Lietuvos Respublikos
FINANSŲ MINISTERIJA

STABILITY PROGRAMME OF LITHUANIA FOR 2023

28 April 2023

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ABBREVIATIONS

ASIP	Administrative state immovable property
Budget for 2022	Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2022 approved by the Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2022 [1]
Budget for 2023	Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2023 approved by the Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2023 [2]
CHIF	Compulsory Health Insurance Fund
Constitutional Law	Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty[3]
COVID-19	COVID-19 disease (coronavirus infection)
COVID-19 related measures	Measures related to the management of the COVID-19 pandemic and the mitigation of its adverse effects
EC	European Commission
Economic development scenario	Term used in the Programme which means other than EDS, the economic development scenario prepared by the Ministry of Finance and published on the website of the Ministry of Finance indicating a year and a month of a specific scenario[4]
EDS	Economic Development Scenario prepared by the Ministry of Finance, which has been made public on 20 March 2023 on the website of the Ministry of Finance [5], and approved by the fiscal institution [6]
ESA	2010 European System of Accounts

[1] **Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2022**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/dec7de105f2211ecb2fe9975f8a9e52e/asr?positionInSearchResults=0&searchModelUUID=30674c64-f510-408c-83ab-68d2940d66b3.
[2] **Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2023**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/40977c216c2611ed8a47de53ff967b64?positionInSearchResults=0&searchModelUUID=30674c64-f510-408c-83ab-68d2940d66b3.
[3] **Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6be2c020699a11e48710f0162bf7b9c5/asr?positionInSearchResults=0&searchModelUUID=30674c64-f510-408c-83ab-68d2940d66b3.
[4] **Economic development scenarios**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus/ekonomines-raidos-scenarijaus-archyvas.
[5] **EDS**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.
[6] **Opinion of the fiscal institution on the approval of the EDS,** https://www.valstybeskontrole.lt/LT/Product/24154/isvada-del-ekonomines-raidos-scenarijaus-tvirtinimo.

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 Budget Policy Monitoring Department of the National Audit Office of Lithuania[7]
GDP	Gross domestic product. The value of GDP in 2022, which is EUR 66,918.2 million at current prices, is used in the Programme (except for the parts of the Programme related to EDS)
Government Programme Implementation Plan	Plan for the Implementation of the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania approved by Government of the Republic of Lithuania Resolution No 155 of 10 March 2021 On the Approval of the Plan for the Implementation of the Provisions of the Programme of the Eighteenth Government of the Republic of Lithuania[8]
HICP	Average annual inflation calculated acc. to the index of consumer prices methodically harmonised with other EU Member States
LDBP2023	2023 Lithuanian Draft Budgetary Plan
Lithuanian RRF plan	Lithuanian plan of structural reforms and related investment and of the instruments provided for the implementation of green and digital transformation, which is to be implemented in 2022-2026 with the funds of the instrument Next Generation EU
MMW	Minimum monthly wages
NPP	Government of the Republic of Lithuania Resolution No 998 of 9 September 2020 On the Approval of the National Progress Plan for 2021-2030 [9]
NTA	Non-taxable amount
PIT	Personal income tax
Programme	Stability Programme of Lithuania for 2023
Recommendation for Lithuania	Council Recommendation of 12 June 2022 on the 2022 National Reform Programme of Lithuania and delivering a Council opinion on the 2022 Stability Programme of Lithuania[10]

[7] Online account of the fiscal institution: https://www.valstybeskontrole.lt/LT/BiudzetoStebesena.
[8] **Government Programme Implementation Plan**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/bef7d43286fe11eb998483d0ae31615c?positionInSearchResults=6&searchModelUUID=98674a8c-8953-4d90-8c3a-93d9e4a41b6a.
[9] **NPP**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c1259440f7dd11eab72ddb4a109da1b5/asr.
[10] **Recommendation for Lithuania,** https://eur-lex.europa.eu/legal-content/LT/TXT/PDF/?uri=CELEX:32022H0901(15).

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 established by Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility[11].
SDA	State Data Agency
SGP	Stability and Growth Pact [12]
SIP	State immovable property
SODRA	State Social Insurance Fund
SP2022	Stability Programme of Lithuania for 2022 approved by Government of the Republic of Lithuania Resolution No 404 of 27 April 2022 On the Stability Programme of Lithuania for 2022
STI	State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania
Structural balance	Structural balance indicator of general government
USA	United States of America
VAT	Value added tax

[11] Lithuania can receive about EUR 2.099 billion of non-repayable grants under this facility, the amount of which will be supplemented by non-repayable grants of about EUR 194 million under the REPowerEU initiative. It is also being considered to apply to the EC for part of the RRF loan.

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

SUMMARY

The Programme was prepared in the context of continuing geopolitical tensions in Europe (hereinafter – geopolitical tensions), economic uncertainty (hereinafter – uncertainty) and high electricity and natural gas prices (hereinafter – energy prices). There is also a need to strengthen Lithuania's military, cyber, and economic security, to help Ukrainian people who found refuge in Lithuania, who left Ukraine for Lithuania due to the open military aggression of the Russian Federation against Ukraine and its people and active military actions (hereinafter – russian military actions in Ukraine) that started on 24 February 2022.

In 2022, Lithuania’s economy grew 1.9 %. In 2023, economic activity will be suppressed by the ongoing geopolitical tensions due to russia's military aggression against Ukraine, unstable external environment, the growing impact of the monetary tightening introduced in 2022 on domestic and external demand. In 2023, GDP growth is expected to slow down to 0.5 %, and to average around 3% per year between 2024 and 2026.

In 2022, the value of the general government balance varied from -3.3 % of GDP value set in the 2022 budget, to -4.9 % of GDP intermediate value after adjusting the 2022 budget and -0.6 % of GDP actual value. The decline in the general government deficit compared to the indicator set in the 2022 budget was due to lower general government expenditure and higher general government revenue.

In 2023, a deficit of 2.2 % of GDP is expected, by 2.7 percentage points lower than the one set in the 2023 budget. A better general government balance may be due to higher general government revenue. Also, given that energy prices have decreased compared to price trends at the time of the preparation and adoption of the 2023 budget, some of the funds planned for 2023 for measures to assist residents and businesses related to energy prices may not be needed.

Taking into account the need to ensure the sustainability of public sector finances, it is assumed that national and EU fiscal discipline rules will be applied again from 2024. In order to comply with the medium-term objective, the general government balance will be gradually improved in 2024-2026. In 2024-2026, the general government deficit is projected to be 1.7 % of GDP, 1.4 % of GDP, and 0.9 % of GDP, respectively. The programme's projections for the general government balance imply a decrease in the primary structural deficit, resulting in an increasingly neutral fiscal position. Despite the expected decrease in the deficit, the nominal government sector expenditure will increase due to the expected increasing revenue of the budgets attributed to general government and the investment projects implemented with EU funds, including the projects for implementation of the measures provided for in the RRF Plan.

It is projected that the general government debt will decrease by 0.6 percentage points of GDP in 2023, compared to 2022, and will amount to 37.8 % of GDP. The decline in the general government debt-to-GDP ratio will be mainly determined by a smaller state budget deficit. It is expected that the debt-to-GDP ratio will be less than 40 % of GDP in the medium term and will reach about 38.6 % of GDP at the end of 2026.

In the short term, the main risk to the general government finances will remain due to changes in the geopolitical situation and its possible impact on the economies, people, and security of Lithuania and the EU. Carefully planned budgets attributed to general government are a prerequisite for reducing the negative impact of risks on the medium and long-term financial sustainability of the general government in case the risks materialise.

PART I
INTRODUCTION

The programme is a medium-term fiscal policy document of Lithuania, which is prepared each year, in accordance with the procedure established in the SGP for strengthening the surveillance of the budgetary positions of the EU Member States and coordinating economic policies. The information in the programme covers the period 2022-2026 – the updated EDS, fiscal policy guidelines and general government finance projections.

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

The programme follows the recommendation to Lithuania, the EC fiscal policy guidelines for 2024[13], in line with the requirements of the Guidelines on the content and format of the Stability Programme[14]. The programme provides information on the impact of the implementation of the measures of the Lithuanian RRF Plan related to the increase in energy prices and support to the Ukrainian people who moved to Lithuania due to the russian actions in Ukraine. The programme is in line with the 2023 Lithuanian reform agenda[15].

By Seimas Resolution No XIV-932 of 10 March 2022 On the Introduction of the State of Emergency[16], on the territory of the Republic of Lithuania a state of emergency introduced from 17 March 2022 within the entire border area at the state border of the Republic of Lithuania with the Republic of Belarus, the Kaliningrad Oblast of the Russian Federation and at border crossing points located outside the border area was extended until 2 May 2023 at 24:00[17].

In 2023, the exceptional circumstances, linked to the geopolitical situation and its negative effects on general government finances, are still valid in the Republic of Lithuania. Exceptional circumstances are determined and lifted in accordance with Article 7 of the Constitutional Law. According to the Constitutional Law and the SGP, exceptional circumstances are either an extraordinary event beyond the control of public authorities which has a significant impact on the financial position of the general government, or a severe

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[13] **EC Communication of 8 March 2023, Fiscal policy guidelines for 2024**, https://economy-finance.ec.europa.eu/system/files/2023-03/COM_2023_141_1_EN_ACT_part1_v4.pdf.
[14] **Code of Conduct**, http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf.
[15] National reform agenda, https://eimin.lrv.lt/lt/veiklos-sritys/europos-semestras.
[16] **Seimas Resolution No XIV-932 of 10 March 2022 On the Introduction of the State of Emergency**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c2966eb2a07111ec9e62f960e3ee1cb6?positionInSearchResults=0&searchModelUUID=db305de9-607b-41e5-b6ec-7220e05d4217.
[17] **Resolution No XIV-1044 of the Seimas of 14 March 2023 On the Introduction of the State of Emergency**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/5aaf73d2c25511ed924fd817f8fa798e?jfwid=6i50l7f4g.

economic downturn. On 22 September 2022, the fiscal institution concluded that the unusual situation in the country was in line with the concept of exceptional circumstances[18].

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

In exceptional circumstances and given that the output gap calculated taking into account EDS will be negative for 2023, the rules on fiscal discipline laid down in the Constitutional Law do not apply to the general government sector in 2023.

As foreseen in 2022[19], in the determination of exceptional circumstances, the Government, having assessed the expected financial situation of the general government sector in 2023 and the factors determining it, will make a decision on exceptional circumstances by 30 July 2023.

The SGP general escape clause for 2020-2023 is the flexibility clause of the SGP applied by the EC in the context of the COVID-19 pandemic in the EU, the euro area economic crisis, for the countries suffering economic downturn and high government expenditure. Under the flexibility clause, the deviation of the structural balance from the medium-term objective is not considered to be inconsistent with the fiscal discipline rules in the SGP. The fiscal policy guidelines for 2024 presented by the EC state that the SGP general escape clause will no longer apply from the beginning of 2024. The EC will evaluate the programme in the spring of 2024. If the actual deficit of the Lithuanian general government sector in 2023 or the expected deficit in 2024 exceeds 3 % of GDP, the excessive deficit procedure will be applied to Lithuania. As part of the excessive deficit procedure, Lithuania will have to submit to the EC a plan of fiscal policy measures improving the general government balance and set the deadlines for its implementation.

During the preparation of medium-term fiscal projections provided in the programme, it was assumed that the fiscal discipline rules laid down in the Constitutional Law and SGP will be applicable from 2024 onwards. Following the fiscal discipline rules, in the years 2024-2026, the general government structural balances must be such that there is no deviation from the medium-term objective in the medium term.

Lithuania's medium-term objective is set in accordance with the SGP and the Constitutional Law. By Seimas of the Republic of Lithuania Resolution No XIV-193 of 16 March 2021 On Setting the Medium-Term Objective and Seimas of the Republic of Lithuania

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[18] **Conclusion of the fiscal institution No BPE-8**, https://www.valstybeskontrole.lt/LT/Product/24111/isvada-del-susidariusios-padeties-atitikties-isskirtiniu-aplinkybiu-savokai.

[19] **Government Resolution No 863 of 24 August 022 On Delegation of Powers to the Ministry of Finance of the Republic of Lithuania**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/25ec3b64246c11edb36fa1cf41a91fd9?jfwid=uhnrkypb5.

Resolution No XIV-945 of 17 March 2022 On Setting the Medium-Term Objective for 2023-2025, the medium-term objective for the years 2022-2025 has been set – the structural general government deficit does not exceed 1 % of GDP at current prices.

The programme was approved by the Government on 26 April 2023[20]. The programme is usually presented to the members of the Committee on European Affairs, the Committee on Budgets and Finance and the Audit Committee of the Seimas. The assessment of the fiscal indicators in the programme is carried out by the fiscal institution. The programme shall be submitted to the EC and the Eurogroup on 28 April 2023.

[20] **Government Resolution No 295 of 26 April 2023 On the Stability Programme of Lithuania for 2023**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/575dbbf1e42f11eda305cb3bdf2af4d8?positionInSearchResults=0&searchModelUUID=47bb2592-6c6d-46c0-9228-9e21f3de0581.

PART II
ECONOMIC OUTLOOK

SECTION 1
MEDIUM-TERM EDS

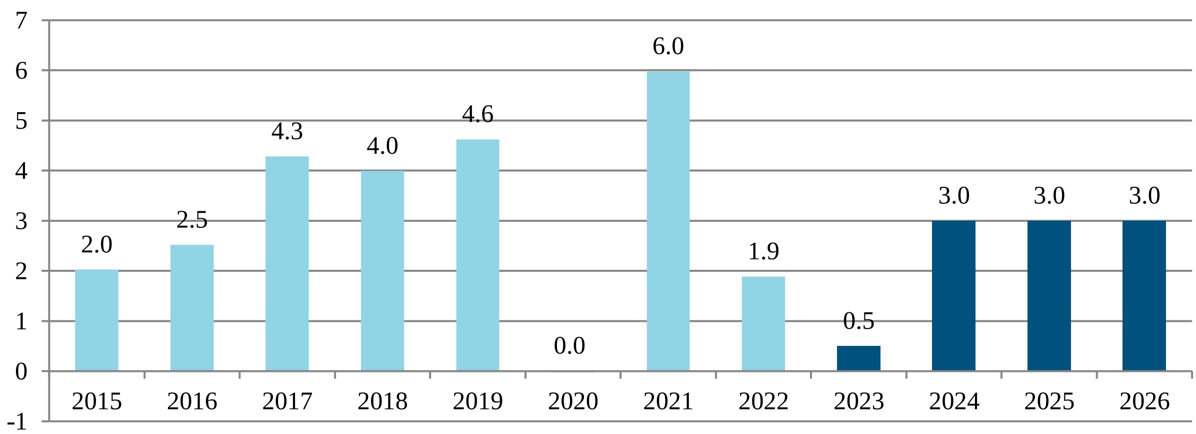
In March 2023, the Ministry of Finance published the EDS, which was approved by the fiscal institution. The date of inclusion of statistical data and other information in the EDS is 1 March 2023.

The EDS was developed considering the actual Lithuania's economic development in 2022, the measures foreseen in the budgets for 2023, the changes in the monetary policy and external environment. The assumptions of the scenario about external environment are in line with the economic forecast published by the EC in February 2023 (Table 4) [21].

Although Lithuania's economy was relatively successful in coping with the challenges posed by the military actions by russia in Ukraine in 2022 – the annual rate of change of GDP reached 1.9 % in 2022, at the end of the year 2022 there were signs predicting a more difficult period: in the fourth quarter the value added generated by manufacturing economic activity decreased by 2 %, while in wholesale and retail trade, transport, accommodation and catering services – by 2.2 %, as foreign demand weakened, the growth of exports of goods and services decreased from 15.2 % in the first three quarters of 2022 to 1.3 % in the fourth quarter, and household expenditure on goods and services decreased by 2.8 % in the fourth quarter.

In 2023, the economic activity will be dampened by continued geopolitical tensions over russia's military actions in Ukraine, an unstable external environment and the increasing impact of the outset of tightening monetary policy in 2022 on domestic and foreign demand. It is projected that the GDP growth is to slow down to 0.5 % in 2023 and is likely to reach on average 3 % per year in 2024-2026 (Fig. 1, Table 1.)

Fig. 1. Changes in Lithuania's GDP, %.



Sources: Ministry of Finance, SDA.

[21] **EC economic forecast published in February 2023**, https://economy-finance.ec.europa.eu/system/files/2023-02/ip194_en_1.pdf.

Table 1. Macroeconimic indicators

Title of the indicator	ESA code	Value of the indicator in 2022, MEUR	Rate of change, %				
			2022	2023	2024	2025	2026
GDP, chain-linked volume	B1g	46,897.7	1.9	0.5	3.0	3.0	3.0
GDP, at current prices	B1g	66,918.2	19.1	10.3	5.3	5.1	5.1
Components of GDP (chain-linked volume)							
Household consumption expenditure and consumption expenditure of non-profit institutions serving households (NPIs)	P.3	28,370.9	0.5	0.5	3.4	3.4	3.4
General government final consumption expenditure	P.3	6,392.8	0.3	0.5	0.0	0.0	0.0
Gross fixed capital formation	P.51	10,681.0	2.6	2.7	5.4	5.4	5.4
Change in stocks and acquisition of valuables, minus loss, % of GDP	P.52 + P.53	–	–	–	–	–	–
Exports of goods and services	P.6	47,046.2	11.3	0.0	4.9	4.9	4.9
Imports of goods and services	P.7	43,091.1	11.1	0.3	5.2	5.2	5.2
Impact on real GDP development, percentage point							
Final domestic demand		45,319.7	0.9	1.0	3.2	3.2	3.2
Change in stocks and acquisition of valuables, minus loss	P.52 + P.53	–	–	–	–	–	–
Balance of goods and services	B.11	3,955.1	0.7	–0.3	–0.2	–0.2	–0.2

Sources: Ministry of Finance, SDA.
Note. The EDS was prepared by using statistical data published by 1 March 2023.

