincide with the values of the calculated indicators

Table 21. Expenditure taken into account in assessing the compliance of general government expenditure with the SGP expenditure growth restriction rule

	Value of the indicator in 2020, MEUR	% of GDP				
		2020	2021	2022	2023	2024
1. Expenditure on the EU programmes fully matched by the EU funds revenue	763.1	1.6	1.9	2.1	1.9	2.0
2. Cyclical unemployment benefit expenditure	45.3	0.09	0.14	0.10	0.07	0.05
3. Discretionary revenue measures	–156.4	0.3	0.4	0.7	–0.1	0.0
4. Revenue increase mandated by law	0	0	0	0	0	0

Sources: Ministry of Finance, Statistics Lithuania

Table 22. Impact of grants under the RRF on the general government financial projections, million euros

	% of GDP							
	ESA code	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants								
RRF grants as included in the revenue projections		–	149.3	448.6	543.6	552.3	378.8	152.4
Cash disbursements of RRF grants from EU		–	289.2*	121.0	496.9	531.2	447.1	339.6
Expenditure financed by RRF grants								
Compensation of employees	D.1	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Intermediate consumption	P.2	–	N.A.	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.	N.A.
Interest expenditure	D.41	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Subsidies, payable	D.3	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Current transfers	D.7	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL CURRENT EXPENDITURE		–	**115.9**	**131.1**	**222.6**	**248.9**	**178.8**	**103.5**
Gross fixed capital formation	**P.51g**	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Capital transfers	**D.9**	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
TOTAL CAPITAL EXPENDITURE		–	**33.4**	**317.5**	**321.0**	**303.4**	**200.0**	**48.9**
Other costs financed by RRF grants								
Reduction in tax revenue		–	–	–	–	–	–	–
Other costs with impact on revenue		–	–	–	–	–	–	–
Financial transactions		–	–	–	–	–	–	–

Source – Ministry of Finance.

* Funds under the RRF to be received in advance in 2021; flow of funds under the RRF, which is projected in 2022-2026 based on the assumption that the amount of funds under the RRF, that has been received in a relevant year, accounts for 40% of expenses incurred in the previous year and 60% of expenses incurred in the current year.

Table 23. Discretionary revenue measures, million euros

Name of discretionary measure	ESA code	Date of adoption	**Budgetary implication** (million euros, change from last year)				
			2020	2021	2022	2023	2024
Temporary measures							
PIT deferrals in 2020 to taxpayers affected by the COVID-19 pandemic	D.5	March 2020	–132.4	183.0	–13.9	–29,5	–2,5
PIT deferrals in 2021 to taxpayers affected by the COVID-19 pandemic	D.5	January 2021		–93.1	118.5	0,0	–8,5
Corporate income tax deferrals in 2020 to taxpayers affected by the COVID-19 pandemic	D.5	March 2020	–52.8	73.0	–5.6	–11,7	–1,0
Corporate income tax deferrals in 2021 to taxpayers affected by the COVID-19 pandemic	D.5	January 2021		–34.0	43.3	0,0	–3,1
VAT deferrals in 2020 to taxpayers affected by the COVID-19 pandemic	D.2	March 2020	–128.0	128.0			
VAT deferrals in 2021 to taxpayers affected by the COVID-19 pandemic	D.2	January 2021		–103.4	103.4		
Deferrals of social security contributions in 2020 to taxpayers affected by the COVID-19 pandemic	D.6	March 2020	–29.7	29.7			
Deferrals of social security contributions in 2021 to	D.6	January		–6.3	6.3		

