MINISTRY OF FINANCE
of the Republic of Lithuania

2022 Lithuanian Draft Budgetary Plan

15 October 2021

CONTENT

TABLES

ABBREVIATIONS

AW	Average wage
Budget framework reform	Reform of budgeting and strategic planning framework implemented in Lithuania
Budget for 2021	Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2021
Constitutional Law	Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty (of 6 November 2014 No. XII-1289)
COVID-19	COVID-19 disease (coronavirus infection)
COVID-19 related measures	Measures related to the management of the COVID-19 pandemic and mitigation of its negative effects
Draft budgetary plan	Draft Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2022
Economic development scenario	Economic development scenario[1] prepared by the Ministry of Finance, published on 10 September 2021 as well as approved by the fiscal institution[2]
ESA	European System of Accounts
EU	European Union
Fiscal institution	Independent fiscal institution in Lithuania the functions of which are performed by Budget Policy Monitoring Department of the National Audit Office of the Republic of Lithuania
GEC	General escape clause of the EU Stability and Growth Pact[3]
GDP	Gross domestic product. The Programme indicates the GDP value at current prices in 2020 in the amount of EUR 48, 929.7 million
Government	Government of the Republic of Lithuania
Government Programme	Programme of the XVIII Government of the Republic of Lithuania[4]
HICPs	Average annual inflation measured by the methodologically harmonised index of consumer prices across the EU Member States
DBP	2022 Lithuanian Draft Budgetary Plan
MMW	Minimum monthly wage
Ministry of Finance	Ministry of Finance of the Republic of Lithuania
NPP	2021–2030 National Progress Plan[5]

[1] Economic development scenario, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.
[2] Conclusion of the fiscal institution concerning the approval of the economic development scenario, https://www.valstybeskontrole.lt/LT/Product/24032.
[3] **EC Communication on Economic policy coordination in 2021**, https://ec.europa.eu/info/system/files/com-2021-500_en.pdf.
[4] **Seimas Resolution No XIV-72 of 11 December 2020 on Programme of the Eighteenth Government of the Republic of Lithuania**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/973c87403bc311eb8c97e01ffe050e1c?positionInSearchResults=3&searchModelUUID=1b07b36f-911c-444f-a7e6-f1b4c79c31be.

NTA	Non-taxable amount
PIT	Personal income tax
RRF	Recovery and Resilience Facility – a new EU instrument of grants and loans to the EU Member States designated for structural reforms and related investment as well as for implementation of green and digital transformation[6]
Recommendation for Lithuania	Council Recommendation delivering a Council opinion on the 2021 Stability Programme of Lithuania[7]
RRF plan	A plan for structural reforms and related investment as well as for implementation of green and digital transformation facilities in Lithuania[8], which is foreseen to be implemented with the funds of the instrument Next Generation EU in 2021–2026 and which has been approved by the EU Council on 26 July 2021
Seimas	Seimas of the Republic of Lithuania
SGP	EU Stability and Growth Pact[9]
Stability Programme	2021 Stability Programme of Lithuania approved by RoL Government Resolution No. 279 of 28 April 2021 on 2021 Stability Programme of Lithuania[10]
STI	State Tax Inspectorate
Structural balance	General government structural balance indicator
VAT	Value added tax

[5] **Government of the Republic of Lithuania Resolution No 998 of 9 September 2020 on the Approval of the National Progress Plan for 2021-2030,** https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c1259440f7dd11eab72ddb4a109da1b5?jfwid=32wf90sn.

[6] At present 70 % of the grant of the facility is dispensed for the EU countries. For Lithuania it makes up about EUR 2.092 billion. The remaining share of 30 % will be dispensed among the Member States in 2022 considering the latest GDP data. Based on projections, Lithuania may receive from this facility non-repayable grants in total amount of about EUR 2.225 billion. If necessary, Lithuania might apply for a loan not larger than 6.8 % of the gross national product in 2019 (approx. EUR 3 billion).

[7] **Council Recommendation,** https://data.consilium.europa.eu/doc/document/ST-9240-2021-INIT/lt/pdf.

[8] **Recovery and Resilience Facility Plan**, https://finmin.lrv.lt/uploads/finmin/documents/files/Naujos%20kartos%20Lietuva%20planas.pdf.

[9] **SGP** – Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/legal-basis-stability-and-growth-pact_en.

[10] **2021 Stability Programme of Lithuania**, https://finmin.lrv.lt/uploads/finmin/documents/files/LT_SP_2021_04.pdf.

INTRODUCTION

Having regard to 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 and the Specifications on the implementation of the Two Pack, Lithuania hereby provides the European Commission and the Eurogroup with the DBP.

Considering the fact that expenses of the implementation of measures for maintenance of economic viability of the country and ensuring health care and public security will have a major impact on general government finance, the Government by its Resolution No. 230 of 18 March 2020 on Delegation of Powers to the Ministry of Finance[11] authorised the Ministry of Finance to initiate identification of exceptional circumstances in the Republic of Lithuania. Exceptional circumstances are established and cancelled following Article 7 of the Constitutional Law. According to the Constitutional Law and SGP, exceptional circumstances are considered as an unusual event outside control of public authorities and which has a major impact on financial position of the general government, or a severe economic downturn. On 27 March 2020 the Fiscal institution published its conclusion stating that the situation occurring in the country corresponds to the definition of an unusual event[12]. Due to great uncertainty and risks related to the development of the COVID-19 pandemic and its impact on general government finance, exceptional circumstances are not foreseen to be cancelled in 2022.

The SGP GEC applied as of 2020 is the SGP flexibility clause applied by the European Commission in the context of the COVID-19 pandemic in the EU, the euro area economic crisis, the economic downturn of the Member States in 2020 and large-scale general government expenditure related to managing the COVID-19 pandemic and mitigating its consequences on the economy, social environment and the health system. Under the GEC, the fiscal discipline rules of the SGP are not applicable, and the deviation of the structural general government balance from the medium-term objective, when implementing the measures to address the consequences of the COVID-19 pandemic on the economy, health system and social environment, is not considered to be not in line with the SGP.

Under prevailing uncertainty about the development of the COVID-19 pandemic and its effects on Lithuania's economy and general government finance, exceptional circumstances are not foreseen to be cancelled in 2022. The SGP GEC will be applied to the EU countries, including Lithuania.

The DBP has been drawn up in line with the draft budgetary plan[13], draft laws on the approval of indicators of the State Social Insurance Fund[14], Compulsory Health Insurance Fund [15]

[11] **Government Resolution No. 230 on Delegation of Powers to the Ministry of Finance**, https://finmin.lrv.lt/uploads/finmin/documents/files/LRV_nutarimas_%20%C4%AFgaliojimas_FM.pdf.