In 2023, the russian military actions in Ukraine will negatively affect economic activity and the labour market in Lithuania, but this negative effect will not be particularly severe. On the one hand, worsened business expectations and weakened export demand will dampen business development and employee hiring processes and negatively affect the demand for unskilled or less skilled workers, and may lead to a stronger increase in youth unemployment. On the other hand, at the end of 2022, the labour market was still characterised by high supply of job vacancies and a shortage of highly skilled workers, the slowdown in economic activity is projected to be temporary, and therefore the companies should be interested to retain highly skilled workers. In the wake of the consequences caused by a poor geopolitical situation, the number of employed population is expected to decline by 0.7 % in 2023, and the unemployment rate, calculated according to the Labour Force Survey methodology, will rise to 7 %. As economic activity recovers from 2024 onwards, the EDS envisages that the unemployment rate will gradually decrease to 6.8 % and will be close to 6 % in the outer medium-term years. The EDS is based on the latest (published in September 2022) updated Eurostat demographic projections (baseline scenario). They foresee that the number of working-age population in Lithuania will gradually decline as a result of negative natural population change from 2024 onwards, therefore, it will leave no scope for increased employment. Against this background, the EDS projects that the number of employed population will not increase as unemployment decreases from 2024 onwards.

In 2022, for the third consecutive year, wages grew at a two-digit rate and the recorded growth of 13 % was the highest since 2009 (Table 2). Wages increased both in public (10.2 %) and private sector (14.4 %). The key drivers of wage growth in 2022 will continue to be significant also in 2023: higher minimum monthly wages (in 2023 increased by 15.1 % to EUR 840), increased basic amount of the official salary, favourable situation for workers in the labour market and increased bargaining power due to the persisting shortage of skilled workers. Wage growth will also be supported by the increase in salaries for health, education, internal service, culture and arts employees foreseen in the 2023 budget. However, as economic activity slows down, businesses face greater financial challenges due to rising credit servicing costs, the acceleration of wage growth observed in recent years is expected to gradually fade. Wages are expected to grow 9.1 % in 2023 and to slow down to 5 % per year in 2024-2026.

Table 2. Labour market indicators

Title of the indicator	ESA code	Value of the indicator in 2022	Rate of change, %				
			2022	2023	2024	2025	2026
1. Number of employed persons, thou.		1,420.8	3.8	–0.7	0.0	–0.1	–0.2
2. Employment, hours worked, thou.		2,672,873	5.4	–	–	–	–
3. Unemployment rate, %		–	5.9	7.0	6.8	6.5	6.3
4. Labour productivity (gross value added at current prices per person employed), EUR thou.		33.0	–1.9	1.2	3.0	3.1	3.2
5. Labour productivity, hours worked gross value added at current prices per actually worked hour), EUR		–	–	–	–	–	–
6. Compensation of employees, MEUR	D.1	31,163.4	15.6	9.8	5.3	5.2	5.1
7. Compensation per employee, EUR		24,361.6	10.6	10.5	5.3	5.2	5.3

Sources: SDA, Ministry of Finance.

Notes:

1. The EDS was prepared using statistical data published by 1 March 2023.
2. Line 1 shows the data acc. to the Labour Force Survey methodology.
3. Line 3 shows the value of the indicator.

According to preliminary data, annual inflation declined for the fifth consecutive month in February 2023, amounting to 17.2 %. According to the EDS, these trends are set to continue. Lower inflation will be driven by a more favourable situation in the energy commodity markets at the time of drafting the EDS, which should lead to a fall in transport fuel, gas, biofuels and electricity prices. Lower energy prices will have a positive impact on production costs, therefore, prices for other goods and services will also be more favourable – they will stabilise or start decreasing. Normalisation of global supply chains, the expected slower wage growth and the tightening of the monetary policy pursued by the European Central Bank will also contribute to a more favourable price development this year. Annual average inflation is expected to reach 8.5 % in 2023 (Table 3). Presuming that in the outer medium-term years energy commodity prices will remain stable, the rate of inflation should be close to 2 %.

Table 3. Price indicators

Title of the indicator	Value of the indicator in 2022	Rate of change, %				
		2022 metai	2023 metai	2024 metai	2025 metai	2026 metai
1. GDP deflator	142.7	16.9	9.8	2.3	2.0	2.0
2. Household consumption expenditure deflator	137.7	18.8	8.5	2.3	2.0	2.0
3. HICP (average annual)	137.6	18.9	8.5	2.3	2.0	2.0
4. General government consumption expenditure deflator	171.0	10.7	21.0	4.1	3.3	3.3
5. Gross fixed capital formation deflator	131.1	13.6	5.5	2.7	2.4	2.4
6. Export of goods and services deflator	124.0	15.9	4.4	2.0	1.2	1.2
7. Import of goods and services deflator	137.6	25.1	1.0	1.5	1.1	1.1

Sources: SDA, Ministry of Finance.
Note. The EDS was prepared by using statistical data published by 1 March 2023.

In the context of wage growth exceeding price growth and due to the measures foreseen in the 2023 budget, the purchasing power of households is likely to stabilise this year. Although the EDS envisages slower price growth, it will remain at a high level and will still have a dampening effect on the resident's decisions to increase consumption expenditure. The availability for households to purchase goods and services will also be hampered by changes in the monetary policy and labour market developments predicted in the EDS. Savings that, according to deposit statistics, continue to significantly exceed the pre-pandemic level could contribute to sustaining consumption patterns. In the absence of substantial changes in consumer behaviour, household consumption expenditure in 2023 could grow at a similar pace as in 2022 — 0.5 %. In the medium term, as price growth normalises and disposable income continues to grow, the purchasing power of the population will strengthen which will also lead to improved expectations of the population and faster increase in expenditure on goods and services. We expect household consumption expenditure to grow 3.4 % per year in 2024-2026.

Increased economic uncertainty persisting in 2023 and tightening monetary policy will lead to sluggish private sector investment. Fluctuations in activity in the residential real estate market will negatively affect the development of investment in dwellings, while the unstable external environment will suppress the investment process in industrial and transport economic activities. This year, the investment process will be driven by the expected acceleration of the implementation of projects financed by the EU and other international financial support as well as the RRF funds. The EDS projects that expenditure on gross fixed capital formation could be higher by 2.7 % in 2023. Under persisting shortage of adequately skilled workers, the need to increase labour productivity and seeking to reduce dependency on fossil fuels as well as to increase economic potential of the country, the investment process should intensify in the outer medium-term years. The investment costs could grow by 5.4 % per year in 2024- 2026.

According to the EC forecast of February 2023, the economies of many Lithuanian trading partners in the EU will face a period of stagnation in 2023, and the decreased purchasing power of the population in these countries as a result of high inflation in 2022 will not recover in the short term. In the wake of changes in monetary policy and the consequences of the war in Ukraine, global demand for exports from Lithuania will also be suppressed this year. In 2023, the EDS projects a 0.0 % annual change in Lithuanian exports of goods and services (at constant prices). In the outer medium-term years, as foreign demand recovers, an annual growth rate of 4.9 % is expected.

Table 4. Key assumptions

Title of the indicator	2022	2023	2024	2025	2026
1. Lithuanian short-term interest rates (average annual), %	1.5	3.3	2.7	2.6	2.9
2. Lithuanian long-term interest rates (average annual), %	3.3	4.0	4.0	4.2	4.4
3. USD/EUR exchange rate (average annual)	1.04	1.08	1.09	1.09	1.09
4. Nominal effective exchange rate	-4.0	3.3	0.0	0.0	0.0
5. Exchange rate vis-à-vis EUR (annual average) (for countries not in euro area or ERM II)	–	–	–	–	–
6. Global (excl. EU) GDP growth, %	3.1	3.0	3.3	3.3	3.3
7. EU GDP growth, %	3.5	0.8	1.6	1.6	1.6
8. Growth of main export markets, %	3.3	1.6	2.2	2.2	2.2
9. Global (excl. EU) import growth, %	4.4	2.4	3.6	3.6	3.6
10. Oil prices (Brent, USD per barrel)	100.7	84.8	79.9	79.9	79.9

Sources: Ministry of Finance, EC (Winter Forecast 2023).
Notes:
1. Technical assumption, published by the EC on 13 February 2023, is applied to lines 3, 4, 6, 7, 9, 10.
2. In line 5 ERM II – the second exchange rate mechanism.

SECTION 2
BALANCE OF PAYMENTS OF LITHUANIA

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

In 2022, the current account balance turned negative for the first time since 2016 and amounted to -5.1 % of GDP (Fig. 2). In 2021, the current account balance surplus amounted to 1.1 % of GDP. The current account deficit was mainly due to a significant deterioration of the balance of trade, especially in goods, which turned into a deficit for the first time since 2015. The balance of primary income was also negative, although slightly improved compared to 2021. And the balance of secondary income continued to be positive, although slightly decreased compared to 2021.

In 2022, the trade balance became negative for the first time since 2015 and amounted to -2 % of GDP (in 2021 – 4.5 % of GDP). The negative development of the trade balance was mainly caused by a doubling of the balance of goods deficit: from -5.2 % of GDP in 2021 to -11 % of GDP in 2022. This is the largest balance of goods deficit since 2008. The biggest influence on the growth of the balance of goods deficit was the significantly increased prices of imported goods, the level of which significantly exceeded the level of the prices of exported goods. The main reason for the different price developments is the sharp increase in the prices of raw materials and energy resources in 2022. For example, after evaluating the net export of these goods, excluding mineral products, there was only a trade deficit of -1.4 % of GDP in 2022, which did not significantly change from a deficit of -0.8 % of GDP in 2021. During the first 3 quarters of 2022, exports grew steadily. However, due to a significant rise in the prices of raw materials and energy resources and a decrease in foreign demand, both the value and the volume of exports of goods manufactured in Lithuania decreased in the fourth quarter of 2022, although re-exports increased slightly. Although a drop in export value and volume was observed in the fourth quarter, the annual growth of exports in 2022 compared to 2021 was positive. So, in terms of export volume and value, 2022 was a record year, but greatly increased prices of imported goods, deteriorating price competitiveness and foreign demand led to a significantly increased trade deficit in 2022.

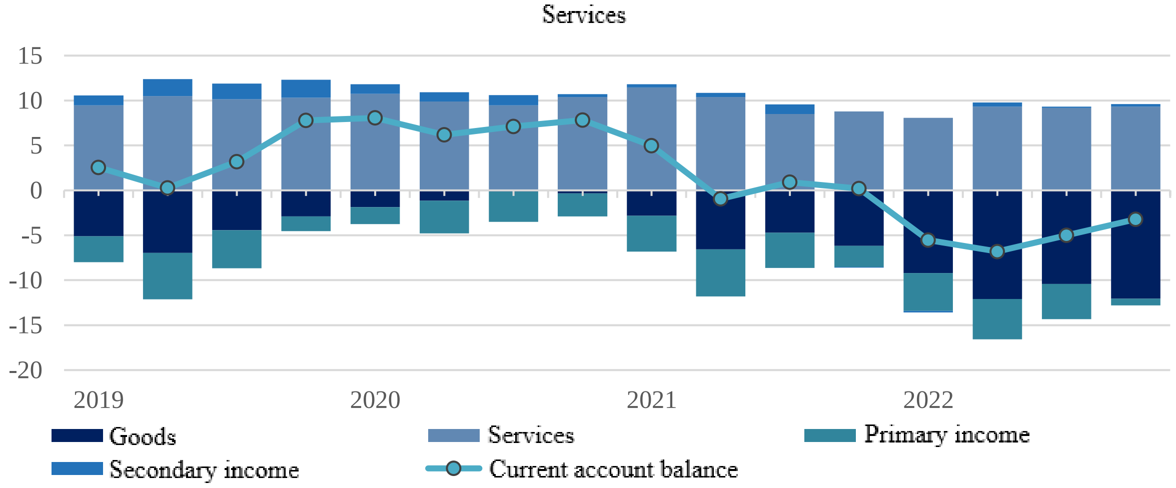
In 2022, the surplus of the services balance decreased to 9 % (in 2021, the surplus of the services balance amounted to 9.7 % of GDP). The decrease in the services balance was mainly contributed by the increase in the deficit of the balance of services for the use of intellectual property and a decrease in the surplus of the balance of other business services. The growth of the surplus balance of telecommunications, computer and information services, as well as financial services mitigated the declining trends of the share of the total services balance in GDP. In 2022, the surplus of the balance of services of the largest service group – transport – did not change substantially. Therefore, although the deficit of railway and sea transport services increased significantly in 2022, the growth of which was determined by the application of sanctions to the aggressor countries (the Russian Federation and Belarus), the growth of the surplus of the road transport balance made it possible to basically compensate for the losses of the aforementioned service groups.

Although price competitiveness deteriorated and the development of foreign demand was more moderate than in 2021-2022, in the medium term the foreign trade balance should stabilize and a foreign trade surplus should form again. Uncertainty about the outcome of the military actions in Ukraine and about the possible jumps in the prices of energy resources, as well as the tightening of monetary policy, will negatively affect the demand of Lithuania's major trading partners. Uncertainty about potential energy resource price spikes and tightening monetary policy will also negatively affect price competitiveness. Considering these circumstances, it is likely that the development of exports of goods and services will not be rapid in the first half of 2023 and will begin to slowly recover only in the second half of 2023. However, the observed decrease in the prices of energy resources at the beginning of 2023 allows us to expect that the price development differences between Lithuania's imported and exported goods and services will decrease in 2023. This, accordingly, allows us to expect that the deficit of goods and services will stabilize and a surplus of the foreign trade balance will be formed.

In 2022, the primary income balance deficit decreased to -3.3 % of GDP (in 2021, it amounted to -3.8 % of GDP). The balance of primary income was positively affected by the development of reinvestments – the balance of reinvestments became positive for the first time since 2014. The positive reinvestment balance made it possible to compensate for the biggest deficit in the dividend payment balance since the start of data publication. The decrease in the deficit of the balance of primary income was also contributed by the decrease in the deficit of the income balance of debt securities and the increase in the surplus of the balance of other primary income. The increase in the balance of other primary income can be attributed to the increased flows of grants from EU structural funds in 2022.

The development of the balance of primary income will continue to depend heavily on changes in the development of the country's economy. It is likely that in the second half of 2023, with the recovery of foreign trade and economic growth, the profits earned by foreign capital enterprises, which are distributed for reinvestment or dividends, should increase. Higher profits for companies make it possible to distribute it to shareholders, which, in turn, leads to the expectation that income transfers abroad will increase. However, the more intensive transfer of dividends abroad will be limited by uncertainty regarding the prospects of economic development. The draft Republic of Lithuania Law on the Temporary Solidarity Contribution, which was approved by the Government in April 2023 and submitted to the Seimas for consideration, after the adoption of this law, transfers of dividends abroad would decrease. The primary income balance deficit is likely to be smaller in the medium term than in 2022 and more in line with the level before the COVID-19 pandemic.

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



Sources: SDA, Bank of Lithuania and calculations by the Bank of Lithuania.

The secondary income balance deteriorated with a surplus of 0.2 % of GDP in 2022, and 0.5 % in 2021. While the general government deficit has declined, the surpluses of other sectors have also declined. The deterioration of the secondary income balance is mainly driven by increased personal transfers abroad and decreased transfers to Lithuania. Increased transfers abroad, especially to Ukraine (these transfers are mainly associated with Lithuanian support for Ukraine and transfers to Ukraine from war refugees working in Lithuania), significantly worsened the position of the secondary income balance. It is likely that in the near future the surplus of the secondary income balance will not start to increase, both due to increasing contributions to the EU budget and decreasing foreign transfers to Lithuania.

In 2022, the balance of the capital account was 1.5 % of GDP, or by 0.1 percentage point more than in 2021 (Table 5). The surplus on this account increased slightly due to higher capital transfers to general government. This was due to larger transfers of EU funds intended to finance various investment and development projects in the country.

The net flow of the financial account was negative in 2022. It was caused by a significant decrease in financial assets abroad due to the foreign trade deficit. It decreased noticeably more than Lithuania's foreign financial liabilities. Other investments contributed the most to such development of a financial account, when due to the investment policy implemented by the Bank of Lithuania, the net liabilities assumed significantly exceeded the net purchased financial assets. The net flow of other components of the financial account – direct and portfolio investments and derivatives and employee stock options – remained largely unchanged.