Name of discretionary measure	ESA code	Date of adoption	**Budgetary implication** (million euros, change from last year)				
			2020	2021	2022	2023	2024
taxpayers affected by the COVID-19 pandemic		2021					
Sub-total of COVID-19 related measures			**–342,8**	**176,9**	**251.9**	**–41.2**	**–15.1**
PIT losses due to workers who are in downtime and who have certificates of incapacity for work due to the COVID-19 pandemic	D.5	March 2020	–68.2	27.7	40.5		
Losses of social security contributions due to workers who are in downtime and who have certificates of incapacity for work due to the COVID-19 pandemic	D.6	March 2020	–75.5	22.0	53.5		
Sub-total of other temporary measures			**–143,7**	**49,7**	**94.0**		
Non-temporary measures							
Increasing the MMW from 555 euros to 607 euros from 1 January 2020	D.5	July 2019	14.6				
Increasing the MMW from 607 euros to 642 euros from 1 January 2021	D.5	October 2020		9.1			
Increasing the non-taxable amount of income (hereinafter - the NTA) to 300 euros by expanding in 2019 the limit of the application of the NTA to 2 average wages, and increase of the NTA to 350 euros from 1 January 2020; change in the NTA formula from 1 January 2021.	D.5	June 2018	–100.0	–26.0			
Increasing the NTA to 400 euros from 1 July 2020, applying it on income received from 1 January 2020	D.5	June 2020	–42.0	–42.0			
Increasing the NTA for the disabled: for individuals with less severe disability – to 600 euros, for individuals with more severe disability – to 645 euros	D.5	December 2019	–15.0				
Introduction of a progressive (32%) PIT rate	D.5	December 2019	12.5	17.0			
Increasing the wage coefficient used to calculate mission allowances (non-taxable daily allowances) from 1.3 to 1.65 (× MMW)	D.5	October 2019	34.6	–16.0			
Funds for the implementation of the National Collective Agreement (including increasing the basic amount of wages)	D.5	December 2019	31.2				
Increasing the basic amount of official wages (salary) of the State politicians, judges, state officials, civil servants and employees of state and municipal budgetary institutions from 176 to 177 euros	D.5	December 2020		4.0			
Introduction of a vehicle pollution tax	D.5	December 2019	12.5	17.5			
Additional corporate income tax for credit institutions	D.5	December 2019	17.8	–3.6	4.6	-16,9	-1,9
Extension of the PIT exemption for studies	D.5	December 2020		–2.0			
Increasing excise duty rates on tobacco products and taxation of fluid of electronic cigarette from 1 March 2019	D.2	December 2019	16.5	16.3	2.5		
Increasing excise duty rates on ethyl alcohol and alcoholic beverages	D.2	December 2019	24.6	4.2			
Increasing the excise duty rate on diesel fuels used in agriculture from 1 January 2020	D.2	December 2019	1.2				
Reduction by about 5% of the quotes of diesel fuels used in agriculture. The reduced quotes will apply in issuing permits for the business year 2021-2022, i.e. from 1 July 2021	D.2	September 2020		2.5	2.5		
Increasing the excise duty rate on diesel fuels	D.2	December 2019	45.1				

Name of discretionary measure	ESA code	Date of adoption	**Budgetary implication** (million euros, change from last year)				
			2020	**2021**	**2022**	**2023**	**2024**
Increasing the excise duty rate on petrol	D.2	December 2019	10.5				
Increasing the excise duty rate on heated tobacco products from 1 March 2020	D.2	December 2019	6.9	1.7			
Introduction of the pollution tax on waste going to a landfill	D.2	December 2015	2.0				
Reducing non-taxable amount of immovable property tax for individuals to 150,000 EUR	D.2	December 2019	2.4				
Increasing lower threshold of immovable property tax rates that apply on commercial immovable property from 0.3 to 0.5%	D.2	December 2019		1.2			
Waiver of the restrictions, laid down in Article 91(2) of the Law on VAT, that apply to the amount of the compound and repayable overpaid VAT for the relevant tax period	D.2	June 2020		–30.0	30.0		
Withdrawal of reduced VAT rate of 9%, that applies on hotel-type and special accommodation services, from 1 January 2023	D.2	December 2018				14,0	
Withdrawal of import VAT exemption, that applies on parcels with the value up to 22 euros, from 1 July 2021	D.2	November 2020		3.0	3.0		
Application of reduced VAT rate of 5% from 1 January 2021 to electronic media – newspapers, magazines and other periodicals	D.2	December 2020		–1.0			
Increasing MMW from 1 January 2020 from 555 EUR to 607 EUR	D.6	July 2019	15.3				
Increasing MMW from 1 January 2021 from 607 EUR to 642 EUR	D.6	October 2020		9.6			
Funds for the implementation of the National Collective Agreement (including increasing the basic amount of wages)	D.6	December 2019	32.7				
Increasing the basic amount of official wages (salary) of the State politicians, judges, State officials, civil servants and employees of state and municipal budgetary institutions from 176 to 177 euros	D.6	December 2020		4.2			
Reduction of the cap of SSIF contributions (in 2019 – 120 euros, in 2020 – 84 euros, in 2021 – 60 euros of average wages)	D.6	June 2018	–6.4	–21.2			
Structural changes in the cap of SSIF contributions in 2021: wages of employees received from all employers are combined (-7 million euros), but the cap no longer applies to the employer's share of contributions (+4.6 million euros)	D.6	December 2020		–2.4			
Suspension of transfers from SSIF budget to private pension funds as the pension accumulation system changes	D.6	June 2018	181.5	23.2			
Increasing the wage weighting used to calculate mission allowances (non-taxable daily allowances) from 1.3 to 1.65 (× MMW)	D.6	October 2019	31.7				
Subtotal of non-temporary measures			**330.2**	**30.7**	**42.6**	**–2.9**	**–1.9**
Total			**–156.3**	**195.9**	**388.5**	**–44.1**	**–17.0**