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

[13] **Draft budgetary plan**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/d7557fa02ab311ec99bbc1b08701c7f8?positionInSearchResults=0&searchModelUUID=9d559d16-c72d-49ed-8166-be934c8ce832.

budgets for 2022, as well as considering the economic development scenario, updated revenue and expenditure projections of budgets attributable to the general government. It also takes into account the EU Council Recommendation for Lithuania, the estimated expenditure and revenue related to the implementation of the RRF plan measures, the costs of implementing the COVID-19 related measures. The DBP is aligned with the plan of measures to implement the Recommendation for Lithuania[16].

Lithuania's medium-term objective for 2022 is structural general government deficit of 1 % of GDP set by Seimas Resolution No XIV-193 of 16 March 2021 on Setting the Medium-Term Objective. For the medium term of 2023–2025, the Government will suggest the Seimas to set the medium-term objective in spring of 2022.

The DBP presents Lithuania's general government debt projections for 2021 and 2022 and general government finance projections under policy and no-policy change scenarios. The DBP reviews the macroeconomic situation and its perspectives.

PART I
MACROECONOMIC SITUATION AND PROSPECTS

The DBP presents the economic development scenario of Lithuania prepared by the Ministry of Finance, which was published on 10 September 2021.

Lithuania's economy recovered at the beginning of 2021 – a 4.7 % GDP growth was recorded in the first half of 2021. In the area of contact services most affected by the pandemic, the decline in value added was still recorded in the first half of 2021, but the increasing number of vaccinated people, lifted national quarantine as of 1 July and easing restrictions on economic activity lead to a gradual recovery of these activities as well. Good results for the first half of 2021, more favourable economic perspectives for the EU, growing number of immunised people provide a reasonable chance of relatively strong economic growth in the medium term. Lithuania's economy could grow 4.3 % in 2021, while in 2022 the economic growth is expected to be 4 %. In 2023 and 2024 the GDP is predicted to grow 3.5 % per year. Economic growth in the medium term will be supported by growing domestic and external demand.

The labour market situation improved in the first half of 2021 − the unemployment rate diminished, while the employment in the second quarter increased, although both indicators remained worse than before the COVID-19 pandemic. Taking into account labour market trends, assumptions about vaccination of the population and demographic developments, the labour market situation is expected to improve in 2021: the number of employed persons, after a 1.5 % decline recorded in 2020, will increase by 0.4 % in 2021, while the unemployment rate, calculated

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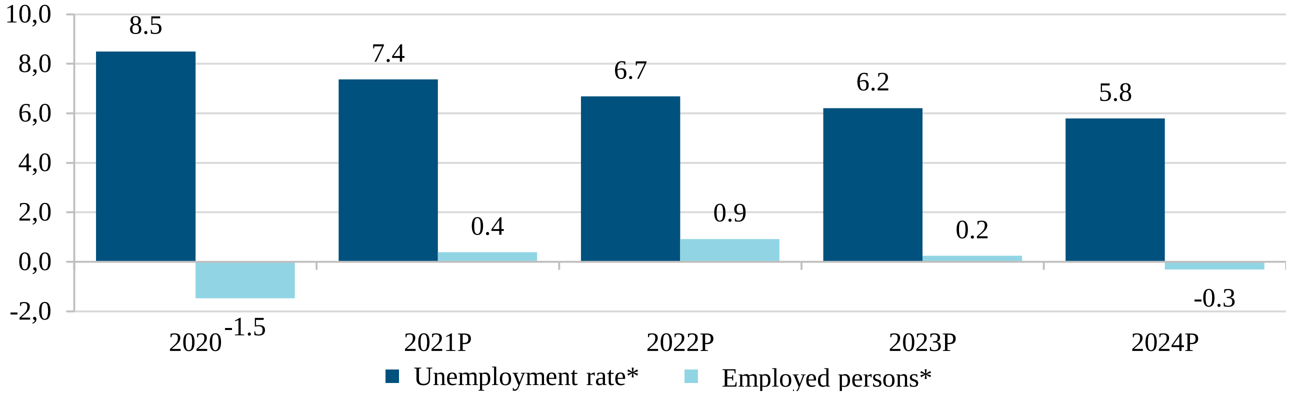
[14] **Draft Law on the Approval of Indicators of the Budget for 2022 of the State Social Insurance Fund**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/6ca85c70283a11ec99bbc1b08701c7f8?positionInSearchResults=0&searchModelUUID=9d559d16-c72d-49ed-8166-be934c8ce832.
[15] **Draft Law on the Approval of Indicators of the Budget for 2022 of the Compulsory Health Insurance Fund**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/3d29f3602b4511ec99bbc1b08701c7f8?jfwid=159qee60si.
[16] **Plan of measures for the recommendation for Lithuania**, https://eimin.lrv.lt/lt/ekonomikos-ir-inovaciju-ministerija/administracine-informacija/strategijos/strategija-2020-m-europa.

according to the Labour Force Survey methodology, will decrease from 8.5 % to 7.4 %. As of 2022, the economic activity of the population and employment growth will be driven by the accelerating implementation of the RRF plan resulting in an increasing number of employed persons up to 0.9 % in 2022, and a decreasing unemployment rate down to 6.7 %. In the following medium-term years, the number of the working-age population will decline due to demographic reasons, and this will negatively affect the labour supply and employment — despite strong labour demand, the number of employed persons at the end of the medium-term is also expected to decline. Demand for workers should remain high, but due to the lack of workers matching labour market needs, the unemployment rate will fall at less accelerated pace and will represent about 6 % at the end of the medium term.

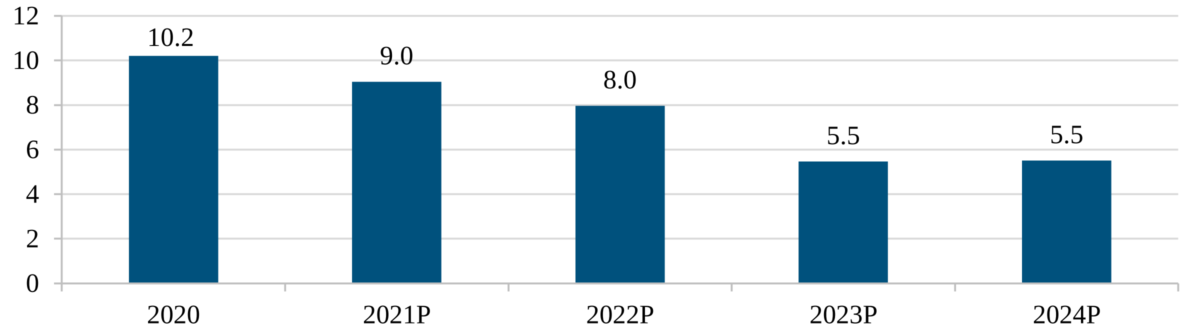
Fig. 1. The unemployment rate and developments in employment of population, %



Sources: Ministry of Finance, Statistics Lithuania.
* According to the Labour Force Survey methodology.