Table 5. Sector balances

Title of the indicator	ESA code	% of GDP				
		2022	2023	2024	2025	2026
1. Net borrowing	B.9N	–4.4	0.3	–0.5	–0.7	–0.8
o/w:						
1.1. balance of goods and services		–1.4	1.0	1.2	1.0	0.9
1.2. balance of primary and secondary income		–4.5	–3.5	–3.8	–3.7	–3.7
1.3. capital account		1.5	2.7	2.1	2.0	2.0
2. Net lending (+) /net borrowing (-) of the private sector		–3.8	2.5	1.2	0.7	0.1
3. General government net lending (+) / net borrowing (-)	B.9N	–0.6	–2.2	–1.7	–1.4	–0.9
4. Statistical discrepancy		0	0	0	0	0

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

Notes:

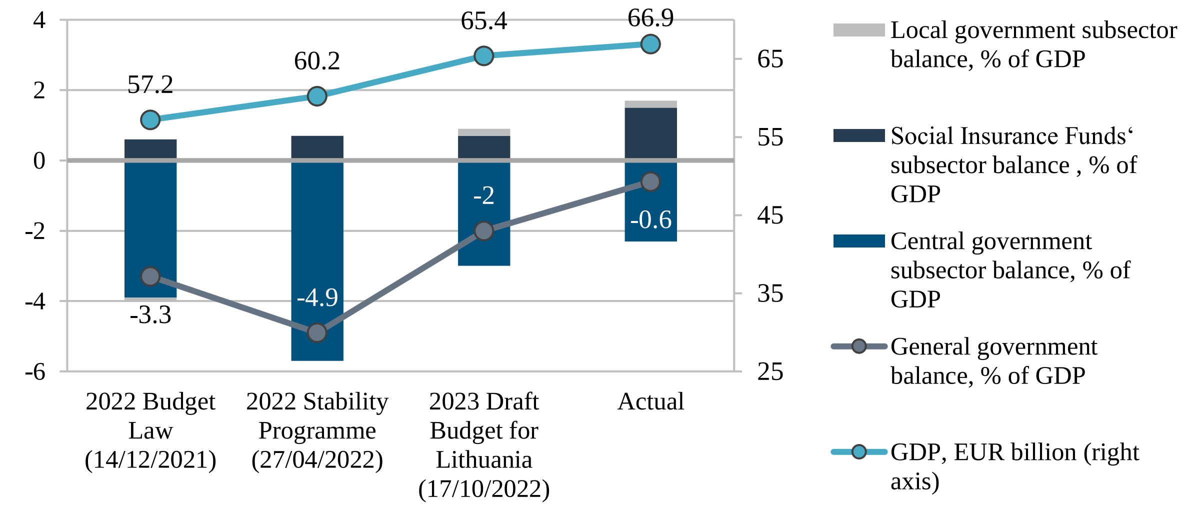
1. Line 1.1 shows data of the EDS prepared by the Ministry of Finance. The EDS was prepared by using statistical data published by 1 March 2023.
2. Lines 1.2 and 1.3 show projections of the Bank of Lithuania developed on the basis of international environment assumptions made in adherence of the information published by 28 February 2023, and other data and information published by 1 March 2023

PART III
STATE AND PROSPECTS OF GENERAL GOVERNMENT FINANCES

SECTION 1
GENERAL GOVERNMENT FINANCES IN 2022–2023

In 2022, the value of the general government balance varied from -3.3 % of GDP, set in the 2022 budget, to actual -0.6 % of GDP (Fig. 3 and 4).

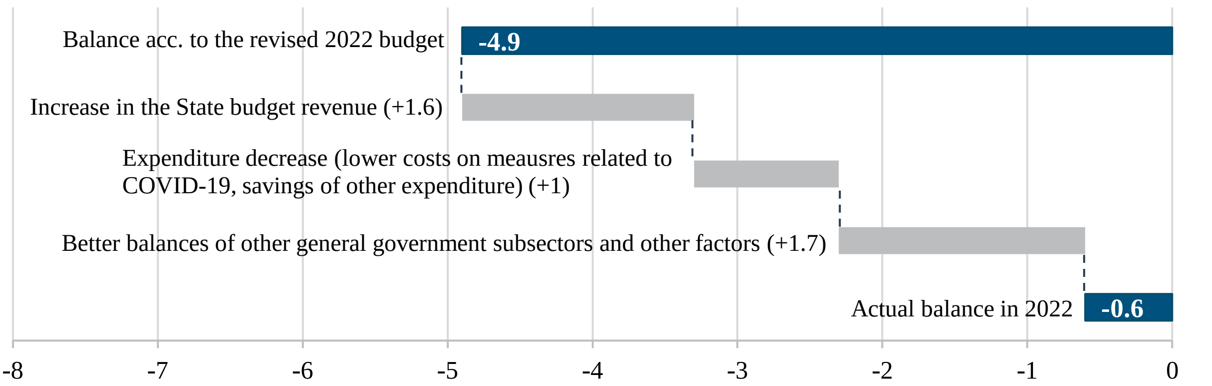
Fig. 3. General government and subsector balances for 2022 and GDP at current prices



Sources: SDA, Ministry of Finance.

Taking into account the need to strengthen national defense, the 2022 budget was revised in March 2022[22], allocating an amount corresponding to 2.52 % of GDP instead of 2.05 % of GDP to national defense. EUR 298 million were allocated for the implementation of this change. In May 2022[23], the 2022 budget was adjusted once again. The budget of the State Social Insurance Fund for 2022 has also been adjusted. The changes in the budgets, which led to the increase of the general government deficit projected at the time to 4.9 % of GDP, provided measures related to assistance to Ukrainians, as well as measures designed to help the people and businesses of Lithuania in the face of a sharp rise in prices, provided funds for the possible loss of state enterprises due to the sanctions applied to russia and Belarus to mitigate the indirect impact. At the time of the adjustment, it was estimated that the potential impact of these measures on the general government finances in 2022 will amount to EUR 1,726 million, or 2.9 % of GDP. According to the data available during the preparation of the LDBP2023 regarding the implementation of these measures, taking into account the Economic Development Scenario of September 2022 and the updated general government revenue, it was foreseen that the general government deficit may reach 2 % of GDP in 2022. It was expected that the negative impact of additional expenditure on the general government finances would be partially offset by higher than planned general government revenue.

Fig. 4. Comparison of the planned and actual general government balances in 2022, % of GDP



Source – Ministry of Finance.

In 2022, about EUR 294 million, or 0.4 % of GDP, out of EUR 384 million planned funds related to assistance to Ukrainian people who fled to Lithuania due to russia's military actions in Ukraine, have not been spent, and fewer people than expected have in Lithuania. Around EUR 25 million have not been spent, or 0.04 % of GDP, of funds planned for measures related to COVID-19. Actual estimates of measures related to COVID-19 for 2020-2022 are presented

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

[23] **Law Amending the Preamble, Articles 1, 2, 6, 7, 9, 10, 11, 14, 15, 21, Annexes 1, 2, 3, 4, 5, 6, 7, 11, to Republic of Lithuania Law No XIV-745 On the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2022**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/3d978f53d74911ecb1b39d276e924a5d?jfwid=yerqn2tbx.

in Table 6 of the Programme. In addition, around EUR 333 million more were also saved, or 2.2 %, of other planned State budget allocations[24]. The costs of the acquisition of weapons, military equipment, and military supplies, estimated on an accrual basis, amounted to about EUR 510 million, or 0.8 % of GDP, less than it was foreseen during the revision of the 2022 budget.

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

General government expenditure	ESA code	2020		2021		2022	
		MEUR	% of GDP	MEUR	% of GDP	MEUR	% of GDP
Compensation of employees	D.1	18.1	0.0	21.3	0.0	1.0	0.0
Intermediate consumption	P.2	133.9	0.3	161.9	0.3	95.6	0.1
Social benefits	D.62	530.4	1.1	191.7	0.3	51.7	0.1
Subsidies	D.3p	1,032.5	2.1	659.4	1.2	2.5	0.0
Capital formation	D.75p	175.6	0.4	228.0	0.4	147.8	0.2
Capital transfers	P.51g	313.2	0.6	9.9	0.0	0.1	0.0
Other	D.92p	27.0	0.1	7.0	0.0	0	0.0
Total:		2,230.7	4.5	1,279.2	2.3	298.7	0.4

Source – SDA.

Note. Actual data. The table shows only expenditure measures affecting the general government balance. For 2023, there are no measures planned for general government expenditure related to COVID-19.

The decrease in the general government deficit, compared to the indicator set in the revised 2022 budget, was also due to higher general government revenues. The aggregate revenue of SODRA, CHIF and municipal budgets exceeded the planned revenue by more than EUR 908 million, on an accrual basis. Although, according to the requirements of fiscal discipline, municipal budgets could be with a deficit, in fact the aggregate of municipal budgets amounted to a surplus of EUR 107.2 million due to part of unspent overperformance revenue.

The State budget revenue from the main taxes was by EUR 858 million higher than planned, estimated on an accrual basis. The increase in revenue was due, among other factors, to a faster growth of tax bases than was projected during the preparation of the revised 2022 budget. The collection of VAT revenue was significantly influenced by the unprecedented international energy price shock caused by russia's military actions in Ukraine, which affected not only the prices of energy, but also the prices of other goods and services in 2022. The revenue from personal income and corporate income taxes exceeded the planned due to further growth in employee wages and corporate profits (Fig. 5). Excise duty revenue collection was slightly lower than planned due to lower fuel sales volumes. The actual comparability of the 2022 revenue collection with the planned revenue was affected by a change in the statistical evaluation methodology of the deferred tax payables related to COVID-19.

[24] A historical trend of saving from 1.5 to 5 % of total planned State budget allocations is observed every year.
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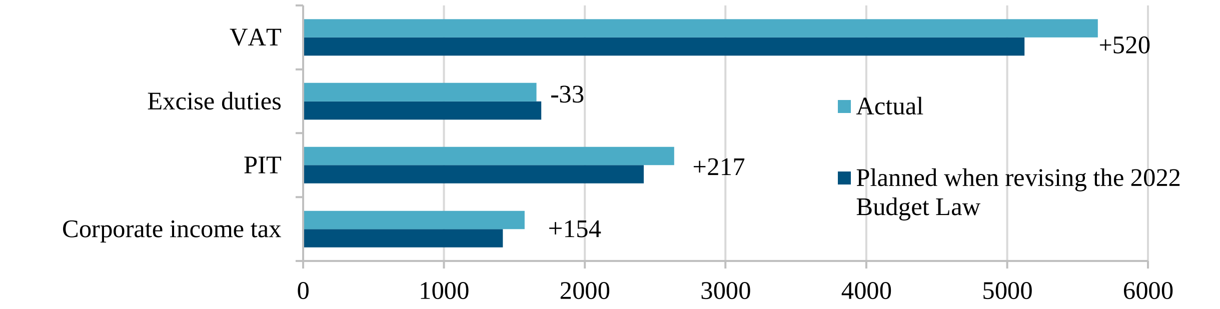
Fig. 5. State budget revenue from main taxes in 2022, EUR million



Source – Ministry of Finance.

In the 2023 budget, the general government deficit of 4.9 % of GDP was planned. The 2023 budget includes temporary expenditure measures related to assistance to the people of Ukraine who fled to Lithuania due to russia's military actions in Ukraine; support for people by providing a subsidy due to increased heating, hot water, and electricity prices; support for business due to increased electricity prices; support to the strategic company Lietuvos Geležinkeliai AB, which is experiencing losses due to EU sanctions against russia and Belarus. It is estimated that the costs of implementing these measures in 2023 will amount to about EUR 1,200 million[25], or 1.7 % of the projected GDP. It is estimated that in 2023, the negative impact of the temporary tax assistance – revenue – measures on the general government revenue (the impact is estimated on an accrual basis) will amount to about EUR 461 million, or 0.7 % of the projected GDP.

Having estimated the latest data on the execution of budgets attributed to the general government, EDS, updated projections of revenue and expenditure of the State and social insurance funds, trends in the general government subsector balance received by the Ministry of Finance until 22 April 2023, it is expected that the general government deficit in 2023 will amount to 2.2 % of GDP (Fig. 6).

[25] From this amount, it is estimated that EUR 221.3 million or 0.3 % of the projected GDP may be needed in 2023 for assistance to the people of Ukraine retreating from r~~R~~ussia's military actions (food packages and cards, education of Ukrainian children, cash payments and compensations, health care services, etc.). The scope of the measure reflects the assumption that this measure will be applied to 50 thousand persons who left Ukraine for Lithuania.

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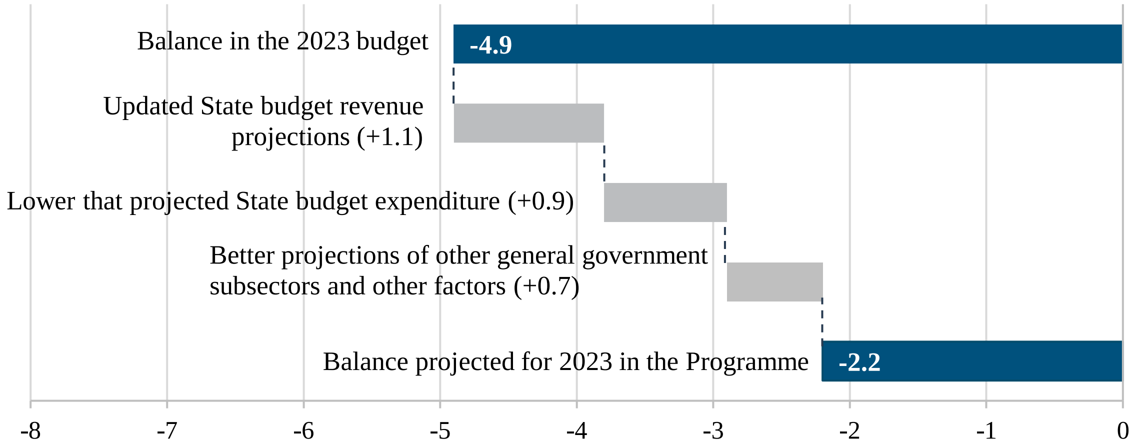
Fig. 6. Comparison of general government balance projections for 2023, % of GDP



Source – Ministry of Finance.

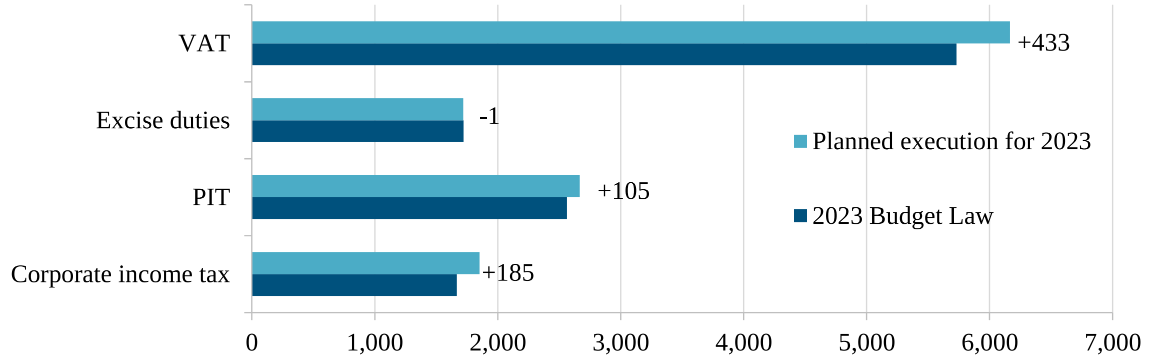
The main factor behind the decrease in the general government deficit compared to the 2023 budget is the change in general government revenue and change in the need for funds for the energy price-related measures for residents and businesses in the 2023 budget.

In 2023, it is estimated that some EUR 684.6 million, or 0.9% of GDP, may be not spent on aid measures to residents and businesses related to energy prices provided for in the 2023 budget.

Such an assumption is based on the decrease in energy prices in the first quarter of 2023. The assumption regarding the savings of the amount of funds for financing the aid measures provided for in the 2023 budget may be not confirmed if energy prices start to rise again in the second half of 2023. Detailed information on aid measures related to energy price increases is provided in Table 25 of Part VII of the Programme. New discretionary expenditure measures, compared to those provided in the 2023 budget and presented in LDBP2023, were not foreseen during the preparation of the Programme.

The estimated revenue collection of the State budget for 2023 was evaluated considering the updated EDS and the actual data of the State budget collection in 2022 and the beginning of 2023, updated assumptions regarding the deferral of tax payments for businesses affected by the increase in energy prices. It is expected that in 2023 the revenue (estimated on an accrual basis) from 4 main taxes (VAT, PIT, excise duties and corporate income tax) will be by EUR 722 million, or by 1 percentage point of GDP higher than foreseen in the 2023 budget. Of the latter amount, by EUR 195.2 million higher revenue projection is due to the updated assumptions regarding the deferral of tax payments to businesses affected by the energy crisis (Fig. 7). It is estimated that in 2023 the income from these 4 taxes will be by EUR 894.7 million higher than in 2022, but the ratio of income from these taxes to GDP will be by 0.4 percentage points lower than in 2022.

Fig. 7. State budget revenue from main taxes in 2023, EUR million



Source – Ministry of Finance.

In 2023, the surplus of the social insurance fund sub-sector will have a positive effect on the general financial situation of the general government. The rapid increase in SODRA budget revenue due to wage growth exceeds the increase in expenditure as a result of which the SODRA budget surplus is projected. The main reasons for the CHIF budget surplus are higher-than-expected revenue and essentially unchanged expenditure compared to the planned ones. Given the local government sub-sector surpluses in 2021 and 2022 (respectively, 0.3 % of GDP and 0.2 % of GDP), as well as the fact that when the output gap is negative, Lithuanian municipalities may have deficit budgets, it is assumed that local government sub-sector will basically not contribute to the general government balance in 2023 (Table 7).

Table 7. Balance of general government subsectors

General government subsector	2022 (actual data)		2023 (acc. to the LDBP2023 duomenimis)		2023 (acc. to the Programme)	
	MEUR	% of GDP	MEUR	% of GDP	MEUR	% of GDP
Central government subsector	–1,538.6	–2.3	–3,596.1	–5.1	–2,196.1	–3.0
Social Insurance Funds' subsector	980.3	1.5	274.6	0.4	544.2	0.7
SODRA	691.5	1.0	241.2	0.3	451.0	0.6
CHIF	246.0	0.4	0.0	0.0	51.2	0.1
Local government subsector	132.5	0.2	–94.5	–0.1	3.0	0.0
General government	–425.9	–0.6	–3,415.9	–4.9	–1,648.9	–2.2
GDP	66,918.2	–	70,279.4	–	73,829.7	–
GDP, in line with EDS, data	Actual data at the moment of the EDS preparation	–	12 September 2022	–	20 March 2023	–

Sources: Ministry of Finance, SDA.

With rising geopolitical tensions, evolving uncertainties and additional measures affecting public finances beyond those specified in the programme, the programme's projections for government finances in 2023 are subject to deterioration. The financial indicators of the general government can be improved by higher general government revenue than specified in the Programme and lower expenditure if part of the amount of funds intended to finance expenditure measures would not be needed.