Table 24. Discretionary expenditure measures, million euros

Name of discretionary measure	ESA code	Date of adoption	Budgetary implication (million euros, change from last year)		
			2020	2021	2022
Temporary measures					
Acquisition of personal protective equipment, reagents, medical and other equipment	P.2	March 2020	92.7		
Additional expenses of public authorities involved in emergency management, including bonuses paid to the employees in addition to their wages, and additional expenses of non-governmental organisations which carry out their activities in the social area and provide essential social service	D.1, P.2	March 2020	81.5		
Wage subsidies during downtime in 2020	D.3	March 2020	145.4		
Wage subsidies during downtime in 2021	D.3	December 2020		394.0	
State-funded assistance at the end of downtime and/or the quarantine in 2020 for employers to retain employees after downtime or to hire unemployed people belonging to target groups	D.3	May 2020	547.3		
State-funded assistance at the end of downtime and/or the quarantine in 2021 for employers to retain employees after downtime or to hire unemployed people belonging to target groups	D.3	December 2020		76.4	
Payment in 2020 of flat-rate sickness benefit equal to an amount of 1 minimum consumption requirement per month to self-employed individuals who have been paying social security contributions before becoming entitled to sickness benefit and who are unable to continue their activity due to the emergency situation	D.3	March 2020	129.6		
Payment in 2021 of flat-rate sickness benefit equal to an amount of 1 minimum consumption requirement per month to self-employed individuals who have been paying social security contributions before becoming entitled to sickness benefit and who are unable to continue their activity due to the emergency situation	D.3	December 2020		125.9	
Employer incentives (to create jobs for unemployed individuals with a working capacity of 45-55%), and incentives for self-employed individuals who will change their activities	D.3	May 2020	18.9		
Implementation of the concept of reducing the burden of lease obligations on business. It is planned to pay 50% of the rent to companies whose activities have been restricted or suspended during the quarantine. Marketplace tax refund	D.3	May 2020	37.8		
Payment of temporary job search benefit to unemployed individuals not participating in the implementation of the active labour market policy measures in 2020	D.6M	March 2020	142.2		
Payment of temporary job search benefit to unemployed individuals not participating in the implementation of the active labour market policy measures in 2021	D.6M	December 2020		100.5	
Payment of lump sum benefit to recipients of social insurance pensions and social assistance benefits	D.6M	May 2020	174.6		
In granting cash social assistance to disadvantaged population, their assets are temporarily not assessed and the amount of State-subsidized income (hereinafter - the SSI) is increased from 1 SSI to 1.1 SSI to determine entitlement to social benefits. Waiting times for social housing are shortened and a minimum basic amount of compensation for the part of the housing rent is set	D.6M	May 2020	30.0		