Wage development in the country remained favourable in the first half of 2021, the purchasing power of the population continued to grow rapidly. A strong increase in demand for workers and the shortage of workers with skills matching labour market needs, increased wages in the public sector will significantly increase wages in 2021. Therefore, the average gross monthly wage in Lithuania is expected to grow 9 % in 2021. Taking into account the expected Government decisions on remuneration of workers in the public sector and the amount of the MMW, as well as wage development trends in the private sector, the wage growth rate in the country is expected to reach 8 % in 2022. At the end of the medium term, the wage growth rate could slow down and be close to 5.5 %. In the medium term, the wage growth rate will exceed inflation leading to a growing purchasing power of workers.

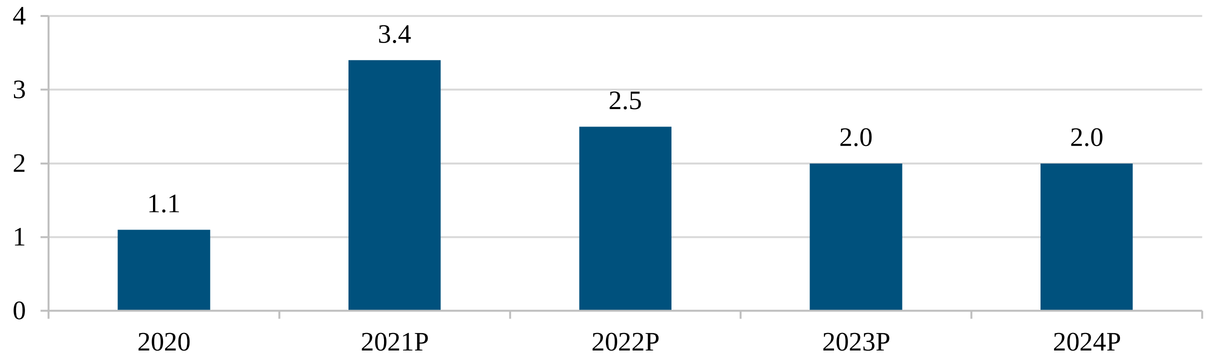
Fig.2. Developments of average monthly gross wages, %



Sources: Ministry of Finance, Statistics Lithuania.

Annual inflation accelerated in the first half of 2021. Since March, the inflation has been driven mainly by short-term externalities such as high prices of imported energy and other raw materials of industrial goods. Taking into account the development trends in consumer prices and technical assumptions about oil price development, the average annual inflation is expected to reach 3.4 % in 2021. In the following medium-term years, global raw material prices are projected to stabilise, therefore the impact of short-term factors currently increasing consumer prices should be limited and the pressure on price growth should diminish. The inflation rate could slow down to 2.5 % in 2022, and to 2 % in 2023-2024.

Fig. 3. Average annual inflation, %



Sources: Ministry of Finance, Statistics Lithuania.

Table 1. Macroeconomic indicators

	ESA code	2020	2020	2021	2022
		MEUR	Change, %		
1. GDP, chain-linked volume	B1*g	42,920.9*	–0.9*	4.3	4.0
2. Potential GDP		43,255.9	3.8	4.2	3.7
o/w:					
- labour			0.3	0.6	0.1
- capital			1.6	1.9	2.0
- total factor productivity			1.9	1.6	1.6
3. GDP, at current prices	B1*g	48,929.7*	0.2*	9.7	6.6
GDP components (at constant prices)					
4. Household consumption expenditure + consumption expenditure of NPIs serving households (NPIs)	P.3	26,433.7*	–2.0*	5.4	3.8
5. General government consumption expenditure	P.3	6,472.2*	0.6*	0.3	0.1
6. Gross fixed capital formation	P.51	9,619.3*	–0.2*	13.4	7.5
7. Changes in stocks and acquisitions of valuables less disposals, % of GDP	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
8. Export of goods and services	P.6	35,763.3*	0.0*	11.1	6.2
9. Import of goods and services	P.7	32,163.3*	–5.3*	14.2	7.4
Contributions to change in GDP, percentage points (excl. level in MEUR in 2020)					
10. Final domestic demand		42,524.0*	–1.2*	6.2	4.0
11. Changes in inventories and acquisitions of valuables less disposals	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
12. Balance of goods and services	B.11	3,599.9*	3.8*	–1.0	–0.6

* Economic development scenario has been drawn up based on statistical data published on 31 August 2021.

PART II
GENERAL GOVERNMENT FINANCE

SECTION 1
BALANCES AND FISCAL POLICY ASSESSMENT

Years 2020 and 2021

In 2020 the general government deficit made up EUR 3,598.3 million[17], or 7.4 % of GDP. The deterioration of the general government balance, as compared to the balance of 2019 and previous years, is mainly due to the unprecedented scope of financial support to manage the COVID-19 pandemic and to mitigate the consequences of the pandemic. In 2020 EUR 3.3 billion, or 6.7 % of GDP, of which EUR 2.7 billion, or 5.5 % of GDP (Table 2), for the measures affecting the general government balance, were allocated for the implementation of the COVID-19 related expenditure measures. Due to the applied COVID-19 related revenue measures — tax deferral — about EUR 311 million, on accrual basis, or 0.6 % of GDP, of the general government revenue was lost in 2020. Without considering the impact of the COVID-19 related measures on the general government balance as one-off measures, the structural deficit accounted for 7 % of GDP in 2020. However, considering these measures as one-off, the structural deficit would represent 1 % of GDP[18].

The general government deficit of 7 % of GDP for 2021 was planned in the Budget Law for 2021. The Stability Programme projected the general government deficit of 8.1 % of GDP.

In July 2021, the Budget Law for 2021 was amended[19]. According to the amended Budget Law for 2021, the general government deficit accounted for 6.9 % of GDP. The amended Budget Law for 2021, considering the updated economic development scenario published in June 2021[20], had increased revenue, but also additionally provided for about EUR 0.5 billion, if necessary, to finance the COVID-19 related expenditure measures. In total, the 2021 budget foresees about EUR 1.7 billion for the **COVID-19 related expenditure measures**. Additional funding is foreseen for healthcare – for purchase of vaccines and implementation of other COVID-19 related measures; for social security — for support for self-employed persons, temporary job-search allowance for unemployed persons; for economic area − to help businesses save jobs during and after the pandemic and to promote new jobs after the pandemic (Table 2). The COVID-19 related revenue measures, introduced in 2021, are expected to result in loss of the general government revenue of about EUR 122 million, on accrual basis, or 0.2 % of GDP.

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[17] In 2020 the general government balance (–EUR 3, 598.3 million) may change after Eurostat publishes updated Lithuania's general government finance statistical data on 21 October 2021.

[18] Structural balance is calculated by using the cyclical component of the budget estimated by using the output gap measured accordance with the economic development scenario.