SECTION 2
GUIDELINES FOR MEDIUM-TERM FISCAL POLICY

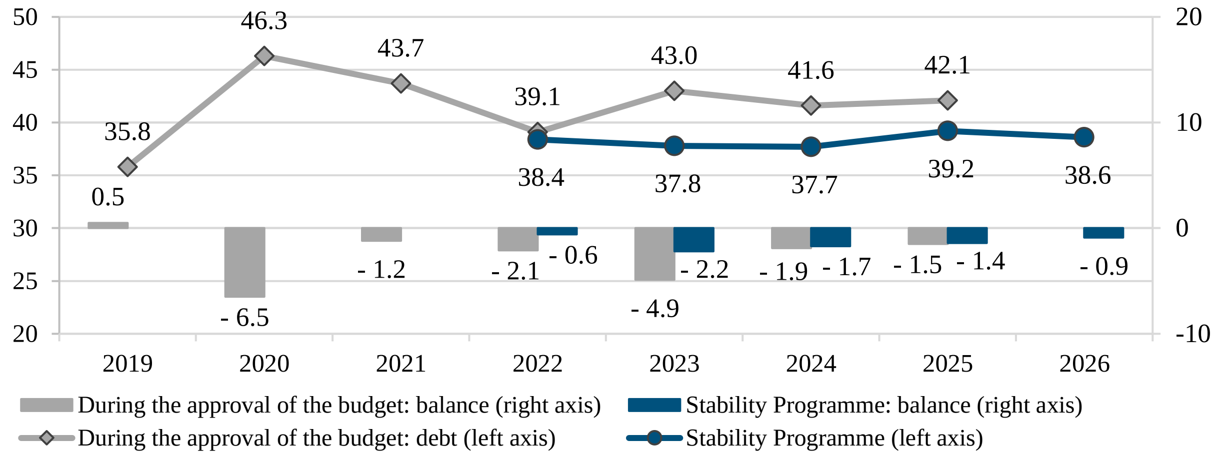
Medium-term projections for general government balances are based on:

- the need to plan general government finances with caution when there is considerable uncertainty about the impact of the geopolitical crisis on the Lithuanian economy, social environment and public finances;
- the government's unchangeable guideline, already provided for in SP2022, to comply with the medium-term objective;
- the need to ensure the sustainability of general government finances, while maintaining a non-increasing general government debt-to-GDP ratio over the medium term;
- the state of the economic cycle – in normal economic times, as output gap gradually narrows, the economy should not be exclusively stimulated or subdued by general government finances;
- the assumption that, the EU and national fiscal discipline rules will be applied again as of 2024.

Due to geopolitical tensions and uncertainty, including the uncertainty about the change in the energy prices, during the preparation of the draft State and other general government sector budgets for 2024 in autumn 2023, medium-term fiscal policy guidelines may change, in particular, if an inferior Lithuania’s macroeconomic situation or prospects were projected then and fiscal risks have been materialised (see Section 3 of Part VI of the Programme for information on fiscal risks).

During the crisis caused by the COVID-19 pandemic, general government debt increased to 46.3 % of GDP in 2020, reached 43.7 % of GDP at the end of 2021, and amounted to 38.4 % of GDP at the end of 2022 (Fig. 8). The general government deficits are lower than in the 2021 and 2022 budgets, and the favourable economic development resulted in a lower debt-to-GDP ratio than projected in SP2022. Following the projection of the general government deficit in 2024-2026 presented in the Programme, the general government debt-to-GDP ratio will remain stable over the medium term constituting about 39 % of GDP. Though challenges to address ageing society and other structural challenges, greening and digitising the economy remains, keeping the debt level well below the Maastricht criterion 60 % of GDP in the medium term will contribute to strengthening the long-term sustainability of general government finances.

Fig. 8. General government balance and debt, % of GDP



Sources: Ministry of Finance, SDA.

Despite the projected reduction of the deficit, nominal general government expenditure will not decrease due to expected increases in revenue of budgets attributed to general government. Investment projects implemented from national and the EU funds, including measures foreseen in the RRF Plan, are expected to contribute to increasing general government expenditure and strengthening the economic growth. In 2023-2026, it is planned to use the total amount of EUR 2.1 billion of RRF funds for Lithuania. This amount is estimated in the general government finance projections presented in the programme as revenue for the years 2023-2026 and, accordingly, as expenditure, maintaining the principle of neutrality of the EU funds for the budget balance. The distribution of the RRF grant in the medium-term year is presented in Tables 8 and 23 of the programme.

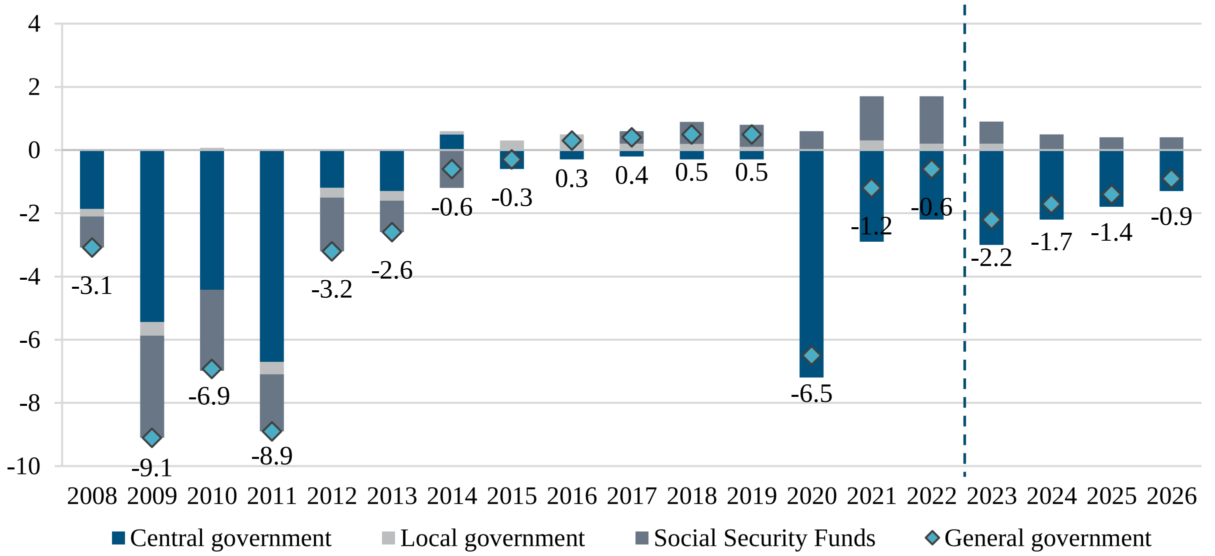
Table 8.The planned distribution of the RRF funds over the medium-term

Title of the indicator	MEUR					
	2021	2022	2023	2024	2025	2026
RRF grants	0.0	52.3	505.2	717.6	535.4	288.6

Source – Ministry of Finance.

Medium-term financial projections of general government and its subsectors (Fig. 9) are based on the EDS, the revenue projections of the budgets attributed to general government updated on the basis of the EDS, and the projected Social Insurance Funds' budgets expenditure. The balance projection of the local government sub-sector, the majority of which consists of the totality of municipal budgets, has been prepared after assessing the development of the financial situation of municipalities in the past year, assuming that municipal budgets will be managed in compliance with the rules of fiscal discipline applicable to their budgets provided for by the Constitutional Law.

Fig. 9. General government and subsector balances for 2008-2026, % of GDP



Sources: SDA, Ministry of Finance.

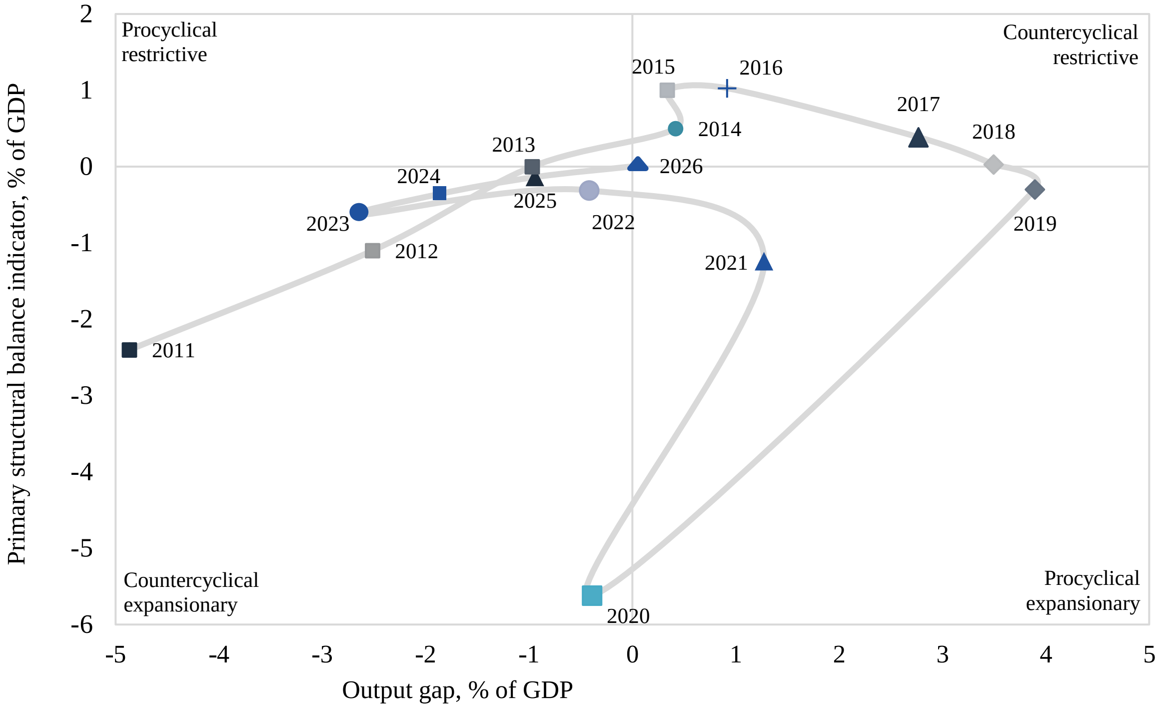
SECTION 3
STRUCTURAL BALANCE FOR 2022-2026

In 2022, the general government structural deficit stood at 0.6 % of GDP and was lower than the medium-term objective. The primary structural deficit was 0.3 % of GDP. In 2022, the fiscal position[26] was very close to neutral. The Lithuanian economy did not experience an exceptional stimulus from the general government finances, which was not needed when high inflation prevailed.

With the economy expected to slow down in 2023 as compared to 2022, a counter-cyclical fiscal policy to stimulate the economy is being implemented. As the Programme envisages the indicators of the general government balance indicators, which lead to a decrease in the primary structural deficit in 2024-2026 (Fig. 10), the fiscal situation will become more and more neutral.

[26] The fiscal position is considered neutral if the value of the primary structural balance falls within the range [-0.2;0.2).

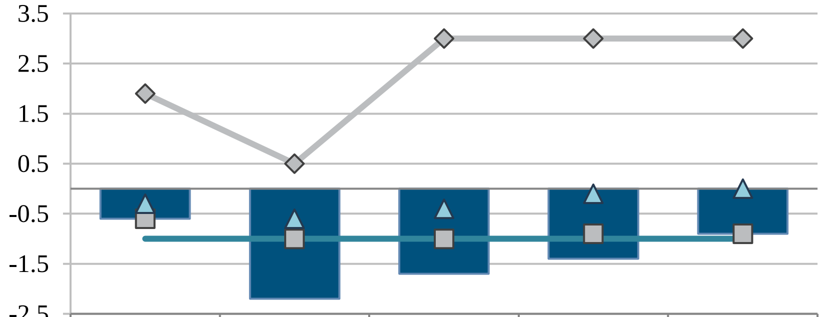
Fig. 10. Fiscal policy stance in 2011–2026



Sources: Calculations by the Ministry of Finance, SDA.

In 2023, the general government structural deficit of 1 % of GDP is expected, corresponding to the medium-term objective, and the primary structural deficit will be 0.6 % of GDP. It is expected that in 2024-2026 the structural balance will also meet the medium-term objective (Fig. 11).

Fig. 11. The structural and primary balances for 2022-2026, % of GDP



	2022	2023	2024	2025	2026
Nominal general government balance	-0.6	-2.2	-1.7	-1.4	-0.9
Structural general government balance	-0.6	-1.0	-1.0	-0.9	-0.9
Primary structural balance	-0.3	-0.6	-0.4	-0.1	0.0
Medium-term objective	-1.0	-1.0	-1.0	-1.0	-1.0
Change in GDP at constant prices, %	1.9	0.5	3.0	3.0	3.0

Sources: Ministry of Finance, SDA.

Following the EDS, the output gap will remain negative for most of the medium term. Due to the expected more favourable economic development, the output gap will begin to shrink from 2024 and will amount to 0 % of potential GDP at the end of the medium term (Table 9). Changes in economic development, as compared to those foreseen in the EDS, an updated assessment of the economic cycle position may change the estimates of the general government structural balance.

Table 9. Economic cycles

Title of the indicator	ESA code	% of GDP				
		2022	2023	2024	2025	2026
1.Cchange in GDP at constant prices, %		1.9	0.5	3.0	3.0	3.0
2. General government net lending (+)/borrowing (−)	B.9	–0.6	–2.2	–1.7	–1.4	–0.9
3. Interest	D.41	0.4	0.5	0.6	0.8	0.9
4. One-off and other temporary measures		0.2	-0.1	0.04	0.0	0.0
o/w:						
one-off measures — general government revenue		0.2	-0.1	0.04	0.0	0.0
one-off measures — general government expenditure		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth, %		3.6	2.8	2.2	2.0	2.0
o/w:						
labour		1.0	0.3	–0.3	–0.7	–0.9
capital		1.7	1.6	1.6	1.7	1.7
total factor productivity		0.9	0.9	0.9	1.0	1.2
6. Output gap		–0.4	–2.6	–1.9	–0.9	0.0
7. Cyclical budgetary component		–0.2	–1.0	–0.7	–0.4	0.0
8. Cyclically adjusted balance (2-7)		–0.5	–1.2	–0.9	–1.0	–0.9
9. Cyclically adjusted primary balance (8 + 3)		–0.1	–0.7	–0.3	–0.2	0.0
10. Structural balance (8 – 4)		–0.6	–1.0	–1.0	–0.9	–0.9

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

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

Income policy priorities and measures

In 2023, the Government's policy priorities remain a fairer and growth-friendly tax system, reducing poverty and inequality. The tax changes aim to help a group of vulnerable people, mitigate the impact of high energy prices on households and businesses, as well as contribute to the stabilization and viability of business activity that has been slower to recover from the COVID-19 pandemic:

- from 1 January 2023, the NTA applicable to MMW earners for 2023 has been increased from EUR 540 to EUR 625. The NTA has also been increased for residents who earn more than the MMW, but not more than EUR 1,926, that is, for persons whose wages do not exceed one average wage. The NTA is not changed for higher income earners. The NTA applicable to disabled and persons with limited working capacity has been proportionally increased from EUR 870 to EUR 1,005 (for persons with a greater disability or lower working capacity) and from EUR 810 to EUR 935 (for persons with a lower disability or greater working capacity);
- from 1 January 2023, the application of a reduced 9 % VAT rate on accommodation, culture and recreation services has been extended indefinitely; the temporary extension of a reduced 9 % VAT rate on catering services provided by restaurants, cafes and similar catering establishments, as well as sports and performers' services; a reduced VAT rate of 5 % is applied on food products for special medical purposes, when the costs of purchasing these goods are fully or partially compensated in accordance with the procedure established by the Republic of Lithuania Law on Health Insurance (until 31 December 2022, a relief was applied to medical aid measures[27]);
- VAT calculated for heat energy and hot water supplied to residential premises is temporarily covered from the State budget;
- purchase (import) VAT deduction is allowed for class M1 electric cars, if the value of the class M1 electric car does not exceed EUR 50,000 (including VAT)[28];
- tax aid measures are provided for energy-intensive companies whose energy consumption is at least 10 % of total costs and which meet other economic and legal form of activity criteria. Pursuant to these aid measures, for more than half a year, the actions of forced recovery of tax arrears are not applied and interest is not calculated. In addition, from the fourth quarter of 2022, the amount of interest on the use of a tax credit was horizontally reduced, which created better opportunities for taxpayers experiencing temporary financial difficulties to stabilize their situation, incurring less expenses and paying the tax arrears later.

In 2023, the implementation of the plan for increasing excise duties on ethyl alcohol and alcoholic beverages, tobacco products and their alternative products, approved for the years 2022-2024, continues[29].

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[27] **Law Amending Article 19 of the Republic of Lithuania Law No IX-751 On Value Added Tax,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/602720026c2511ed8a47de53ff967b64.
[28] **Law Amending Article 62 of Republic of Lithuania Law No IX-751 On Value Added Tax,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/2779df805e7011ed9df7cabc9fe34d2f.
[29] **Law Amending Articles 1, 3, 23, 24, 25, 26, 30, 31, 65 and 74 of Republic of Lithuania No IX-569 Law On Excise Duties,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/2ecc8063dafc11eb866fe2e083228059.