Name of discretionary measure	ESA code	Date of adoption	Budgetary implication (million euros, change from last year)		
			2020	2021	2022
Lump sum benefit for families raising children (adopted children) and for children deprived of parental care, and and a supplementary benefit for children from low-income families	D.6M	June 2020	71.9		
Ensuring the payment in 2020 of sickness benefits to individuals caring for children, elderly and disabled, when a regime restricting the spread of infections is established in educational institutions or social care and employment centres, as well as to individuals with severe chronic diseases	D.6M	March 2020	140.0		
Ensuring the payment in 2021 of sickness benefits to individuals caring for children, elderly and disabled, when a regime restricting the spread of infections is established in educational institutions or social care and employment centres, as well as to individuals with severe chronic diseases	D.6M	December 2020		69.2	
Support for the agricultural sector	D.6M, D.3	May 2020	67.1		
Subsidies for small enterprises	D.3	May 2020	99.2		
Interest compensation for small and medium-sized enterprises in 2020	D.3	May 2020	8.3		
Interest compensation for small and medium-sized enterprises in 2021	D.3	December 2020		16.9	
Subsidies to small and medium-sized enterprises affected by the COVID-19 pandemic are provided under a state aid scheme agreed with the EC	D.3	December 2020		100.0	
Business support package (subsidies for companies and self-employed individuals most affected by the COVID-19 pandemic, compensation for COVID-19 tests for small and medium-sized enterprises, compensation for tour operators for the transportation of tourists from foreign countries following declaration of a state of emergency there, refund for market place rent)	D.3	March 2020		176.5	
Promotion of the tourism and culture sectors	D.1, P.2, D.3, D.6M, other	May 2020	46.5		
Reconstruction and repair of state and local roads	P.2, P.51, D9	March 2020	144.1		
Thawing of the funds under road maintenance and climate change programmes	D.1, P.2, P.51	March 2020	160.0		
Additional funds for faster implementation of investment projects included in the State Investment Program; for other planned investment projects not included in the State Investment Program; to launch various types of new investment projects and to purchase unplanned other non-current tangible and intangible assets, and to fund measures and programmes implemented by managers of appropriations	P.51	March 2020	298.3		
DNA plan for the future economy	D.1, P.2, P.51, other	June 2020	54.9	5.2	
Capital formation of the business support fund	D.9	May 2020	102.3		

Name of discretionary measure	ESA code	Date of adoption	Budgetary implication (million euros, change from last year)		
			2020	2021	2022
Implementation of financial measures aimed at maintaining the liquidity of business entities of the Republic of Lithuania (expenditure on administration of financial instruments by UAB Investicijų ir verslo garantijos (Investment and Business Guarantees))	Other	March 2020	11.7		
Additional expenditures to increase wages for medical staff in 2021	D.1	December 2020		45.0	
Additional expenditures to increase wages for medical staff in 2021	D.1	April 2021		48.5	
Expenditure related to fulfilment of obligations (personal protection, medical equipment, laboratory tests, COVID-19 hotline, information technology, etc.), expenditure on the purchase of COVID-19 vaccine and vaccination-related services (logistics, vaccination, medical aids, etc.)	P.2	December 2020		253.0	
Expenditure on the development of digital education and compensation for learning losses due to the COVID-19 pandemic	P.2	December 2020		11.9	
Compensation of possible additional expenditure for institutions incurred due to the implementation of COVID-19 related measures	P.2	December 2020		271.8	
Compensation in 2020 of expenses of health care facilities on wage increase due to the COVID-19 pandemic	D.1	March 2020	58.8		
Sub-total of COVID-19 related measures			**2,663.1**	**1,694.8**	**0.0**
Preparation for a possible accident at Astravets Nuclear Power Plant (central government)	P.2	October 2020		6.0	
Preparation for a possible accident at Astravets Nuclear Power Plant (local government)	P.2	October 2020		2.6	
Merging Vilnius University and Šiauliai University	P.2	October 2020		2.3	1.5
Cultural heritage management (incentives for private entities and to start new objects)	P.2	October 2020		2.0	
Provision of security measures to officials	P.2	October 2020		3.2	
Compensation for expenses incurred by the Private Limited Liability Company Toksika in relation to services of works of disposal of hazardous structures, of preparation of the site after a fire for waste management activities, of waste sorting and management of consequences of the emergency situation due to the emergency situation declared in the territories of Alytus city municipality and Alytus district municipality after an outbreak of fire in Alytus city tire processing company UAB Ekologistika	D.3	March 2020	2.0		
Expenditure on the organization and conduct of mayoral elections	Other	October 2020		0.5	
Sub-total of other temporary measures			**2.0**	**16.6**	**1.5**
Non-temporary measures					
Increasing the MMW in 2018 from 380 to 400 euros, in 2019 – to 555 euros, in 2020 – to 607 euros, in 2021 – to 642 euros (central government)	D.1		7.4	5.1	
Increasing the MMW in 2018 from 380 to 400 euros, in 2019 – to 555 euros, in 2020 – to 607 euros, in 2021 – to 642 euros (local government)	D.1		12.2	7.8	
Increasing the basic salary rate for calculation of salaries of staff of budgetary institutions (from 1 January 2018 – from 130 to 132 euros; from 2019 – 173 euros, 2020 – 176 euros, 2021 –177 euros) (central government)	D.1		39.5	16.8	