[19] **Law No XIV-430 Amending the Preamble, Articles 1, 2, 3, 9, 10, 11, 14, 20 and Annexes 1, 2, 3, 4, 5, 6, 7, 8 of the Republic of Lithuania Law No XIV-102 of 22 June 2021 on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2021**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/1432d2e2d41c11eb9787d6479a2b2829?positionInSearchResults=0&searchModelUUID=29593ef9-c63d-4855-ac64-93d16625e546.

[20] **Economic development scenario of 11 June 2021**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus/scenarijus-2021-birzelis.

For the most efficient use of funds, the funds foreseen for aid measures in 2021, by the decision of the Government, are allocated to the Ministries implementing the COVID-19 related measures, based on the constantly changing pandemic situation and the need for measures.

As of 16 March 2020, **tax aid measures** such as exemption from default interest and penalties for taxes not paid in due time, non-enforcement of tax recovery and exemption from interest on tax loan, were introduced for taxpayers.

Tax aid measures applied in 2020 were extended[21] until 30 April 2021, and a decision was taken in April 2021 to extend them for another four months until 31 August 2021. In addition, until 31 October 2021 such arrears are not subject to forced recovery actions and default interest. As of 1 September 2021, taxpayers' requests for inclusion of the taxpayer on the list of affected companies and requests for the conclusion of tax loan agreements without interest are no longer accepted. Taxpayers have to pay the newly generated taxes as of 1 September 2021 in accordance with the procedure laid down by laws. The fees specified in the tax loan agreement will have to be paid without interest until the end of 2022. After this deadline, interest will have to be paid for the use of the loan.

From the beginning of 2021 till 31 August, the amount of tax deferrals resulting from the tax liabilities created during this period amounted to EUR 146.6 million. In the same period, taxpayers paid back EUR 216.7 million of deferred taxes generated in 2020. Over this period, total arrears related to the COVID-19 pandemic decreased about EUR 70 million.

On 30 September 2021, one month after the expiry of the tax deferral measure, the arrears of taxpayers affected by the COVID-19 pandemic (generated in 2020 and 2021) amounted to EUR 587.2 million, where EUR 521.9 million is subject to tax loan agreements. Taxpayers have the option to repay the remaining EUR 65.3 million without interest by 31 October.

The detailed information on the COVID-19 related revenue and expenditure measures is presented in Tables 17 and 18.

Table 2. COVID-19 related general government expenditure measures

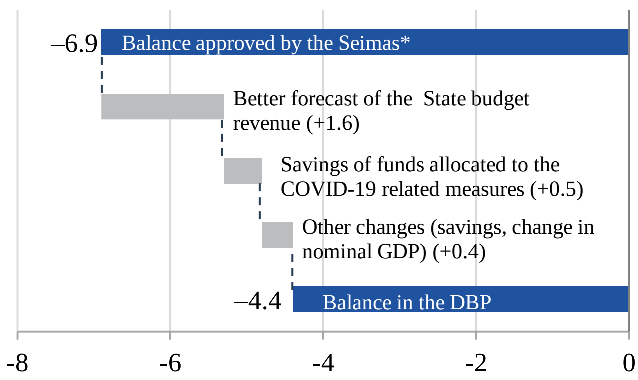
General government expenditure	EUR million			
	2020 (actual data)	2021 (acc. to the 2021 Budget Law)	2021 (acc. to the updated 2021 Budget Law)	2021 (acc. to the assumption on use of the funds)
Compensation of employees	97.1	45.0	120.9	120.9
Intermediate consumption	231.1	156.7	431.9	371.9
Social benefits	571.8	210.5	239.4	239.4
Subsidies	1,057.3	562.0	1,001.0	781.0
Capital formation	529.9	0	0	0
Capital transfers	122.1	0	0	0
Other	53.8	78.5	0	0
Total:	2,663.1	1,052.7	1,793.2	1,513.2

Source – Ministry of Finance. The table presents only the measures affecting the general government balance.

[21] In 2021, the principles for applying tax aid were revised and the criteria for recognising individuals as victims of the pandemic were strengthened. In 2021, the STI drew up a new list of taxpayers subject to tax aid measures. This list was drawn up on the basis of a list of codes for restricted and indirectly restricted economic activities during the quarantine period, as well as an assessment of the decrease in turnover, reliability of taxpayers, insolvency.

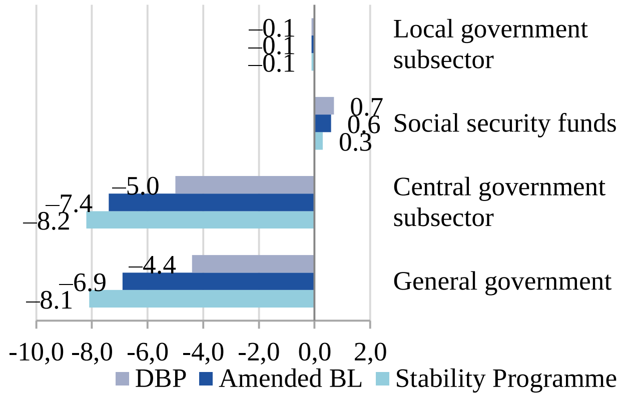
According to the information available at the time of drafting the DBP, in 2021 the general government deficit is expected to account for 4.4 % of GDP. The reduction in the deficit, as compared to previous estimates for this year, is determined by the assumption about the State budget appropriations to be lower by EUR 70 million than planned and savings of appropriations designated for financing the COVID-19 related measures. It is estimated that about EUR 280 million of planned appropriations designated for the implementation of the COVID-19 related measures may be not used this year. According to the data on 1 October 2021, about EUR 1 billion was actually used out of the total amount of EUR 1.8 billion allocated to finance the COVID-19 related measures.

Fig. 4. Comparison of the general government balance estimates in 2021, % of GDP



Source –Ministry of Finance.
**General government balance based on the 2021 budget amendment data.*

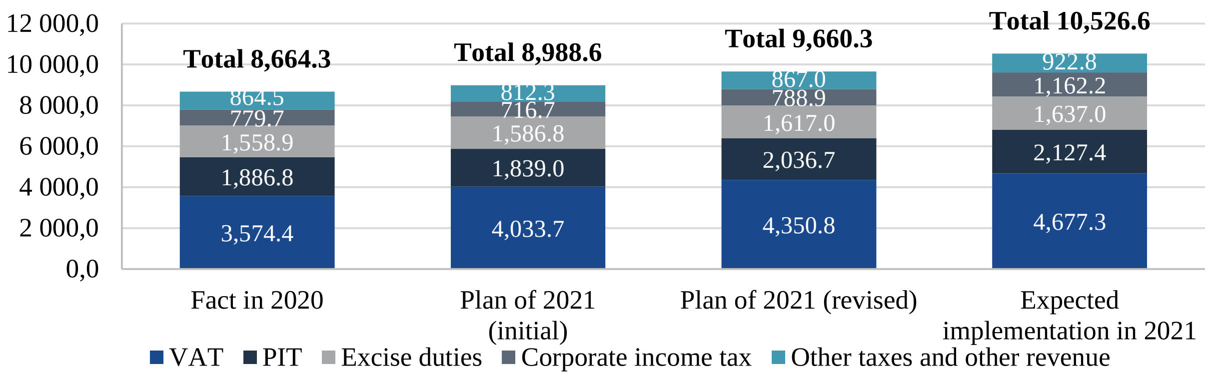
Fig. 5. General government and subsectors balances in 2021, % of GDP



Source –Ministry of Finance.