Tax policy priorities and directions for 2024-2026

By implementing the initiatives of the Eighteenth Government Programme in the direction of a fairer and more growth-friendly tax system, the Ministry of Finance prepared and submitted to the public for conclusions the changes in tax legal regulation aimed at a fairer and more growth-friendly tax system, increasing the financial independence of municipalities, promoting small business and investments, while also contributing to reduction of income inequality and implementation of environmental (green course) goals. Changes in the legal regulation of taxes:

- The draft Republic of Lithuania Law on Personal Income Tax[30] proposes that from 1 January 2024 income tax rates are reviewed by redistributing the tax burden between income related to employment relationships and relationships corresponding to their essence and other types of higher income, to review the conditions for taxation of income from individual activities, to narrow the applicable tax reliefs, to simplify the taxation regime applied to income from investment, from 1 January 2025 to simplify the procedure for declaration of income tax and refund of tax overpayment;

- According to the draft Republic of Lithuania Law On Corporate Income Tax[31], from 1 January 2024, it is proposed to improve the conditions of taxation of small businesses, to give all companies the right to apply an instant deduction of the purchase price of fixed assets, to extend the current corporate tax reliefs (for investment projects, film production) for an additional 5 years - until 31 December 2028, to give up sectoral exclusivity and other inefficient reliefs by applying taxation conditions, to increase the assumptions of tax certainty and the neutrality and independence of investment decision-making by applying relevant corporate tax reliefs;

- According to the draft Republic of Lithuania Law on Immovable Property Tax[32], from 1 January 2025, it is proposed to credit the entire IPT to municipal budgets, to give more rights to self-government by applying tax reliefs and setting rates. It is proposed to change the existing model of IPT relief applied to property used by natural persons for non-commercial activities - to move from taxation based on the total value of immovable property to the classic model of immovable property taxation. In the case of the classic model, separate objects are subject to

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[30] **Draft Law Amending Articles 2, 6, 8, 13^{1}, 16, 17, 18, 18^{2}, 20, 21, 24, 25, 27, 34, 35 and 37 and Supplementing with Article 12^{1} of Republic of Lithuania Law on Personal Income Tax No IX-1007**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/5fa59d00c7c411ed9b3c9397e1236c2a?jfwid=-bey5p9l76.

[31] **Draft Law Amending Articles 2, 5, 12, 17, 17^{2}, 18, 19, 46^{1}, 47, 56^{1}, Appendix 1 and Supplementing with Article 30^{2} of Republic of Lithuania Law No IX-675 On Corporate Income Tax,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/d1f909f1c7c411ed9b3c9397e1236c2a?jfwid=-bey5p9l76.

[32] **Draft Law Amending Republic of Lithuania Law No X-233 On Immovable Property Tax,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/c7a3f83070ca11ed8a47de53ff967b64?positionInSearchResults=0&searchModelUUID=034457b0-ad11-482a-a161-875a55981bfb.

taxation, which at the same time significantly increases the number of IPT payers. Also, the STI would be obliged to prepare declarations for IPT payers (natural persons);

- By the draft Republic of Lithuania Law on Value Added Tax[33], from 1 January 2024, it is proposed to increase the VAT registration threshold from EUR 45,000 to EUR 55,000, to expand the scope of VAT exemption for social services.

The issues related to implementation of the provisions of Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union, which aims to ensure that the profits of large international corporate groups, as well as domestic corporate groups, when their annual revenue is EUR 750 million or more, would be subject to the effective tax rate of at least 15 %, will be addressed.

From 1 January 2025, amendments to the VAT Directive will be transposed into national law, by which, in order to reduce the administrative burden on small businesses and help create a tax environment favourable to the growth of small businesses and the development of cross-border trade, the VAT procedure for small businesses, as well as small businesses established in other Member States, has been updated and the opportunities are created to use a special small business scheme in Lithuania.

By the draft Law Amending the Republic of Lithuania Law On Excise Duties[34] submitted to the Seimas on 1 December 2021, the purpose of which is to contribute to the achievement of national and international energy and climate change management policy goals, it is proposed to abandon the excise reliefs applied to energy products (or narrow their scope), to consistently increase the excise duties for gas oil, coal, coke and lignite, set excise duties on peat for heating, from 2025 add a CO2 component to the excise duties applied to energy products, which would be proportional to the CO2 emissions of the fuel type, depending on the calorific value.

Tax measures related to russia's military actions in Ukraine

In order to ensure that residents who left Ukraine for Lithuania due to russia's military actions in Ukraine do not become permanent residents of Lithuania just because of the number of days they stayed in Lithuania and, accordingly, continue to pay taxes on the income received in the same way as residents of Ukraine pay, on 25 March 2022, the rules governing the number of days of stay in Lithuania, establishing that the number of days of stay in Lithuania for war

[33] **Draft Law Amending Articles 21, 71, 92 and Appendix 2 to Republic of Lithuania Law No IX-751 On Value Added Tax**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/332e23e1c7c511ed9b3c9397e1236c2a?jfwid=-bey5p9l76.

[34] **Draft Law Amending Articles 1, 2, 3, 27, 35, 36, 37, 38, 39, 41, 43, 58(1), 59, Chapter II, Section Five, Repealing Article 40 and Supplementing the Law with Appendix 3 of Republic of Lithuania Law No IX-569 Law amending,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/39b9ccb0527211ec86bdcb0a6d573b32?positionInSearchResults=111&searchModelUUID=afec006f-ccff-455e-9905-3eb6be0ecb07.

refugees from Ukraine does not include the period from the date of registration of the war refugee from Ukraine at the Migration Department until the end of war crimes in Ukraine, were amended. [35]

The amendments to the Republic of Lithuania Law on Charity and Sponsorship[36], which came into force in 2022, allow the companies providing support to the Ukrainian non-profit organisations affected by russian military actions to benefit from tax reliefs.

After the EC on 17 April 2023 adopted decision (EU) 2023/829 on relief from import duties and VAT exemption on importation granted for goods to be distributed or made available free of charge to persons fleeing the military aggression in Ukraine and to persons in need in Ukraine, import duties and VAT reliefs will continue to apply in 2023 for support to Ukraine. Also, according to Article 50^1 of the Republic of Lithuania Law on Value Added Tax, such goods will be taxed at a 0 % VAT rate (giving the right to a VAT deduction for goods purchased at the previous stage), while the purchase of goods from other Member States will be exempt from VAT. Services related to such goods, including rental, are taxed at a 0 % VAT rate.

Revenue projections

It is expected that the State budget revenue from 4 main taxes (VAT, PIT, excise duties and corporate income tax), which represent about 93 % of total State budget revenue excluding EU funds, will increase by 0.4 percentage points of GDP in 2024, compared to the revenue expected in 2023, and in 2025 (compared to 2024) and 2026 (compared to 2025) will increase by another 0.1 percentage point of GDP.

During the preparation of revenue projections for 2024-2026, the actual revenue collected in 2022 and the beginning of 2023, the evolution of the EDS and tax bases, as well as the loss of revenue due to current tax reliefs and reliefs that will cease to be valid in the medium term, have been assessed. It was also assessed that taxpayers affected by the COVID-19 pandemic, who had postponed the payment of taxes administered by the STI in 2020-2021, received tax assistance until December 2022, therefore, tax loan agreements signed by such taxpayers will be subject to the conditions of usual rates from 2023, i.e., the interest has started to be calculated. The balance of taxpayers' arrears related to COVID-19 in the STI on 1 January 2023 amounted to EUR 75.8 million, of which EUR 65.6 million was the value of the signed tax loan contracts. Since, according to the SDA, 95 % of the deferred taxes were recovered by the end of 2022, it was assumed that the deferred tax payable amounts due to the COVID-19 pandemic will not affect the revenue projections for 2024-2026. Also, after assessing the very small

[35]**Minister for Finance Order No 300 of the of 25 September 2002 on the Approval of the Rules for the Calculation of These Periods for a Natural Person Who is Staying in Lithuania Continuously or Intermittently for 90, 183 and 280 Days“**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.187452?jfwid=32ocqtx53.

[36] **Law Amending the Law on Charity and Sponsorship,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.5483/asr.

amounts of deferred taxes payable by the business affected by the energy crisis at the end of 2022 - the beginning of 2023, it was assumed that the recent tax deferrals will not have an effect when preparing the income projections for 2024-2026. The list of income measures related to price growth is presented in Table 25 of Part VII of the Programme.

The quantitative summary assessment of all revenue policy discretionary measures approved in 2022-2023 is presented in Table 22 of Part VII of the Programme.

Medium-term revenue projections presented in the programme may change due to changes in economic development, discretionary decisions in the field of taxation, including the already mentioned proposed changes in tax legislation.

Priorities and measures of the expenditure policy

The priority areas of the 2023 budget expenditure policy are the increase of personal income, the security of the country and society, and investments for the future of Lithuania.

In 2023, the income of working persons, social support, and pensions will be increased. The expenditures is also increasing for the general part of the pension, financed from the State budget, for the wages of teachers, lecturers and researchers, officials of the internal service system, culture and art workers, MMW, for increasing the basic amount of the official salary, for indexing and increasing the basic amounts of social benefits.

The 2023 budget foresees defense funding of 2.52 % of GDP, as well as funds for the purchase of weapons that meet NATO military supply standards, civil safety and the implementation of security measures for the Astravets Nuclear Power Plant. After the adoption of the Republic of Lithuania Law on Temporary Solidarity Contribution[37] prepared by the Government and submitted to the Seimas for consideration, the collected solidarity contribution funds will be allocated to the important needs of society and the state related to the strengthening of national security – military mobility and dual-use (civilian and military) transport infrastructure projects, as well as to finance adaptation and/or creation projects of military infrastructure necessary to ensure the support of the host country.

Excluding EU and RRF funds, the State budget expenditure in 2023, compared to actual State budget expenditure in 2022, increases by EUR 665 million (Fig. 12).

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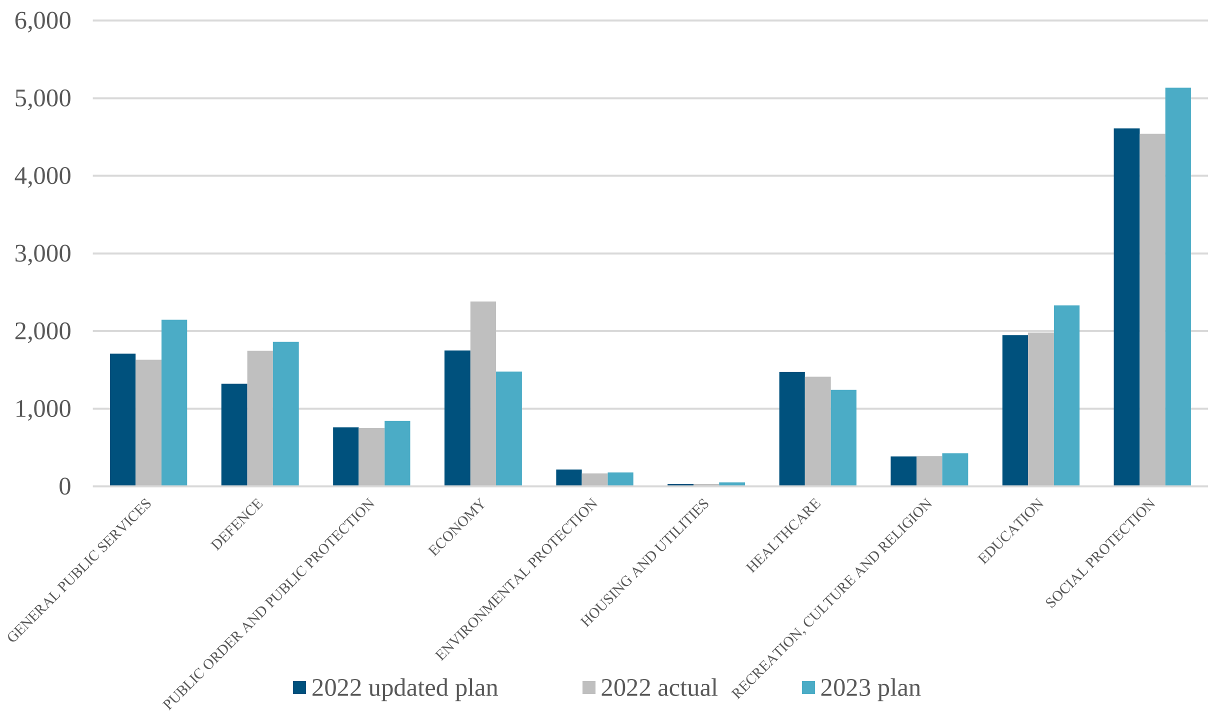
[37] **Government of the Republic Resolution No 220 of 5 April 2023 On the Submission of the Draft Republic of Lithuania Law On Temporary Solidarity Contribution to the Seimas of the Republic of Lithuania,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/26b42e33d45311ed9b3c9397e1236c2a?jfwid=-hkfedcxzd.

Fig. 12. Structure of the State budget expenditure, MEUR



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

The main reform agenda of Lithuania for the coming years is planned in the implementation plan of the Government Programme, which provides for more than 700 actions and 70 strategic works (projects) under 12 missions (priorities) of the Government Programme. The greatest focus is paid to the reforms of the Government's 2020-2024 term in the fields of greening, digitization, education, health, innovation, and public management. 7 Government missions, together with the strategic works (projects) and actions implementing them, contribute to the implementation of the Council's recommendation to Lithuania and the insights of the 2022 Country Report[38]. The main agenda of the Government is also supplemented by other measures of progress planned in the national development programmes[39].

Strategic investments are planned in the EUR 17 billion-worth NPP, and the majority of the investments are intended to achieve the common goals of the EU's green and digital transformation, to rapidly and efficiently invest in the resilience and growth of the Lithuanian economy, with the aim of transforming it into a sustainable, innovative and high added value-

[38] **2022 Country Report**, https://commission.europa.eu/system/files/2022-05/2022-european-semester-country-report-lithuania_en.pdf.
[39] **National development programmes**, https://lrv.lt/lt/aktuali-informacija/strateginis-valdymas-1/strateginis-valdymas/nacionalines-pletros-programos.

creating economy. These investments will contribute to increasing the growth potential of the Lithuanian economy. For the years 2023-2025, EUR 7.3 billion of the RRF, 2021-2027 EU funds investment programme, investments from the national budget and other EU and international programmes are planned. The largest amount of funds in the NPP is earmarked for the fight against climate change and environment - 29 % of the funds, and 23 % for science, innovation and creating a high added value economy. 14 % are planned for improving social welfare and health in the country, 7.1 % for transport, energy and digital connectivity, and 6.9 % for education. The largest sources of investment funds are the Cohesion Policy Funds and RRF funds.

In order to contribute to the EU's green course and the energy independence of the EU and Lithuania, it is planned to accelerate investments in offshore wind and onshore renewable energy resources solar and wind energy production, energy storage infrastructure and energy networks, with the aim of completing Lithuania's integration into the EU energy market. In addition, it is planned to continue the renovation of apartment buildings, to develop sustainable multi-modal mobility, to expand the infrastructure of alternative fuels, to help residents and businesses to purchase clean transport, to invest in the circular economy, sustainable water management, measures to adapt to climate change, and preservation of biodiversity. It is also planned to carry out decarbonisation and create sustainable jobs in the 3 most polluting regions of Lithuania with the funds of the Just Transition Fund.

In the field of digitization, the nearest positive developments are related to 5G integration and the elimination of white spots in remote areas, the digitization of the public sector, the development of digital skills, cyber security and the creation of a real-time and open data economy. The development and deployment of advanced digital technologies in the private sector (high-performance computing, artificial intelligence, blockchains, etc.) will be also promoted.

In the field of higher education, research, experimental development, and innovation, the main focus is on the realization of the state's skillful specialization, the creation, transfer and implementation of commercialized knowledge, cooperation between science and business, and the acceleration of start-ups. In the future, investments will be made in the competences of scientists and researchers, study financing and student admission systems will be improved, universities of applied sciences will be reorganized and the internationalization of higher education institutions will be promoted. In addition, the development, demonstration and deployment of innovative, digital and environmentally friendly technologies and public sector innovation in the field of procurement are encouraged.

In the field of health, the transformation of the health system network is implemented and the results of health care, the quality of services and the prevention of diseases are improved, especially by more effectively coordinating the provision of long-term care services, making emergency medical aid and the chain of primary health care more efficient. Also, the resilience of the health system to work in emergency situations is improved by creating infectious disease cluster centres and emergency departments. In addition, a national digital health system is being developed, a competence platform for health care specialists is being developed, and a complex model for assessing the quality of health care services is being developed.

In the field of social security, the aim is to increase employment, to ensure the sustainable integration of individuals into the labour market, to increase the adequacy of the assistance of the social security system, and to improve the structure of the tax and social benefits system, reducing income inequality and poverty.

In the field of culture, investments are made in technological and software solutions, increasing the accessibility and reuse of digital cultural resources in various fields.

In the field of education, the availability and quality of pre-school and general education is improved, and the competences of teachers and school heads, as well as their career planning system, are strengthened. It also aims to improve and consolidate school infrastructure, improve the STEAM education ecosystem, create a one-stop platform for lifelong learning, support apprenticeships and participation in vocational training and mobility programmes.

In the field of transport, it is planned to improve the connectivity of Lithuania, and priority investments will be directed to the development of TEN-T roads, including the Rail Baltica project.

It is expected that as a result of the investments and reforms implemented in accordance with the NPP, Lithuania's research and innovation capacities will be strengthened, the share of GDP allocated to scientific research and experimental development will increase; opportunities will be created for citizens, companies and public authorities to take advantage of the benefits of digitization, Lithuania's digital competitiveness will increase; energy efficiency will increase, the amount of greenhouse gas emissions will be reduced; the transition to a circular economy will be promoted; development of sustainable transport; conditions will be created for all people of working age to join the labour market; Lithuanian education and learning indicators will be improved; the availability, quality, efficiency and sustainability of healthcare and long-term care services will be improved; the efficiency of the public sector will be increased. This will contribute to the implementation of all solutions to the challenges identified for Lithuania during the European Semester and the implementation of the Council's most relevant recommendations for Lithuania.

Effective implementation of reforms and investments is extremely important for strengthening economic activity and its growth potential.