Name of discretionary measure	ESA code	Date of adoption	Budgetary implication (million euros, change from last year)		
			2020	2021	2022
Increasing the basic salary rate for calculation of salaries of staff of budgetary institutions (from 1 January 2018 – from 130 to 132 euros; from 2019 – 173 euros, 2020 – 176 euros, 2021 –177 euros) (local government)	D.1		12.6	4.8	
Increasing wages of persons employed in the education sector	D.1		93.8	69.6	
Increasing wages of public health professionals (in 2020, to increase wages of employees of institutions under the Ministry of Health working under employment contracts) and increasing wages of trainee doctors	D.1		2.5		
Increasing wages for lecturers, researchers and investigators	D.1		4.6	14.4	
Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (central government)	D.1		13.1	6.9	
Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (local government)	D.1		15.9	9.1	
Increasing wages for statutory officials (internal services, management security services, prosecutor's offices, except for the Ministry of National Defence)	D.1		15.7	9.6	
Increasing remuneration paid to mediators from 1 January 2020	D.1		0.4		
Increasing payroll of the State bodies and funding for additional posts (central government)	D.1		13.7	19.9	
Increasing payroll of the State bodies and funding for additional posts (local government)	D.1		5.1	1.6	
Increasing medical wages from 1 April 2020	D.1		90.0	86.5	
Increasing wage coefficients for school leaders, their deputies in charge for education and heads of education department (local government)	D.1			18.0	
Strengthening police capacity	D.1			8.3	
Expenditure on wages of education support professionals and other staff in the education system (local government subsector)	D.1			16.6	
Expenditure on care for the severely disabled individuals, on support for the integration of disabled individuals and on wages of social workers	D.1			10.0	
Increasing social allowances and targeted compensations in implementing new legal provisions (in 2020, to increase the base of social assistance pensions (from 54 to 56% of the amount of minimum consumption requirements) and to increase the threshold for small pension bonuses)	D.6M		10.9	6.0	
Expenditure on officials' pensions due to the increase in the basic pension and its indexation	D.6M		1.8		
Increasing child benefit: in 2019 - from 30 euros to 50 euros, in 2020 - to 60 euros, in 2021 - to 70 euros.	D.6M	2018	99.0	62.4	
Indexation of basic amounts of social benefits	D.6M		20.0	27.5	
Contributions for individuals insured with state funds	D.6M		87.9	50.2	72,3
Insurance at public expense of caregivers of disabled individuals with a special need for continuous care	D.6M		4.0		
Free meals for pre-school children (from 1 January 2020) and first-graders (from 1 September 2020)	D.6M		4.0	10.4	
Incentive payments to II pillar pension funds	D.6M		36.0	23.0	28,0
Indexation of state social insurance pensions (central government)	D.6M	December 2020		148.0	

Name of discretionary measure	ESA code	Date of adoption	Budgetary implication (million euros, change from last year)		
			2020	2021	2022
Indexation of state social insurance pensions (social security funds)	D.6M	December 2020		119.0	
Additional indexation of pensions according to the amendment submitted by the President (central government)	D.6M	2019	31.0	36.6	
Additional indexation of pensions according to the amendment submitted by the President (social security funds)	D.6M	2019		29.4	
Increasing social scholarships	D.6M			4.6	
Indexation of state pensions	D.6M			1.6	
Single person pension benefits*	D.6M			15.3	
Funding for free undergraduate studies	Other		4.0	12.0	
Sub-total of non-temporary measures			**625.1**	**851.0**	**100.3**
Total			**3,290.2**	**2,562.4**	**101.7**

* The decision on the application of the measure in the future will be taken during the preparation of the draft budget for 2022.