At the same time, the deficit reduction is driven by higher-than-expected revenue in 2021. EUR 8,989 million (on cash basis) of the collected State budget revenue, excluding EU and other international financial support, was planned in the 2021 Budget Law. Following the update of the economic development scenario by the Ministry of Finance in June 2021, after reconsidering the assumptions about tax deferrals, the revenue plan of the State budget for 2021 was also revised – the expected amount to be collected to the State budget makes up EUR 9,660 million. Taking into account the revenue collection data available at the time of the preparation of the DBP, it is estimated that the revised State budget plan will be exceeded by about EUR 866.3 million, mainly due to better than planned collection of VAT, corporate income tax, PIT and excise duties.

Fig. 6. State budget revenue in 2020 and 2021, EUR million



Source: Ministry of Finance.

It is estimated that in 2021 the State budget will generate revenue, on accrual basis, in the amount of about EUR 823.6 million (1.5 % of GDP), or by 8.5 % more than expected during the revision of the 2021 budget.

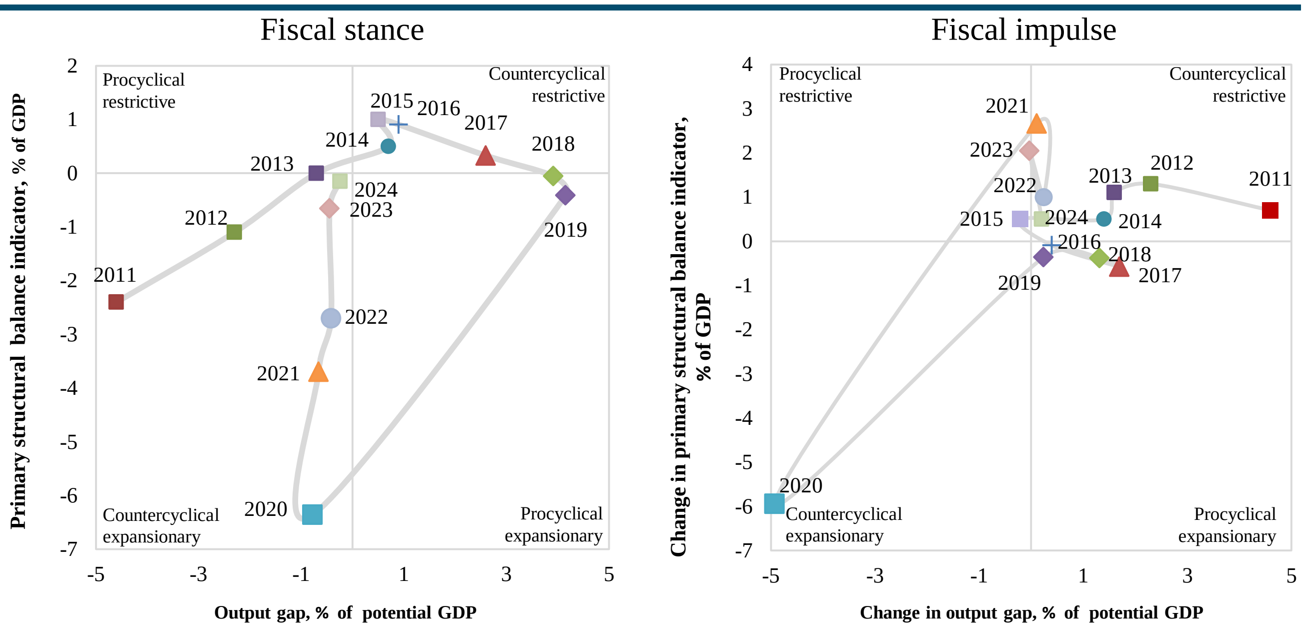
The structural general government deficit is projected to reach 4.1 % of GDP in 2021, and the primary structural balance is expected to improve by 2.7 percentage point of GDP as compared to the primary structural balance in 2020 (Table 3, Fig.7). The positive change in the primary structural balance (reduction of the primary structural deficit) reflects a restrictive fiscal impulse, while the fiscal stance in 2021 remains countercyclical expansionary. However, considering the expenditure for financing the COVID-19-related measures as one-off, i.e. excluding this expenditure from the balance for the years 2020 and 2021, the change in the primary structural balance becomes negative (-0.3 percentage point of GDP as compared to 2020) and represents a stimulus for the economy.

Table 3. Medium-term general government balances, % of GDP

Title of indicator	2020	2021	2022	2023	2024
General government balance (nominal)	–7.4	–4.4	–3.1	–1.1	–0.5
Structural balance	–7.0	–4.1	–3.0	–0.9	–0.4
Structural balance, after elimination of COVID-19 related and other one-off measures	–1.0	–1.0	–2.2	–0.7	–0.2
Primary structural balance	–6.4	–3.7	–2.7	–0.7	–0.1
Primary structural balance, after elimination of COVID-19 related and other one-off measures	–0.3	–0.6	–1.9	–0.5	0.1

Source –Ministry of Finance.

Fig. 7. Fiscal policy stance and impulse in 2021–2024



Sources: Statistics Lithuania and Ministry of Finance.

The Council Recommendation for the euro area[22] and Recommendation for Lithuania state that in 2021 it is appropriate to pursue the fiscal policy that supports the recovery. The Lithuanian general government fiscal indicators for 2021 foreseen in the DBP are in line with the Council Recommendation.

The projection of the structural government balance is prepared under exceptionally high uncertainty, when it is difficult to reliably assess the economic cycle position.

Year 2022

Due to the application of the SGP GEC and identified exceptional circumstances, in 2022 the general government is not subject to the SGP and national expenditure growth limitation and structural balance rules.