Currently, Lithuania is negotiating with the EC for an additional EUR 1.94 billion worth investments from the RRF loan and REPowerEU. EUR 1 billion of these funds are expected to be allocated to loans to business and industrial companies, so that they become more competitive and create the production of high added value and export-oriented products, greening their activities. Additional EUR 697.6 million is expected to be directed to the production of electricity from renewable energy sources. EUR 84.7 million will be allocated to the renovation of apartment buildings, EUR 25 million - for the important area of cyber security and EUR 9 million – to start non-polluting cargo transportation on the Nemunas River.

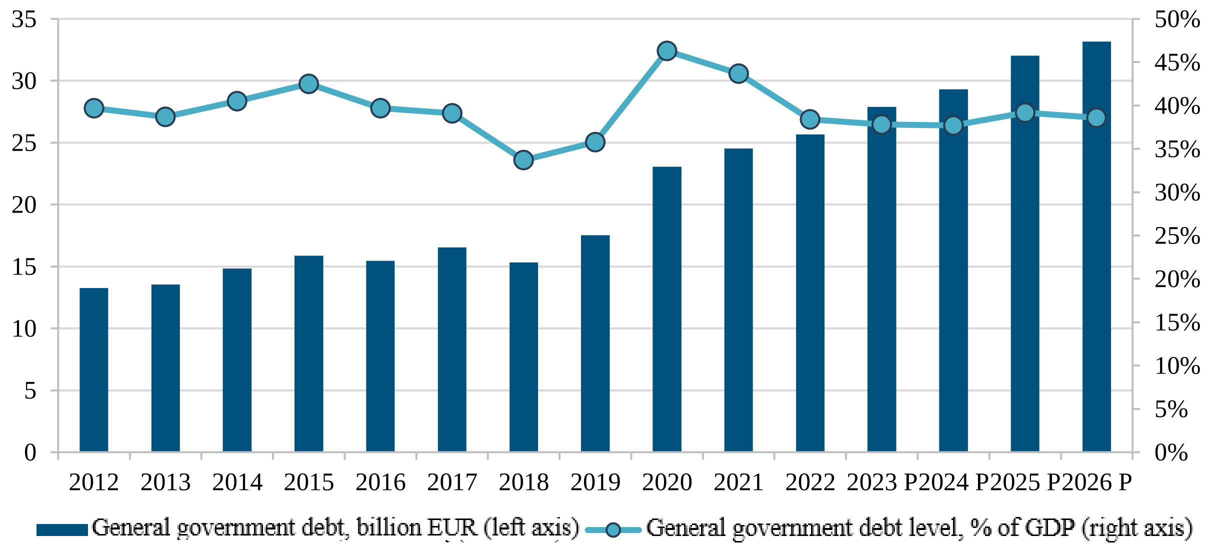
SECTION 5
GENERAL GOVERNMENT DEBT AND ITS PROJECTIONS

General government debt level, structure, dynamics and risk management

The general government debt after financial derivatives made up 38.4 % of GDP at the end of 2022 and was by 5.3 percentage points lower than at the end of 2021, when it reached 43.7 % of GDP. The decline in debt was driven by a decreasing State budget deficit, and the redemption of the eurobond issue in 2022, the funds for which were accumulated in 2021 (Fig.13).

In 2022, the Government complied with all statutory borrowing and debt limits. Short-term liabilities by residual maturity amounted to 7.8 % at the end of 2022 (10.1 % − at the end of 2021), the weighted average residual maturity of debt on behalf of the State and the weighted average residual maturity of debt on behalf of the State prior to the change in interest rates was 9 and 8.9 years, respectively, in 2021 – 9.4 and 9.4 years. The floating debt on behalf of the State amounted to 1.3 % of total debt (1.5 % − at the end of 2021). The State-guaranteed debt amounted to 1.2 % of GDP.

Fig. 13. General government debt, % of GDP



Source– Ministry of Finance.

The general government debt level is projected to remain stable over the medium term, reaching about 38.6 % of GDP at the end of 2026. The general government debt projections are presented in Table 21 of Part VII of the programme.

Government borrowing and debt management guidelines for 2023-2026

The objective of the Government borrowing and debt management for 2023-2026 is to ensure the financing of the objectives established in the Republic of Lithuania Law On State Debt and the fulfilment of assumed debt obligations by the state with borrowed funds at the lowest possible costs and acceptable risk. In order to achieve this objective, three main tasks of the Government borrowing and debt management for 2023-2026 and the criteria for their implementation are listed below.

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

The second task is to develop relations with investors in order to expand existing and attract new groups of investors. The criterion for the implementation of the task is at least 2 meetings with investors, paying a lot of attention to bilateral meetings.

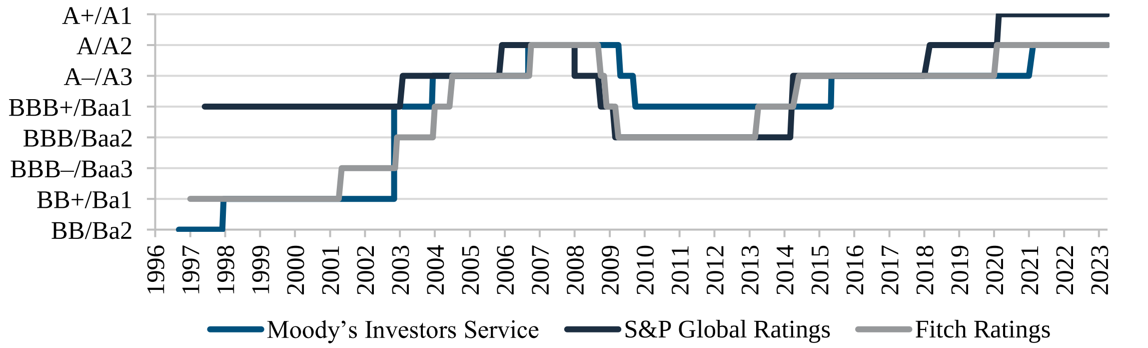
The third task covers the management of interest rate fluctuations, refinancing, exchange rate changes and guaranteed debt risks. Risk management is an important factor in achieving the underlying debt objective − to ensure debt stability and the ability of the Government to meet its obligations. The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

The forecast of the Government's borrowing needs, after assessing the applicable refinancing risk management measures for the redemption of Eurobond issues, on average will amount to EUR 4.7 billion in 2023-2026.

Credit ratings

The credit ratings issued by international credit rating agencies Moody's Investors Service, S&P Global Ratings and Fitch Ratings for long-term foreign currency borrowing of Lithuania on 31 March 2023 were A2, A+, A, accordingly (Fig.14).

Fig.14. Development of credit ratings on long-term foreign currency borrowing of Lithuania



Source – Ministry of Finance.

In April 2022, the international credit rating agency Moody's Investment Service confirmed A2 long-term debt rating previously granted to Lithuania and left a stable outlook. This decision by the agency's experts was determined by three main factors: although geopolitical tensions have increased, NATO membership provides security guarantees, as well as noticeable progress in strengthening Lithuania's energy security and positive expectations regarding Lithuania's economic and fiscal resistance to the side effects of russia's military actions in Ukraine were observed. Credit rating agency Moody's Investment Service last upgraded Lithuania's credit ratings in February 2021, when the long-term debt rating of A3 (positive outlook) granted in 2015 was raised to A2 (stable outlook).

In December 2022, the international credit rating agency Fitch Ratings confirmed A long-term debt rating granted to Lithuania in January 2020 and left a stable outlook, while S&P Global Ratings maintained A+ long-term debt rating granted in February 2020, changing the outlook from stable to negative. According to the experts of the credit rating agency Fitch Ratings, Lithuania's A rating is based on the country's reliable political system, prudent fiscal policy and governance indicators that exceed the median of countries with the same rating. Lithuania's economy is small and open, but a resilient export sector and low private sector indebtedness should mitigate the negative effects of the war in Ukraine and high inflation. The analysts of the credit rating agency S&P Global Ratings justified their decision by the fact that the russian war in Ukraine is likely to drag on and this may require Lithuania to spend more on defense and to amortize the negative effects of the energy price shock, and high annual inflation may negatively affect Lithuania's external competitiveness in the long run.

PART IV
QUALITY OF PUBLIC FINANCES

SECTION 1
TAX ADMINISTRATION

In the area of improving tax administration, the main focus will continue to be on reducing the gap between the shadow economy and VAT.

According to the EC's December 2022 study of the VAT gap in EU countries by the Center for Social and Economic Research (hereinafter referred to as CASE), a decreasing trend of the VAT gap is observed in Lithuania every year: in 2020, the VAT gap amounted to 19.3 %, and compared to 2019, it decreased by 1.6 percentage points. According to CASE's preliminary estimates, in 2021 the VAT gap decreased even more significantly - to 14.3 %, or compared to 2020, it decreased by 5 percentage points.

In order to contribute to the consistent reduction of the gap between the shadow economy and VAT in the field of tax administration, actions are made in 2 directions – aiming to promote voluntary tax payment and prevent tax violations.

The main legislative initiatives in this area are the following: amendments to the Republic of Lithuania Law on Tax Administration[40] and related laws adopted in 2022, which ensure adequate protection of taxpayers' data, expanded the range of fines for tax violations and the list of aggravating circumstances, repealed the provisions according to which tax legislation, provided together with the budget, may enter into force earlier than 6 months from the date of their adoption, unless these changes do not aggravate the situation of taxpayers, operators of digital platforms are required to provide the STI with information on the income of sellers operating on the platforms.

The Republic of Lithuania Law on Cash Payments[41] was adopted, from 1 November 2022 limiting cash payments if they exceed EUR 5,000.

In 2023, the STI installs the Intelligent Electronic Cash Register Subsystem (i.EKA), which will create conditions for the development of electronic services provided by the STI, i.e., for the digitized transfer of data recorded by cash registers to the STI, the abandonment of filling out daily paper registers of cash register operations, the submission of preliminary PIT tax returns and VAT declarations to business entities. i.EKA will ensure the immutability of data recorded by cash registers, increase the efficiency of the STI activities, improve tax administration.

Draft Law on Tax Administration and related laws[42] have been prepared, the purpose of which is to record, pay and recover various non-tax obligations to the state (economic monetary

[40] **Law No XIV-1658Amending Articles 2, 3, 12, 13, 25, 26, 32, 33, 38, 39, 40^1, 87, 88, 99, 104^2, 126, 139, 140, 164, Appendix and Supplementing with Article 61^3 of the Law On Tax Administration No IX-2112**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/9477dac27d2811edbdcebd68a7a0df7e?jfwid=-16ncpywryd.
[41] **Law On Restriction of Cash Payments No XIV-1165,** https://www.e-tar.lt/portal/lt/legalAct/d7206ef0fdf311ec8fa7d02a65c371ad.
[42] **1) Draft Law Amending Articles 1, 2, 14, 26, 86, 88, 93, 105, 106, 110 of the Republic of Lithuania Law On Tax Administration No IX-2112,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/396c95f0c71d11ed9b3c9397e1236c2a?positionInSearchResults=0&searchModelUUID=e6c3f381-900a-426c-9302-8333d14eb0fe.
2**) Draft Law Amending Article 650 and Supplementing with Article 583^1 of the Code of Civil Procedure of the Republic of Lithuania,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/d1347b50c71d11ed9b3c9397e1236c2a?positionInSearchResults=0&searchModelUUID=e6c3f381-900a-426c-9302-8333d14eb0fe.
3) **Draft Law Amending Articles 6, 100 and Repealing Articles 7, 8 of the Criminal Executive Code of the Republic of Lithuania,** https://e-

sanctions, fines for criminal acts, procedural fines, sums awarded by the court in favour of the state) to the state from the summer of 2026 on a one-stop shop basis through the STI.

The aim will be to simplify the fulfillment of the tax obligations of residents engaged in individual activities. The possibilities for a small entrepreneur to submit its data to the STI after opening a special individual activity account, which would automatically create the entrepreneur's income tax return and calculate the taxes to be paid, are under consideration.

The processes of data acquisition, analysis and decision-making carried out by the STI and the Lithuanian Customs will continue to be modernized, using advanced analytical methods and technologies based on the application of artificial intelligence methods, to improve the competences of tax administrator staff members, ensuring the performance of daily functions using advanced methods, to create conditions for developing the use of electronic documents in business.

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

SECTION 2
REFORM OF THE BUDGETARY FRAMEWORK

Lithuania is implementing the reform of the budgetary framework aimed at establishing an efficient medium-term budget system closely linked to the state strategic management system. The Plan for the Implementation of the Provisions of the Government Programme provides for the Government’s strategic work “Planning of general government finances focused on strategic objectives”, during the implementation of which it is planned by the second quarter of 2024 to draw up and introduce the medium-term budgeting rules, methodology for calculating the funds for continuing activities, and to implement the State budget expenditure reviews. These works are also foreseen in the RRF plan. After the completion of these works, it is planned to submit to the Seimas for approval an objectively and reasonably planned medium-term draft State budget for 2025-2027.

In 2022, a model of the principles of medium-term budgeting and management was prepared, according to which legal acts regulating the rules for medium-term budgeting and

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seimas.lrs.lt/portal/legalAct/lt/TAP/5bf543a0c71e11ed9b3c9397e1236c2a?positionInSearchResults=0&searchModelUUID=e6c3f381-900a-426c-9302-8333d14eb0fe.

4) **Draft Law Amending Articles 163, 307, 342 and 352 of the Code of Criminal Procedure of the Republic of Lithuania,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/c7d254f0c71e11ed9b3c9397e1236c2a?positionInSearchResults=0&searchModelUUID=e6c3f381-900a-426c-9302-8333d14eb0fe.

5) **Draft Law Amending Articles 672 and 676 of the Code of Administrative Offences of the Republic of Lithuania,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/31256000c71f11ed9b3c9397e1236c2a?positionInSearchResults=0&searchModelUUID=e6c3f381-900a-426c-9302-8333d14eb0fe.

management are currently being prepared, which are planned to be approved by the end of 2023.

In 2022, the Government approved the task of a systematic review of public expenditure in a protocol decision, according to which a systematic review of public expenditure will be carried out until September 2024 in order to identify inefficiently planned and used funds for continuing activities of the State budget, as well as methodologies of the planning of funds for continuing activities applied by ministries will be reviewed and assessed and other practices and proposed uniform principles and rules for planning funds for continuing activities. The obtained results of the systematic review of public expenditure will help to ensure effective, reasonable and transparent planning of funds for continuing activities during the preparation of the first draft medium-term budgetary plan for 2025-2027.

SECTION 3
SIP MANAGEMENT REFORM

In 2022, the volumes of centrally managed SIP portfolio remained largely unchanged and amounted to 1.2 million square meters, or 12% of the total SIP. ASIP accounted for 61.1 %, while SIP not used for the functions of the State intended for sale constituted 27.5 % of the total centrally managed SIP portfolio. According to the data of the beginning of 2022, a record high amount of EUR 50.8 million of income was received after the sale of 596 units of objects.

It should be noted that in order to implement the NPP objective of optimising the volume of state assets by means of effective management, so that the State had it to the extent necessary to perform the functions of the State, it is planned to achieve a 10% reduction in the volume of the ASIP portfolio by the end of 2025. The strategic activity plan of the Ministry of Finance for 2022-2024 provides intermediate values for the implementation of this NPP indicator. The plan envisages that in 2022, the reduction in the volume of the ASIP portfolio should reach 2.2 % and in subsequent years should increase by 3 % per year. However, the planned intermediate value of 2022 is exceeded by 2.1 % and reaches 4.3 %.

It is important to optimize not only the volume, but also the costs of the ASIP portfolio. From 1 July 2021 centrally managed administrative buildings use electricity from renewable energy sources. The green direction will be continued. Using state subsidies, it is planned to purchase part of the park of remote solar power plants.

The optimization of the volume of centrally managed ASIP is carried out in accordance with the 10-year investment plans for the renewal of the ASIP approved by the Minister of Finance. In the years 2023-2032, the planned investments in the renewal of the ASIP, financed from various funding sources and including energy efficiency improvement projects, will amount to EUR 507 million. A large share of these investments will be for the renovation project of the block of ministries and other state institutions on A. Goštauto Street, Vilnius, the implementation of which will require about EUR 167 million.

In order to create legal opportunities to implement the centralized management of SIP, which is used in the fields of education, science and sports, health, culture, social security, internal affairs and justice, it is planned to submit a package of laws to the Government in 2023 and provide for changes in legal regulation.

SECTION 4
ENSURANCE OF FINANCIAL STABILITY

Macroprudential policy and the function of reforming financial institutions pursued by the Bank of Lithuania contribute to ensuring financial stability of Lithuania. Detailed information on macroprudential policy, reforming financial institutions and implementation of other functions by the Bank of Lithuania can be found in the 2022 Report of the Bank of Lithuania[43] and the Report by the Bank of Lithuania to the Seimas of the Republic of Lithuania[44].

PART V
LONG-TERM SUSTAINABILITY OF GENERAL GOVERNMENT FINANCES

Strengthening the long-term sustainability of general government finances is of particular importance in the current context of geopolitical tensions and uncertainty. In 2022, the general government deficit was 0.6 % of GDP. The relatively small deficit was one of the main reasons for the fact that public sector debt did not increase significantly and amounted to 38.4 % of GDP in 2022, that is, it was significantly lower than the 60 % Maastricht debt criterion. If, as foreseen in the Programme, in 2023 and subsequent medium-term years, the general government deficit will be significantly lower than the 3 % of GDP Maastricht criterion for balance, the general government debt-to-GDP ratio will be about 39 % of GDP. The long-term sustainability of general government finances would be strengthened by the successful implementation of structural reforms envisaged in the RRF plan and other structural reforms that increase the potential of the economy, as well as the effective investment of national and EU funds. It is equally important not to take on long-term liabilities that are not covered by means of income.

The integrated projection of long-term general government expenditure for Lithuania[45] (hereinafter – long-term projection) carried out by the EC services together with the Working Group on Ageing Society and published in 2021 allows to identify the challenges of public finances related to demographic changes and to anticipate actions to ensure their future stability.