Table 25. State guarantees in 2021

Guarantee measure	Starting date of the application of the guarantee measures	The maximum possible amount of guarantees in 2021 (million euros / % of the GDP)		Guarantees provided, according to the data of 1 March 2021 (million euros / % of the GDP)	
State guarantee measures related to COVID-19 measures					
Guarantees for tour operators	July 2020	15	0.03	2.7	0.01
Portfolio guarantees administered by INVEGA*	June 2020	92	0.18	70.2	0.14
Individual guarantees administered by the ACGF*	June 2020	6.1	0.01	6.1	0.01
State guarantees on loans and non-equity securities used to meet the objectives of stimulating economy affected by emergencies and to increase the financial liquidity of business	March 2020	500	0.98	0	0.00
State guarantees on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak	September 2020	84.0	0.16	84.0	0.16
State guarantees on the European Investment Bank, set up by the European Guarantee Fund, to respond to the COVID-19 pandemic	July 2020	44.0	0.09	0.0	0.00
Total of State guarantees related to COVID-19 measures		**741.0**	**1.5**	**163.0**	**0.32**
State guarantee measures not related to COVID-19 measures					
State guarantees on INVEGA* commitments under guarantees	–	623.77**	1.22*	83	0.16
State guarantees on ACGF* commitments under guarantees	–	153.6**	0.30*	96	0.19
State guarantees on loans to finance public	–	345	0.68	97	0.19

Guarantee measure	Starting date of the application of the guarantee measures	The maximum possible amount of guarantees in 2021 (million euros / % of the GDP)		Guarantees provided, according to the data of 1 March 2021 (million euros / % of the GDP)	
investment projects and/or used to supplement the working capital of enterprises important for ensuring national security, which are specified in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security					
State guarantees on state-subsidized loans specified in the Republic of Lithuania Law on Science and Studies	–	101	0.20	77	0.15
State guarantees on loans from the European Investment Bank	–	2.9	0.01	2	0.00
Total of state guarantees not related to COVID-19 measures		**1,113.17**	**2.18**	**354**	**0.69**
Total of state guarantees		**1,854.3**	**3.7**	**516.7**	**1.0**

Source – Ministry of Finance.
* INVEGA – UAB Investicijų ir verslo garantijos (Investment and Business Guarantees), ACGF – Agricultural Credit Guarantee Fund.
** The INVEGA and ACGF measures related to COVID-19 measures form a part of this amount.

PART IX
INSTITUTIONAL FRAMEWORK FOR GENERAL GOVERNMENT FINANCES

In implementing the provisions of COUNCIL DIRECTIVE 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, in 2020, an assessment of the bias of the state budget expenditure plan was performed for the first time. Description of the procedure for assessing the bias of the state budget expenditure plan approved by the Minister of Finance of the Republic of Lithuania[33]. The state budget expenditure plan is considered biased if the total deviation of the state budget according to a separate source of financing expenditure in percentage of the GDP meets one of the following conditions: positive expenditure deviation in percentage of the GDP is equal to or greater than 0.1% for at least four consecutive years or negative expenditure deviation in percentage of the GDP is equal to or greater than -0.2% for at least four consecutive years.

The bias assessments of the state budget expenditure plans for 2019 and 2020 revealed that they are unbiased. Conclusions on the bias of the expenditure plan are published on the website of the Ministry of Finance[34].

The draft Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2022 will be prepared in accordance with the Plan of

[33] Order No 1K-175 of the Minister of Finance of the Republic of Lithuania of 10 June 2020 on the Approval of the Description of the Procedure for Assessing the Bias of the State Budget Expenditure Plan, https://www.e-tar.lt/portal/lt/legalAct/8db90b80abe011eab9d9cd0c85e0b745.
[34] Opinions on the bias of the expenditure plan, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/valstybes-biudzeto-ir-savivaldybiu-biudzetu-vykdymo-duomenys/isvados-del-pajamu-ir-islaidu-planu-saliskumo.

preparation of draft financial indicators of the state budget and municipal budgets of the Republic of Lithuania for 2022[35].