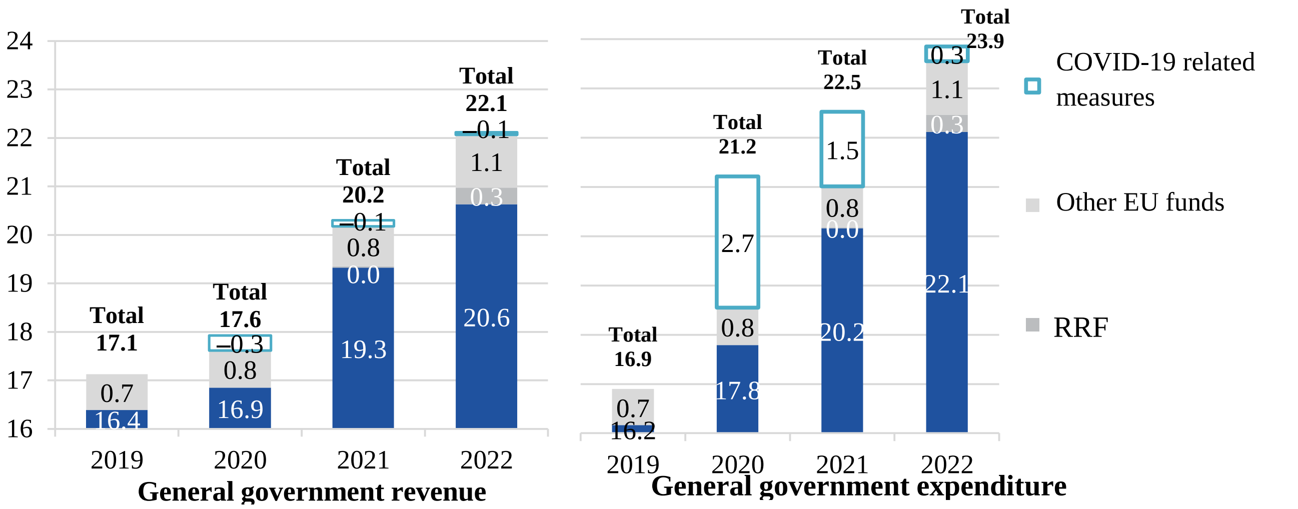
Taking into consideration revenue and expenditure projected for subsectors attributable to the general government, in 2022 the general government deficit will constitute 3.1 % of GDP.

After assessing the need still to allocate funds for the implementation of the COVID-19 related measures, for the increase of the lowest pensions, wages for workers in education and health sectors, for construction of a physical barrier at the Lithuanian-Belarus border as well as for the implementation of other expenditure policy measures, in 2022 the general government expenditure, as compared to the estimated expenditure in 2021, will increase by EUR 1,331 million.

Due to the continuing difficult situation associated with the COVID-19 pandemic and its containment measures, EUR 304.2 million is foreseen for the purchase of vaccines in 2022, assurance of the vaccination process, payment of wage supplements for medical staff working with patients with COVID-19 disease and for vaccination promotion payments. The detailed information about the general government discretionary expenditure measures, including the COVID-19 related measures, as well as their cost assessment are presented in Table 18.

In 2022 the general government revenue, as compared to this foreseen in 2021, will increase by EUR 1,887.1 million.

Fig. 8. General government revenue and expenditure amounts in 2019–2022, EUR billion



Source –Ministry of Finance.

[22] **The Council Recommendation on the economic policy for the euro area, 18 November 2020,** https://ec.europa.eu/info/sites/default/files/2021_recommendation_for_euro_area_recommendation.pdf.

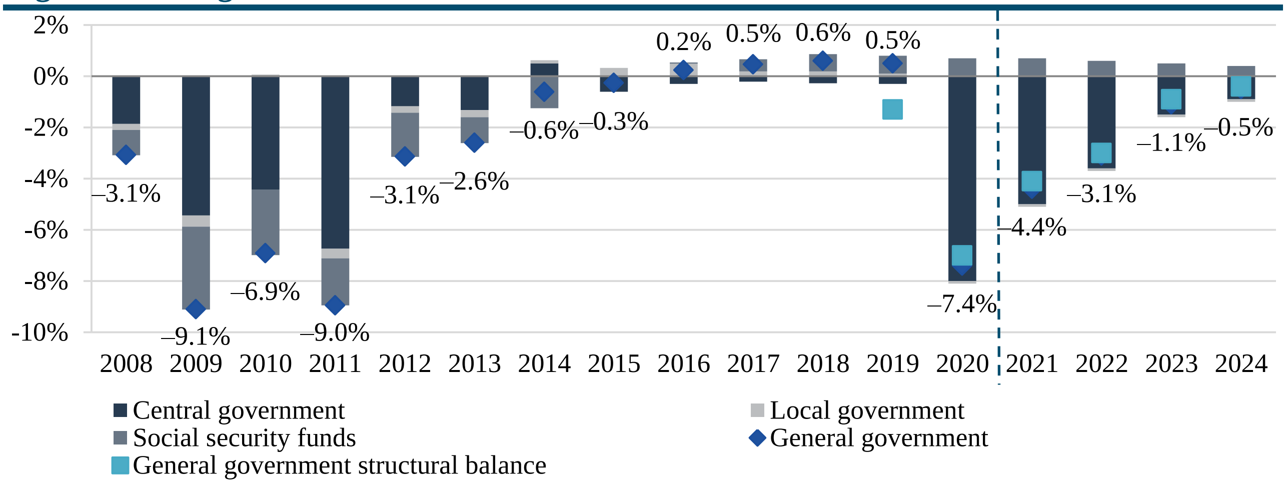
When forecasting the State budget revenue for 2022, the economic development scenario, loss of revenue due to the existing tax reliefs and the assumptions about tax deferrals for companies affected by the COVID-19 pandemic (most of the deferred taxes are assumed to be paid in 2022) were taken into consideration. When forecasting income from reversing provisions, the risk that a part of the indebted payers may become insolvent has been also assessed, therefore the assumption is made that 25 % of total deferred taxes in 2020 and 2021 will not be recovered. The State budget revenue, on accrual basis, excluding EU and other international financial support, is forecasted to increase by EUR 517.6 million in 2022 as compared to the revenue expected to be collected in 2021.

The general government structural deficit is expected to reach 3 % of GDP in 2022, and will be by 1.1 percentage point of GDP lower than in 2021, but above the medium-term objective. Without assessing the impact of the COVID-19 related measures on the general government balance, the structural deficit would be 2.2 % of GDP in 2022 (Table 3). According to the economic development scenario, Lithuania's economy is recovering from the shock caused by the COVID-19 pandemic and the output gap remains negative, but close to zero. The planned fiscal policy is therefore moving towards the neutral policy.

The indicators presented in the DBP for 2022 may change if the risks of the economic development scenario, fiscal risks specified in Table 20 or other risks materialise in 2022.

Long-term financial sustainability remains a priority for fiscal policy. The general government debt, which increased during the COVID-19 crisis, is stabilising. This is influenced by, among other factors, the estimated in the 2021 budget but not all spent funds to finance the COVID-19 related measures, collected higher-than-planned revenue and projected gradual reduction of the general government deficit over the medium term. Though uncertainty about the economic and COVID-19 pandemic development in the future is high, the general government structural balance is currently projected to be close to a -0.5 % of GDP value at the end of the medium-term, and the government debt-to-GDP ratio is projected to decline as compared to the level in 2020.