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[43] **2022 Report of the Bank of Lithuania**, https://www.lb.lt/lt/apzvalgos-ir-leidiniai/category.38/series.204.
[44] **Report by the Bank of Lithuania to the Seimas of the Republic of Lithuania**, https://www.lb.lt/lt/apzvalgos-ir-leidiniai/category.38/series.203.
[45] ***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.

The projections in Table 10 of the programme show the impact of demographic changes on the sustainability of pension, healthcare and education systems. According to the long-term projection, by 2040 the costs of the aging population related to pensions will increase by 1.3 percentage points of GDP compared to the costs in 2019. Health care and education expenses will increase by 0.7 percentage point of GDP. As costs related to population aging reach their highest growth rate in 2040, the negative impact of demographics on general government finances will decrease in subsequent years, but in 2070 costs will still increase by 1.6 percentage points of GDP compared to 2019 costs. In order to achieve the sustainability of public sector finances, it is necessary to take fiscal policy decisions with this long-term perspective in mind.

The long-term projection for Lithuania and other EU countries is updated every 2 years. The Commission is expected to publish an updated projection in 2024 in the 2023 Ageing Report.

Table 10. Projections of long-term general government expenditure

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

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

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

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

SECTION 1
COMPARISON OF PROJECTIONS

Comparison of indicators of economic development scenarios

Lithuania's GDP projections have been changed taking into account actual data for 2022 published by the SDA on 1 March 2023, current trends in economic development, fiscal policy measures proposed by the Government and foreseen when approving the 2023 budget affecting economic activity, geopolitical situation, changes in monetary policy and changed assumptions regarding the prospects of the foreign environment (Table 11).

Table 11. Comparison of GDP projections with the projections provided for in the SP2022

Title of the indicator	2022	2023	2024	2025	2026
Change in GDP at constant prices, %:					
SP2022 projection	1.6	2.5	3.0	3.0	–
projection in the programme	1.9	0.5	3.0	3.0	3.0
decrease (–) / increase (+)	0.3	–2.0	0.0	0.0	–

Source– Ministry of Finance.

Comparison of the general government finance and debt projections

In 2022, the actual balance of the general government sector is better than planned in the 2022 budget (autumn 2021), projected in the SP2022 (in spring 2021) and LDBP2023 (in autumn 2022). The differences between planned, projected and actual data for 2022 are due to the evolving need for funds to finance measures related to the reception of people who left Ukraine in Lithuania, part of other planned state budget expenditure was not spent, partly due to accelerated inflation, more revenue than planned was collected in the budgets attributed to the general government sector.

During the preparation of SP2022, the year 2022 was considered as the reference year for the average period of improvement of the general government balance, for which a general government deficit of 4.9 % of GDP was foreseen at that time. When projecting the estimated general government balance indicator for 2022, the Government's proposal for amending the 2022 budget was evaluated that aimed at allocating funds for measures related to help people who left Ukraine for Lithuania and strengthening national defence. The general government balance projection for 2023 presented in the Programme and SP2022 is not fundamentally different, while the projection for general government balances for 2024-2025 reflects the same aspiration as for SP2022 - to gradually improve the general government balance in order to achieve the medium-term objective in the medium term (Table 12).

Table 12. Comparison of the general government balance projections with the projections presented in SP2022

Title of the indicator	ESA code	2022	2023	2024	2025	2026
General government net lending (+) / borrowing (–):	B.9	% of GDP				
SP2022		–4.9	–2.4	–1.3	-1.0	–
projection in the programme		–0.6	–2.2	–1.7	–1.4	–0.9
decrease (–) / increase (+)		4.3	0.2	–0.4	–0.4	–

Sources: SDA, Ministry of Finance.
Note. The value of "Projection in the programme" represents the actual value for 2022.

The updated GDP, revenue and expenditure projections lead to differences in debt-level projections (Table 13).

Table 13. Comparison of the general government debt projections with the projections presented in SP2022

Title of the indicator	2022	2023	2024	2025	2026
General government debt:	% of GDP				
SP2022	43.3	43.7	42.6	42.5	–
projection in the programme	38.4	37.8	37.7	39.2	38.6
decrease (–) / increase (+)	–4.9	–5.9	–4.9	–3.3	–

Sources: SDA, Ministry of Finance.
Note. The value of "Projection in the programme" represents the actual value for 2022.

The differences between the programme projections and those of the EC are likely to be due to the inconsistent timing of the projections, rapidly changing and difficult to project economic situation, which was particularly affected by the negative consequences of the increased uncertainty due to geopolitical situation in Europe and changes in energy prices in 2022 and 2023 (Table 14).

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

Title of the indicator	Year	% of GDP		
		Ministry of Finance (programme indicators)	EC forecast	Difference between the projection of the Ministry of Finance and the EC forecast in absolute terms, in percentage points
1. General government balance	2022	–0.6	–1.9	1.3
	2023	–2.2	–4.4	2.2
2. Structural balance of general government	2022	–0.6	–1.8	1.2
	2023	–1.0	–3.5	2.5
3. General government debt	2022	38.4	38.0	0.4
	2023	37.8	41.0	3.2
4. Change in GDP at constant prices, %	2022	1.9	1.9	0.0
	2023	0.5	0.3	0.2
5. HICP, %	2022	18.9	18.9	0.0
	2023	8.5	8.7	0.2

Sources: Ministry of Finance, EC, SDA.
Notes:
1. The data column of the Ministry of Finance shows the actual values of the 2022 indicators.
2. Lines 1 - 3 contain the EC 2022 autumn forecast, lines 4 and 5 — EC 2023 winter forecast.

SECTION 2
SENSITIVITY ANALYSIS

Sensitivity analysis of GDP

Lithuania's economy is small and open, exports of goods and services make up a large part of the country's GDP (in 2022 it accounted for 87.2 % of GDP), therefore the economic situation and future prospects of trading partners have a significant impact on the development of the Lithuanian economy. In the medium term, economic development may be faster or slower compared to the projected one in the EDS. Due to the uncertainty of the course of the ongoing war in Ukraine and other factors, mainly external, there are both negative and positive risks of deviation from the EDS. Therefore, technical calculations were carried out and alternative scenarios were created, assuming that GDP growth in the relevant medium-term years will be 1 percentage point slower than the EDS (pessimistic scenario) and assuming that GDP growth in the relevant medium-term years will be 1 percentage point faster than the EDS (optimistic scenario) (Table 15).

Table 15. Alternative scenarios

Title of the indicator	2022	2023	2024	2025	2026
EDS					
Change in GDP at constant prices, %	1.9	0.5	3.0	3.0	3.0
GDP at current prices, MEUR	66,918.2	73,829.7	77,779.6	81,743.8	85,884.5
Change in GDP at current prices, %	19.1	10.3	5.3	5.1	5.1
Pessimistic scenario					
Change in GDP at constant prices, %	1.9	-0.5	2.0	2.0	2.0
GDP at current prices, MEUR	66,918.2	73,084.9	77,012.9	80,937.9	85,037.8
Change in GDP at current prices, %	19.1	9.2	4.3	4.1	4.0
Optimistic scenario					
Change in GDP at constant prices, %	1.9	1.5	4.0	4.0	4.0
GDP at current prices, MEUR	66,918.2	74,574.8	78,546.5	82,549.8	86,731.3
Change in GDP at current prices, %	19.1	11.4	6.4	6.1	6.1

Sources: Ministry of Finance, SDA.

Sensitivity analysis of revenue and central government interest payable

In the medium term, an increase of 1 percentage point in the market between variable and fixed interest rates would result in EUR 76 million, EUR 352 million and EUR 434 million increase in 2024-2026) in interest payable on new liabilities acquired by central government, i.e., an average of 34 basis points of GDP per year (Table 16).

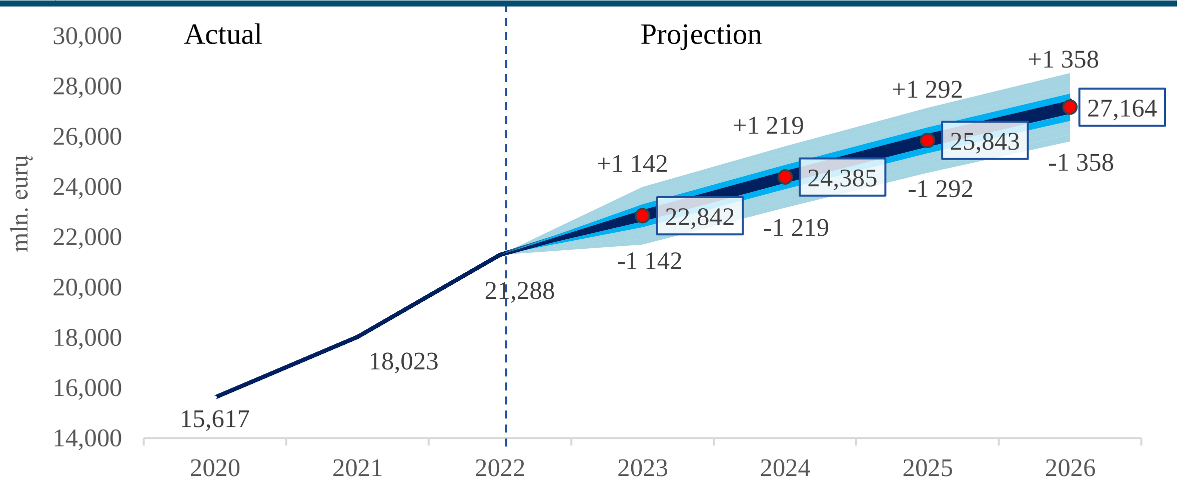
Table 16. Change in the general government balance and interest payable by central government

Title of the indicator	2024	2025	2026
Change in interest payable by central government with 1 percentage point increase (decrease) in floating and fixed interest rates, EUR million	76 (–76)	352 (–352)	434 (–434)
Change in the general government balance in case of increase (decrease) of interest payable by central government, % of GDP	–0.1 (0.1)	–0.4 (0.4)	–0.5 (0.5)

Sources: Ministry of Finance.

Based on the interrelation between the general government tax revenue and nominal GDP, a static sensitivity analysis has shown that a change in nominal GDP by 1 % can change the revenue projection presented in the programme from EUR 228 million in 2023 to EUR 272 million in 2026 (Fig.15).

Fig 15. Sensitivity analysis of the general government tax revenue (D.2 + D.5 + D.61 + D.91 – D.995)



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

SECTION 3
RISK ASSESSMENT

EDS fulfilment risk

The EDS has been developed in a context of increased instability in the external environment and economic uncertainty, still ongoing vigorous military actions in Ukraine. The magnitude of the negative economic consequences caused by the war for Lithuania will depend on how long the military actions in Ukraine will take and how the EU countries will be able to cope with energy challenges. The challenges posed by new virus strains also remain among the negative risk factors.

In the wake of the ongoing war in Ukraine, uncertainty about the evolution of energy commodity prices remains extremely high. Technical assumptions for energy commodity prices in 2023-2024 in the EDS were based on the Brent oil price assumptions published by the EC in February 2023 (84.8 USD/bar in 2023, 79.9 USD/bar in 2024) and publicly available market futures prices for natural gas (55.1 EUR/MWh in 2023, 56.7 EUR/MWh in 2024). From 2025 onwards, there is a technical assumption that these energy commodity prices will remain stable. Changes in these technical assumptions would change the outlook for inflation development. Inflation estimates could also change due to other factors, including possible Government decisions in the area of administered prices and changes in monetary, fiscal and labour market policies. The uncertainty of the course and consequences of the war in Ukraine and the development of energy prices will remain essential inflation risk factors in the medium term.

The demographic development projections of the EDS were based on publicly available updated demographic projections by Eurostat. Changes in demographic projections, trends in international migration or assumptions about labour force activity rates would change the outlook for labour market indicator.

The increased needs for strengthening energy independence due to the unfavourable geopolitical situation, the accelerated implementation of the European Green Deal projects could speed up the investment process in the country at a faster pace than foreseen in the EDS.

If the underlying assumptions based on which the EDS has been developed were not met, the estimates for many of the indicators in the EDS would change.

Fiscal risks

In the short term, major risks to general government finances will be linked to developments in the geopolitical situation, and its possible impact on the Lithuanian, EU economies, people, and security situation. The 2023 budget provides funds for measures related to assistance to the people of Ukraine who have fled to Lithuania due to russia's military actions in Ukraine, assistance to people and businesses in the event of rising energy prices. As russia continues its military actions in Ukraine, the countries of the EU and the world impose sanctions on russia and Belarus. If geopolitical tensions rise, the economic situation deteriorates, prices, especially of energy sources, rise even more strongly, other risks (Table 17) materialise, in such a case more or larger than expected in the Programme expenditure and/or revenue policy measures would be needed, and/or this would affect the general government finances.

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

Risk	Source of Risk	Degree of Risk	Likelihood of materialisation of the risk
Fiscal Risks			
Geopolitical tensions caused by russian military actions in Ukraine	As the number of people fleeing from russia's military actions in Ukraine increases, geopolitical tensions in Europe, significant increases in energy raw material prices and, accordingly, inflation, worsening performance of businesses and/or public sector enterprises may lead to additional expenditure and/or revenue policy measures	high	medium
COVID-19 pandemic	The emergence of new COVID-19 mutations may lead to a higher incidence of diseases leading to an increase in the general government expenditure due to application of COVID-19-related measures	low	low
Implementation of the RRF plan	If, during the implementation of the RRF plan, some of the indicators provided for in the plan were not achieved and part of the RRF grant funds were not received, the general government balance may deteriorate as a result	medium	medium
Changes in the activities of state-owned enterprises	Improvement or deterioration of performance may increase or decrease the amount of dividends paid to the State budget	medium	medium
Deposit and investment insurance	Bankruptcies of credit institutions would lead to higher expenditure of central government in meeting liabilities to depositors	low	low
Big changes in statistical corrections of national defence expenditure data	Significant differences in forecasts of military equipment, arms and stock acquisition costs and actual data in general government finance statistics on an accrual basis (acc. to ESA) may increase or reduce the general government expenditure	high	high
Political Cycle	Increased pressure before and during the elections to make long-term commitments before and during the election year, without providing for sustainable additional sources of funding to meet those commitments, may increase expenditure	high	medium
Changes in global financial market conditions	Changes in global financial markets may increase the Government borrowing costs	medium	low
Natural disasters	Storms, fires, epidemics can increase the general government expenditure	medium	medium
Risks related to climate change and its management	The costs of implementing all agreements related to climate change will put pressure on the general government finances, but the real risk is non-compliance with the agreements entered into, as the real impact of climate change on the society, industry and the economy would cause even higher negative affect.	high	medium
Demographic developments	Changing age structure of the society, better or worse-than-expected migration balance can affect the general government balance both positively and negatively	medium	medium
Other risks			
Risks to the stability of the financial system of Lithuania	The stability of the Lithuanian financial system could be most strongly affected by an economic shock due to a possible drop in exports, high inflation and increased interest rates, which could have a significant negative impact on the financial situation of residents and companies with loans and the possibilities of debt administration and significantly increase the credit losses experienced by financial institutions.		

Risk	Source of Risk	Degree of Risk	Likelihood of materialisation of the risk
	When moving from an environment of low interest rates to an environment of increasing ones, the possible vulnerabilities of banks and financial markets become apparent, so if tensions in the world financial markets increase, financial stability could be affected by a decrease in confidence in the financial sector, which would potentially lead to an increase in the liquidity risk of banks. With increased uncertainty regarding further economic development, rising interest rates, and reduced activity in the housing and commercial real estate markets, the likelihood of a significant price correction is increasing, which could have negative effects on the financial system. The increased geopolitical tension leads to a greater number of cyber-attacks, among which more and more often also those against the financial sector. Systemic cyber-attacks against systemically important financial institutions or third-party service providers can adversely affect the entire financial system. Detailed information on risks to the financial system will be provided in the 2023 Financial Stability Review[46].		

Sources: Ministry of Finance, Bank of Lithuania.

It is difficult to quantify the impact of the risks listed in Table 17 on general government finances, and the likelihood of the risk materialisation in the medium term varies from low to high. Budgets allocated to the general government should therefore be planned with caution in order to avoid undermining of the long-term sustainability of general government finances in case the risks materialise.

State guarantees

The state-guaranteed loan portfolio, according to the latest data of 28 February 2023, amounted to 1.1 % of GDP. Where, COVID-19-related state guarantee instruments constituted 0.4 % of GDP. Taking into account the expected guarantees to be issued for debt obligations assumed by guarantee institutions in 2023, regarding loans granted to students, loans granted to finance public investment projects and/or used to replenish turnover funds of enterprises referred to in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security loans, loans and non-equity securities used to implement the objectives of promoting the economy affected by emergencies and to increase the financial liquidity of the business, it is projected that the state-guaranteed debt may increase and reach 1.6 % of GDP at the end of 2023. Tables 18 and 24 of the programme show the maximum amounts of guarantee instruments available for 2023 and data on guarantee obligations actually issued by 28 February 2023.

[46] **The 2023 Financial Stability Review**, https://www.lb.lt/lt/lfsb-finansinio-stabilumo-apzvalga.

Table 18. State guarantees in 2023

Guarantee instrument	Maximum amount of guarantees available for 2023		Guarantees issued, acc. to the data of 28 February 2023	
	MEUR	% of GDP	MEUR	% of GDP
State guarantees related to COVID-19	307	0.4	260	0.4
State guarantees not related to COVID-19	901	1.2	570	0.8
Total:	**1,208**	**1.6**	**830**	**1.1**

Source – Ministry of Finance.