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

Development of a green budget system in Lithuania

In 2020, one of the main 10-year planning documents – the NPP – has been approved. The NPP sets the state's strategic goals, progress objectives, impact indicators, indicates horizontal principles, financial projections. This plan includes the United Nations Sustainable Development Goals. Considering the analysis of the internal and external environment, 5 systemic challenges were identified (one of which is climate change and the state of the environment). The aim is to focus efforts over the next decade to overcome these challenges.

The principle of sustainable development is one of the horizontal principles set out in the National Progress Plan. It applies in implementing all the strategic objectives and progress targets set out in this plan. They must be taken into account in preparing national development programmes intended for the implementation of the National Progress Plan, in planning specific measures and performing evaluations of the progress of the implementation of this plan.

The National Progress Plan sets out a strategic goal – to ensure good quality of the environment and sustainability of the use of natural resources, to protect biological diversity, mitigate Lithuania's impact on climate change and increase resilience to its impact.

This strategic goal includes problems of sustainable use of natural resources, waste reduction and management to achieve the goals of the circular economy, reduction of ambient air and water pollution, ecosystem stability, biodiversity conservation, climate change mitigation and increasing resilience to climate change. In order to ensure sustainable development, this goal includes tasks of transforming industry into a circular economy, reducing the environmental impact, development of clean transport and energy sectors, environmentally friendly farming methods.

In implementing the requirements set out in Article 14(1) of Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, the National Strategy for Climate Change Management Policy, updated in 2019, was approved by the Seimas Resolution No XI-2375 of 6 November 2012 on the Approval of the National Strategy for Climate Change Management Policy. The goal of the strategy is to form a long-term vision of Lithuania's climate change management policy to achieve the neutrality of the country's economy to the climate by 2050.

[35] Resolution No 170 of the Government of the Republic of Lithuania of 24 March 2021 on the Approval of the Plan of preparation of draft financial indicators of the state budget and municipal budgets of the Republic of Lithuania for 2022, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/5d616df48d6d11eb998483d0ae31615c?positionInSearchResults=2&searchModelUUID=68ad3880-e151-4d8a-be35-95a32f5e1814.

In accordance with Regulation (EC) 2018/1999, the National Energy and Climate Action Plan 2021-2030 has been prepared. The plan sets out elements for energy and climate change management policy, which form 5 interrelated dimensions of the policy: reducing dependence on fossil fuels, energy efficiency, energy security, internal energy market, and research, innovation and competitiveness aspects.

On 7 July 2009, the Law on Financial Instruments for Climate Change Management of the Republic of Lithuania, which governs emissions trading and trading in Kyoto units, including assigned amount units. In order to create a separate programme intended to raise funds for the sale of emission allowances and to fund climate change mitigation projects, the Climate Change Programme was prepared. Funds received for transferred assigned amount units and auctioned emission allowances, as well as voluntary funds and fines collected from natural and legal persons enter the account of the Program.

The Programme funds are allocated to the following areas: energy consumption and efficiency enhancement projects, projects of promoting the use of renewable energy sources and of the introduction of environmentally friendly technologies, to implement development cooperation projects in developing countries by transferring Lithuanian technologies and experience, public awareness and education, research, consulting and training of operators and other persons, reforestation and afforestation, for measures of adaptation to climate change and mitigation of the effects of climate change, and to implement other measures for the effective management of climate change policy.

In the pursuit of the goals of improving the quality of the environment, legal acts in the field of environmental taxes and amendments thereto, intended for contributing to improving the quality of the environment, achieving the goals of the circular economy, reducing environmental impact and promoting cleaner transport, have been adopted:

On 17 December 2019, the Seimas adopted the Law on Registration Tax for Motor Vehicles of the Republic of Lithuania, imposing a tax on all vehicles of categories M1 and N1, whose CO2 emission exceeds 130 g/km, excluding historic vehicles. The registration tax is associated with CO2 emissions (g/km) and type of fuel used. Diesel cars are taxed twice as much as petrol powered or gas powered vehicles with the same emissions. The tax is paid at the time the vehicle is registered or its keeper changes. This law came into force from 1 July 2020.

On 25 June 2020, the Seimas adopted a new version of the Law on Pollution Tax of the Republic of Lithuania. This law reviewed the applicable taxes on environmental pollution, their impact in relation to environmental objectives in the field of air and water waste management. Tax exemptions have been also assessed and reviewed, and those that do not contribute to or impede the achievement of environmental objectives have been repealed.