Fig. 9. General government sector and subsector balances in 2008–2024, % of GDP

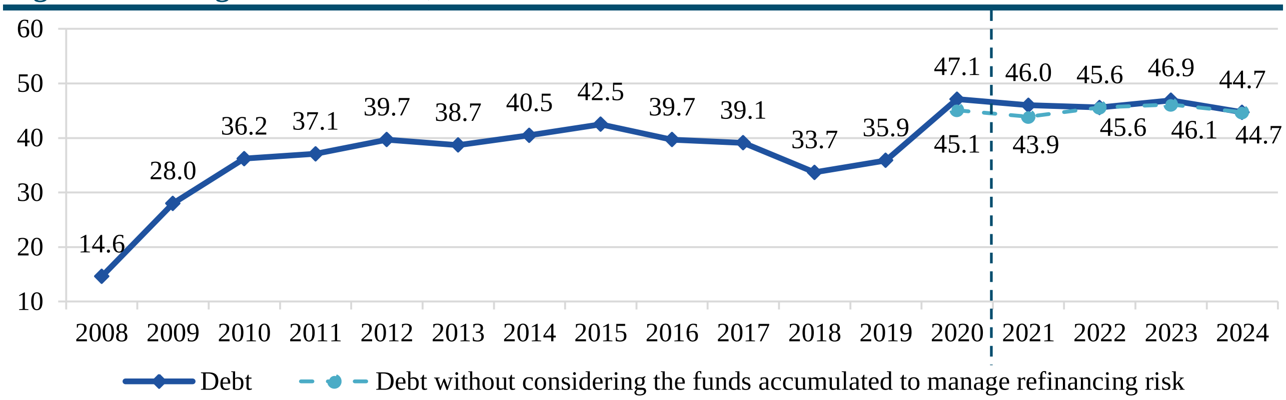


Sources: Statistics Lithuania, Ministry of Finance.

General government debt

The general government debt is projected to account for 45.6 % of GDP at the end of 2022 and to be lower by 0.4 percentage point than at the end of 2021, i.e. it is expected to reach 46 % of GDP. The decrease in debt is mainly affected by decreasing need for liquid assets at the end of 2022. The change in liquid assets will reduce the general government debt about 2.3 % of GDP in 2022. Global financial market trends and the Pandemic Emergency Purchase Programme pursued by the European Central Bank[23] (PEPP), aimed to contribute by monetary policy measures to mitigate the negative impact of the COVID-19 pandemic on the EU economies, were maintained high during the crisis caused by the COVID-19 pandemic, and Lithuania's sovereign long-term credit ratings further improved by the international credit rating agency Moody's created conditions for further reduction of expenditure on interest despite increased borrowing volumes.

Fig. 10. General government debt, % of GDP



Source – Ministry of Finance.

SECTION 2
REVENUE AND EXPENDITURE POLICY

A fairer and growth-friendly tax system, reduction of poverty and inequality are the Government policy priorities. The applicable NTA is foreseen to increase **from 1 January 2022** to reduce taxation on labour for low and middle-income earners. The draft Law Amending the Republic of Lithuania Law on Personal Income Tax proposes to increase the maximum monthly NTA from EUR 400 to EUR 460, but only for residents whose monthly income does not exceed 1 AW. When applying the NTA to residents whose income exceeds 1 AW, the level of the current NTA would be maintained. At the same time, it is proposed to increase proportionately the fixed NTA for persons with disabilities and persons with reduced working capacity: from EUR 645 to EUR 740 for persons with a more severe disability or reduced level of work capacity and from EUR 600 to EUR 690 for persons with moderate or reduced incapacity for work or with a higher level of working capacity.

In order to support the sectors most affected by the COVID-19 pandemic, the Seimas has decided to temporarily apply a reduced VAT rate of 9 % to catering services, activities of cultural and sporting events from July 2021 till the end of 2022. It is also planned to suggest to the Seimas to increase the VAT registration threshold applied in Lithuania from EUR 45,000 to EUR 55,000

[23] Pandemic Emergency Purchase Programme (PEPP).

starting from 1 July 2022, as well as to introduce a reduced VAT rate of 9 % to not only printed, but also electronic books as well as electronic non-periodic information publications. Given that the Seimas decision on recent VAT changes has not yet been taken, the revenue projections presented in the DBP do not include the impact of these measures. The information on discretionary revenue measures and their cost assessment are presented in Table 17.

In order to achieve the objective set out in the Government Programme that the tax system is stable and predictable as well as aligned with the needs of public expenditure, a three-year plan for increasing excise duty rates on ethyl alcohol and alcoholic beverages, tobacco products and alternative products for 2022-2024 has been established. The review of the tax system launched in 2021 is also ongoing. The review is carried out in six main directions: the promotion of reinvestment of profits; the review of the model of the measure for investment and long-term savings; the review of special conditions of taxation and reliefs; the Green Deal; the promotion of the self-government’s financial autonomy and the reduction of income inequality. Draft legislation implementing changes in the tax system may be submitted to the Government during the Autumn Session of 2021, and discussed in the Seimas in the Spring Session of 2022.

For more efficient tax administration, prevention of tax offences, effective control, raising public awareness, the Action Plan to Reduce Shadow Economy and VAT Gap[24] has been drawn up, which provides for the measures for improvement of legal regulation of risky activities; improvement of the identification of risky activities and their prevention by digitising activity processes of the institutions; improvement of inter-institutional cooperation; simplification of tax declaration and payment processes; development of electronic services for taxpayers; public education.