PART VII
DATA ON PUBLIC FINANCES

Table 19. General government indicators for 2022–2026

Title of the indicator	ESA code	2022		2023	2024	2025	2026
		MEUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (+)/net borrowing (−) (B.9) by subsector							
1. General government	S.13	–425.9	–0.6	–2.2	–1.7	–1.4	–0.9
2. Central government	S.1311	–1,538.6	–2.3	–3.0	–2.2	–1.8	–1.3
3. State government	S.1312	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
4. Local government	S.1313	132.5	0.2	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	980.3	1.5	0.7	0.5	0.4	0.4
General government (S13)							
6. Total revenue	TR	23,943.4	35.8	36.3	36.4	36.2	35.8
7. Total expenditure	TE	24,369.3	36.4	38.6	38.1	37.6	36.7
8. Net lending/borrowing	B.9	–425.9	–0.6	–2.2	–1.7	–1.4	–0.9
9. Interest expenditure	D.41	239.1	0.4	0.5	0.6	0.8	0.9
10. Primary balance		–186.8	–0.3	–1.8	–1.1	–0.5	0.0
11. One-off and other temporary measures		114.1	0.2	–0.1	0.0	0.0	0.0
Items of revenue							
12. Total taxes (12 = 12a + 12b + 12c)		14,451.8	21.6	21.0	21.4	21.6	21.7
12a. Taxes on production and imports	D.2	7,718.8	11.5	11.1	11.3	11.2	11.1
12b. Current taxes on income, wealth, etc.	D.5	6,729.8	10.1	9.9	10.1	10.3	10.5
12c. Capital taxes	D.91	3.1	0.0	0.0	0.0	0.0	0.0
13. Social security contributions	D.61	6,870.6	10.3	9.9	10.0	10.0	9.9
14. Property income	D.4	280.2	0.4	0.4	0.3	0.3	0.3
15. Other		2,340.8	3.5	5.0	4.7	4.3	3.9
16 = 6. Total revenue	TR	23,943.4	35.8	36.3	36.4	36.2	35.8
p.m.: Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		21,287.7	31.8	30.9	31.4	31.6	31.6

Title of the indicator	ESA code	2022		2023	2024	2025	2026
		MEUR	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Items of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	9,631.1	14.4	15.6	15.7	15.6	15.1
17a. Compensation of employees	D.1	6,782.3	10.1	10.1	10.1	10.1	10.1
17b. Intermediate consumption	P.2	2,848.8	4.3	5.6	5.6	5.5	5.0
18. Social payments (18 = 18a + 18b)	D.6M	9,443.7	14.1	14.7	14.7	14.7	14.6
o/ w unemployment benefits	D.6M	285.1	0.4	0.5	0.5	0.4	0.4
18a. Social transfers in kind	D.632	1,314.3	2.0	2.0	2.0	2.0	2.0
18b. Social transfers other than social transfers in kind	D.62	8,129.4	12.1	12.7	12.7	12.7	12.6
19 = 9. Interest expenditure	D.41	239.1	0.4	0.5	0.6	0.8	0.9
20. Subsidies	D.3	1,161.4	1.7	0.8	0.3	0.3	0.3
21. Gross fixed capital formation	P.51G	2,027.0	3.0	4.0	3.9	3.5	3.4
22. Capital transfers	D.9	486.4	0.7	0.9	0.7	0.7	0.6
23. Other expenditure		1,380.6	2.1	2.1	2.1	2.0	1.8
24 = 7. Total expenditure	OTE1	24,369.3	36.4	38.6	38.1	37.6	36.7

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

Table 20. General government revenue and expenditure under a no-policy-change scenario

Title of the indicator	Value of the indicator in 2022, MEUR	% of GDP				
		2022	2023	2024	2025	2026
1. Total revenue based on no-policy change assumption	23,943.4	35.9	36.8	36.4	36.3	35.8
2. Total expenditure based on no-policy change assumption	24,369.3	32.1	36.5	37.8	37.6	36.7

Sources: Ministry of Finance, SDA.
Note. The value of the indicator in 2022 is actual data, and the percentage of GDP expression of the indicator shows revenue or expenditure, eliminating the effect of discretionary measures of the respective year.

Table 21. General government debt projections

Title of the indicator	% of GDP				
	2022	2023	2024	2025	2026
1. General government statistical debt, including funds accumulated to manage refinancing risks	38.4	37.8	37.7	39.2	38.6
1.a. General government debt at year-end, excluding funds accumulated to manage refinancing risks	38.4	36.8	37.7	39.2	38.6
2.a. Change in general government debt	–5.3	–0.6	–0.1	1.5	–0.6
Determinants of general government debt					
3. Primary balance	–0.3	–1.8	–1.1	–0.5	0.0

Title of the indicator	% of GDP				
	2022	2023	2024	2025	2026
4. Interest expenditure	0.4	0.5	0.6	0.8	0.9
5. Stock-flow adjustment	1.1	0.8	0.2	2.0	0.5
o/w:					
difference between flows and commitments	–	–	–	–	–
net accumulation of financial assets, proceeds from its privatisation	–	–	–	–	–
implied interest rate on public debt, %	1.0	1.3	1.7	2.4	2.5
other relevant factors contributing to general government debt	–	–	–	–	–
6. Liquid financial assets	–	–	–	–	–
7. Net debt (7 = 1 – 6)	–	–	–	–	–
8. Debt amortisation from the end of the previous year	–	–	–	–	–
9. Percentage of debt denominated in foreign currency	–	–	–	–	–
10. Average debt term	–	–	–	–	–

Sources: Ministry of Finance, SDA.

Table 22. Expenditure taken into account in assessing the compliance of general government expenditure with the SGP expenditure rule

Title of the indicator	Value of the indicator in 2022, MEUR	% of GDP				
		2022	2023	2024	2025	2026
1. Expenditure for the implementation of the EU programmes, fully corresponding to the revenue of the EU Funds	726.8	1.1	2.4	2.3	2.0	1.7
2. Cyclical unemployment benefit expenditure	1.0	0.00	0.06	0.05	0.04	0.02
3. Discretionary revenue measures	138.1	0.2	-0.2	0.2	0.0	0.0
4. Revenue increase mandated by law	0	0	0	0	0	0

Sources: Ministry of Finance, SDA

Table 23. Impact of RRF subsidies on general government financial projections, % GDP

Rodiklio pavadinimas	MEUR							
	ESA code	2020	2021	2022	2023	2024	2025	2026
RRF grants (revenue)								
RRF grants included in the revenue projection		**–**	**0.0**	**52.3**	**505.2**	**717.6**	**535.4**	**288.6**
RRF grant revenue (cash flow principle)		**–**	**289.1**	**0.0**	**801.6**	**559.9**	**179.5**	**269.1**
Expenditure for implementation of the RRF plan measures								
Compensation of employees	D.1	–	–	0.0	N.A.	N.A.	N.A.	N.A.
Intermediate consumption	P.2	–	–	11.9	N.A.	N.A.	N.A.	N.A.

Rodiklio pavadinimas	MEUR							
	ESA code	2020	2021	2022	2023	2024	2025	2026
Social payments	D.62+D. 632	–	–	0.0	N.A.	N.A.	N.A.	N.A.
Interest expenditure	D.41	–	–	0.0	N.A.	N.A.	N.A.	N.A.
Subsidies	D.3	–	–	0.0	N.A.	N.A.	N.A.	N.A.
Current transfers	D.7	–	–	0.0	N.A.	N.A.	N.A.	N.A.
Other expenditure		–	–	0.1	N.A.	N.A.	N.A.	N.A.
TOTAL CURRENT EXPENDITURE		–	–	**12.0**	**229.2**	**265.5**	**213.3**	**120.9**
Gross fixed capital formation	**P.51g**	**–**	**–**	**40.3**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
Capital transfers	**D.9**	–	–		**N.A.**	**N.A.**	**N.A.**	**N.A.**
TOTAL CAPITAL EXPENDITURE		–	–	**40.3**	**276.1**	**452.1**	**322.1**	**167.7**
Other costs financed by RRF grants								
Reduction in tax revenue		–	–	–	–	–	–	–
Other costs with impact on revenue		–	–	–	–	–	–	–
Financial transactions		–	–	–	–	–	–	–

Source - Ministry of Finance.

Note: An amendment to the RRF plan is being prepared that will include the RRF loan. Informal negotiations with the EC are underway. The change in the RRF plan has not yet been officially submitted to the EC, as a result of which the preliminary loan amounts may change, there is no data yet on the loan payment schedule. The updated RRF plan also includes changes to existing measures financed by the RRF grant funds, supplementing the plan with new amounts of grant funds, therefore the projections of the RRF grant funds will also change.

Table 24. State guarantees in 2023

Guarantee instrument	Date of application of the guarantee instrument	Maximum possible amount of guarantees for 2023 (MEUR/% of GDP)		Guarantees issued, acc. to the data on 28 February 2023 (MEUR/% of GDP)	
State guarantee instruments related to the COVID-19 measures					
Guarantees of tour operators	July 2020	0.0	0.00	0.8	0.00
Portfolio guarantees administered by INVEGA	June 2020	19.1	0.03	19.1	0.03
Individual guarantees administered by the ACGF	June 2020	9.9	0.01	12.4	0.01
State guarantees on loans and non-equity securities used to implement the goals of promoting the economy affected by emergencies and to enhance business financial liquidity	March 2020	150.0	0.20	100	0.14
State guarantees concerning the establishment of the European Instrument for Temporary Support to mitigate Unemployment Risks in an Emergency (SURE) following the COVID-19 outbreak	September 2020	84.0	0.11	84.0	0.11
State guarantees on the European Investment Bank, established the European Guarantee Fund for the	July 2020	44.0	0.06	44.0	0.06

Guarantee instrument	Date of application of the guarantee instrument	Maximum possible amount of guarantees for 2023 (MEUR/% of GDP)		Guarantees issued, acc. to the data on 28 February 2023 (MEUR/% of GDP)	
response to the COVID-19 pandemic					
Total State guarantees related to the COVID-19 measures		**306.9**	**0.4**	**260.3**	**0.4**
State guarantee instruments not related to the COVID-19 measures					
State guarantees for commitments entered into by INVEGA under guarantees	–	315.1	0.43	194.4	0.26
State guarantees for the commitments entered into by the EAGGF under the guarantees	–	194.0	0.26	129.9	0.18
State guarantees on loans granted to finance public investment projects and/or used to replenish turnover funds of enterprises important to national security referred to in the Republic of Lithuania Law on the Protection of Objects Important for National Security	–	238.2	0.32	143.4	0.19
State guarantees for state-sponsored loans referred to in the Republic of Lithuania Law on Science and Studies	–	128.0	0.17	90.1	0.12
State guarantees for the loan of the International Bank for Reconstruction and Development, provided from own resources under the loan agreement for emergency support to ensure the continuity of public services in Ukraine	–	10.0	0.01	10.0	0.01
State guarantees for loans from the European Investment Bank	–	13.0	0.02	0.0	0.0
Total State guarantees not related to the COVID-19 measures		**901.2**	**1.2**	**570.1**	**0.8**
Total State guarantees		**1,208.1**	**1.6**	**830.4**	**1.1**

Source – Ministry of Finance.

Notes:

1. INVEGA —Investment and Business Guarantees UAB, ACGF — Agricultural Credit Guarantee Fund.
2. In the absence of information about the amount of loans issued by the European Investment Bank, established by the European Guarantee Fund for the response to the COVID-19 pandemic, which are guaranteed by the state of the Republic of Lithuania, the right column of the table shows the total amount according to the signed guarantee agreement with the European Investment Bank.

Table 25. Expenditure and revenue measures, related to high energy prices, % GDP

No.	Measure	Measure application start date	Measure application end date	Impact of the measure on general government finances (on an accrual basis), % GDP				Beneficiaries	Purpose of the measure / assumptions
				2022	2023		2024		
				Actual data	Planned in the budget for 2023	Projection	Projection		
1	2	3	4	5	6	7	8	9	10
Expenditure measures									
1.	Partial subsidy on the electricity price for households	1 July 2022	30 June 2023	0.6	1.3	0.1	0	All households	In the first half of 2023, the state allocates a subsidy to cover the final part of the electricity price exceeding 28 cents per kWh, and the maximum amount of the subsidy cannot exceed 28.5 cents per kWh (in the second half of 2022, the part of the price exceeding 24 cents per kWh was covered , and the maximum amount of the subsidy could not be higher than 9 cents per kWh) The planned amount (column 6) is based on the assumption that the price of electricity in the market will reach EUR 391 per MWh. The new projection of the amount of the subsidy (column 7) is made considering the fact that the price of electricity will decrease significantly (it will reach EUR 100-160 per MWh) and the number of suppliers or consumers who purchase electricity at a high price that requires compensation will decrease.
2.	Partial subsidy on the gas price for households	1 July 2022	30 June 2023	0.5		0.2	0	All households	The state allocates a subsidy of 99 cents per m^3 to reduce the price of natural gas for consumers who use gas to heat their homes or cook food. The planned amount (column 6) is based on the assumption that the price of natural gas will reach EUR 136 per MWh. The new amount of compensation (column 7) is projected taking into account the fact that the average price of natural

No.	Measure	Measure application start date	Measure application end date	Impact of the measure on general government finances (on an accrual basis), % GDP				Beneficiaries	Purpose of the measure / assumptions
				2022	2023		2024		
				Actual data	Planned in the budget for 2023	Projection	Projection		
									gas will be EUR 106.5 per MWh (including the actual prices for the months of January-March 2023 and the forecasted prices for the months of April-June 2023)
3.	Partial subsidy on the electricity price for businesses	1 October 2022	31 March 2023	0.2		0.01	0	All business entities	In the first quarter of 2023, the state allocated a subsidy to cover half of the price of electricity (excluding the price of infrastructure services and VAT) exceeding 28 cents per kWh (in the fourth quarter of 2022, the price of electricity above which the corresponding subsidy was applied was 24 cents per kWh) The amount of subsidies provided in the budget (column 6) is determined based on the forecasted price of electricity – EUR 400 per MWh, and the new estimated amount (column 7) is determined based on the actual payments for January-February 2023 and the projection of payments for March 2023
Revenue measures									
4.	Support to households: increase in non-taxable-amount	1 January 2023	Not provided for by law	0	-0.2	-0.2	-0.2	Targeted measure focused on more socially sensitive population groups contributing to personal income growth.	Intended to reduce labour taxation for low- and middle-income earners, contribute to preserving the real income level of vulnerable groups.
5.	Support to households: compensation of VAT calculated for heat energy and hot water	1 April 2022	30 April 2024- (will temporarily expire during the period 1 May 2023-05–30 September 2023	-0.1	-0.1	-0.1	-0.1	Household consumers who receive heat energy for heating residential premises and hot water from heat suppliers.	Intended to partially reduce the financial burden on residents due to future bills for heating and hot water in the heating seasons of 2022-2023 and 2023-2024

No.	Measure	Measure application start date	Measure application end date	Impact of the measure on general government finances (on an accrual basis), % GDP				Beneficiaries	Purpose of the measure / assumptions
				2022	2023		2024		
				Actual data	Planned in the budget for 2023	Projection	Projection		
6.	Support to businesses: tax deferral	7 October 2022	30 April 2023	0	-0.4	0	0	Companies in financial difficulties, if their energy costs accounted for 10 % or more of their total operating costs in 2021	Intended to preserve the viability of taxpayers affected by the energy crisis
7.	Support to businesses: Application of the reduced 9 % VAT rate on catering services	1 January 2023	31 December 2023	0	-0.2	-0.2	0	Catering companies	Intended to contribute to the stabilization and preservation of business activity that is recovering more slowly after the COVID-19 pandemic and is affected by the increase in energy prices
8.	Support to businesses: Application of the reduced 9 % VAT rate on sporting and performers' services	1 January 2023	1 July 2023	0	-0.01	-0.01	0	Companies organising sport events and sports club activities, or performers' services	Intended to contribute to the stabilization and preservation of business activity that is recovering more slowly after the COVID-19 pandemic and is affected by the increase in energy prices

Data sources: Ministry of Finance, SC "Ignitis"

Notes:

1. The amounts of electricity and gas energy price subsidies presented in lines 1 and 2 of column 10 are set by Government of the Republic of Lithuania Resolution No 553 of 30 May 2022 On the Application of Partial Compensation of the Price of Electricity and/or Natural Gas, Intended to Reduce the Costs of Household Consumers of Electricity and/or Natural Gas for the Consumed Electricity and/or Natural Gas."
2. The amounts of electricity price subsidies presented line 3 of column 10 are set by Government of the Republic of Lithuania Resolution No 1026 of 26 October 2022 On the Procedure for Awarding and Administering Support for Reducing the Costs of Non-Domestic Consumers of Electricity for Consumed Electricity “.
3. The legal basis of the measure specified in line 5 is the Law on Personal Income Tax.
4. The legal basis of the measures specified in lines 6, 8-10 is the Law on Value Added Tax.
5. The amount of EUR 888.5 million covering lines 1-3 of column 6 was foreseen in the budget for 2023, without distinguishing this amount by the individual measures specified in lines 1-3.
6. Regarding the extension of the measures specified in lines 1-2 for the second half of 2023, the Government will make a decision by 1 July 2023, taking into account the information provided by the National Energy Regulatory Council regarding the further development of energy prices.

PART VIII
INSTITUTIONAL SET-UP OF GENERAL GOVERNMENT FINANCES

The draft 2024 budget will be drawn up in accordance with the Plan for the Preparation of Draft Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2024[47].

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

Information on the development of a green budgetary framework in Lithuania is provided in Stability Programme of Lithuania for 2021.

Information on institutional changes in the budgetary framework aimed at improving the efficiency of public finances is provided in Section II of Part IV of the programme.

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[47] **Government Resolution No 155 of 15 March 2022 on the Approval of the Plan for the Preparation of Draft Financial Indicators of the State Budget and Municipal Budgets of the Republic of Lithuania for 2024**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/58e74796c3c111ed924fd817f8fa798e?positionInSearchResults=0&searchModelUUID=4d3d5117-4bab-4b75-8c65-c47c787e2ba3.