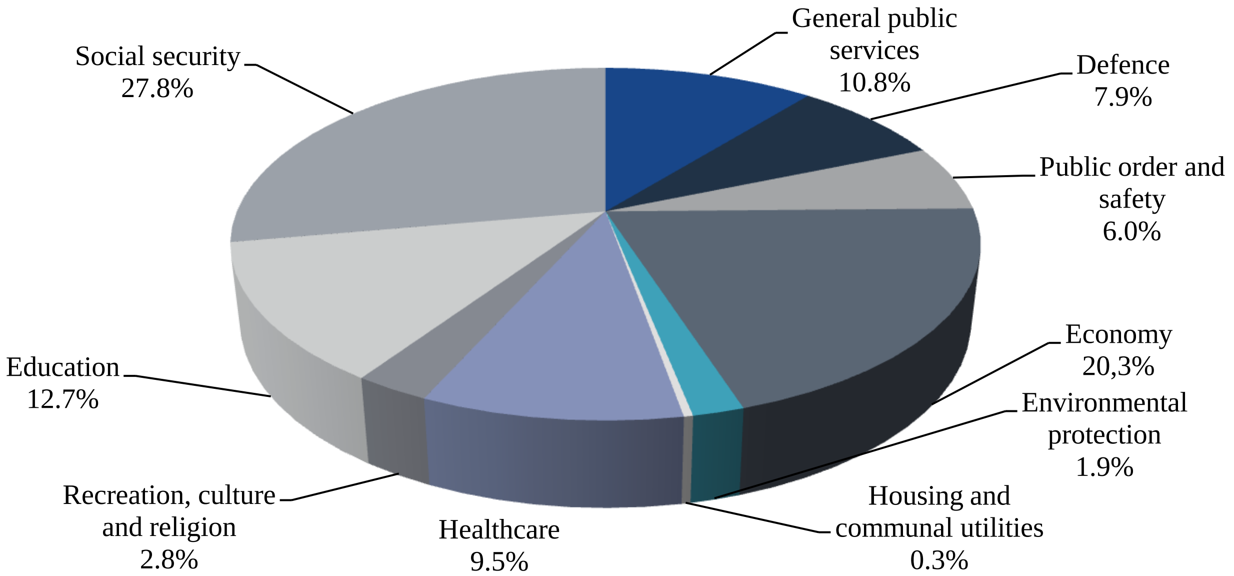
The expenditure policy priority areas are security of the country and society, investment in a sustainable and progressive future of Lithuania, growth of personal income, reduction of the risk of poverty. In 2022, by implementing the expenditure policy it is planned to increase expenditure by allocating funds from the State budget or EU and other international financial assistance for the RRF Plan and other progress measures, measures to mitigate the consequences of emergencies (COVID-19 pandemic, illegal migration) and for the measures for the preparation for a possible radiological or nuclear accident at Astravets nuclear power plant. The expenditure will also increase for defence in order to secure the commitments to NATO, for the general pension share financed from the State budget, single-person allowances, contributions for persons insured from public funds as well as for wage increase for teachers, lecturers and researchers, internal service system officials, cultural and artistic staff, for increase of the MMW, basic salary, indexation and increase of the basic amounts of social allowances. The information on discretionary expenditure measures is presented in Table 18.

Excluding EU and other international financial assistance, in 2022 the State budget expenditure will decrease by EUR 275 million as compared to the expenditure approved in the revised 2021 Budget Law. While in 2022, the State budget expenditure, as compared to the

[24] Minister of Finance Order No 1K-317 of 6 October 2021 on the Approval of the Action Plan to Reduce Shadow Economy and VAT Gap.

expenditure approved in the revised 2021 Budget Law, after elimination of expenditure related to the COVID-19 pandemic in 2021 and 2022, will increase by EUR 1,098 million.

Fig. 11. Structure of the State budget expenditure in 2022, % of total expenditure



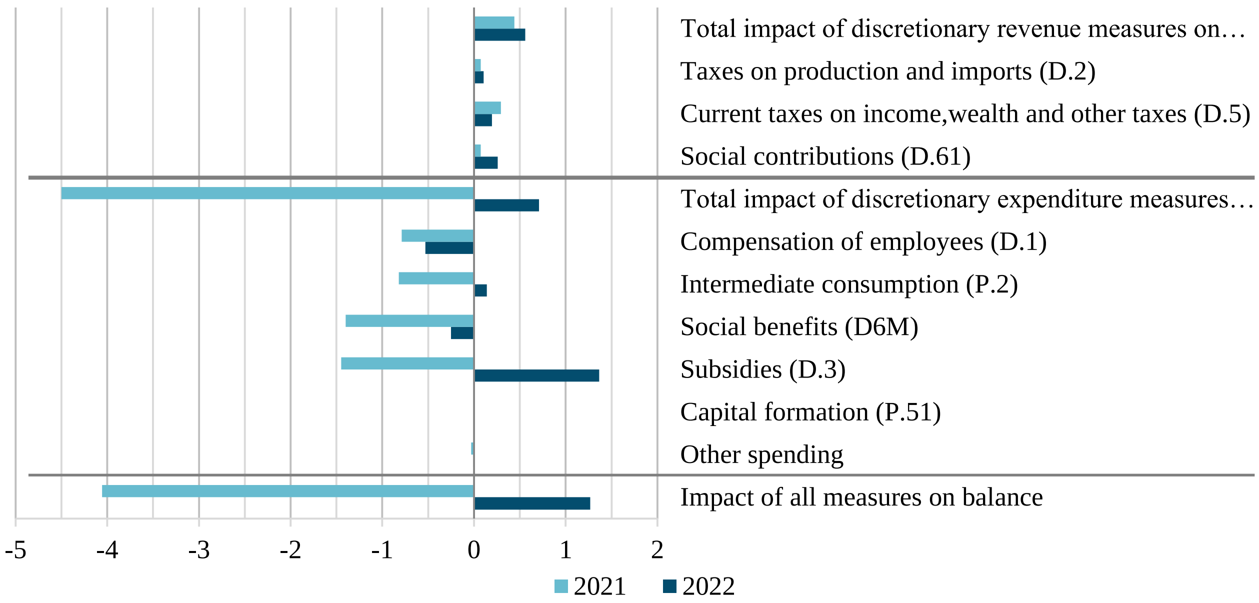
Source –Ministry of Finance. Total expenditure makes up EUR 16, 481.4 million.

The Recommendation for Lithuania to invest in order to increase its growth potential will be implemented in 2022 and the remaining medium-term years. Most of investment, planned to achieve the objectives and targets of the NPP, aim at achieving the overall green and digital EU objectives, investing rapidly and efficiently in Lithuania's economic recovery and growth in order to transform it into a sustainable, innovative and high value-added economy. The investment will contribute to increasing the growth potential of the Lithuanian economy. In order to transform the country's economy into a high value-added economy, the major share of funds in the NPP is earmarked for the green transition (28.9 % of projected funds), scientific and technological development (22.7 %), investment in human resources, i.e. for social well-being and health (13.9 %), and for education (6.9 %). The largest sources of funds for investment are the assistance from the Cohesion Policy Funds and RRF resources. The strategic reforms in green transition, digitalisation, science and innovation, education, health, labour market areas identified in the RRF plan[25] will lay foundations for transformation of the economy into creation of high added value. In 2021-2026 channelling over EUR 2.2 billion to the Lithuanian economy will generate an additional EUR 4.2 billion, therefore the multiplier of the measures will constitute 1.9[26]. The planned reforms and investment will also make a significant contribution to improving the climate change indicators and will have a positive impact on the labour market and poverty reduction[27]. Implementing the 2021–2027 EU Funds' Investment Programme, EUR 2.2 billion is allocated to activities related to green and just[28] transition in order to reorient towards a high value-added and circular economy, to

[25] The total amount of the RRF grant allocated to Lithuania makes up EUR 2.2 billion.
[26] Efficiency ratio is estimated as the RRF resources-to-additionally created GDP ratio.
[27] More information about the expected impact of the implementation of the RRF plan is presented in Part 4 of the RRF plan.
[28] Just transition.

use sustainable products and services, to address environmental and climate change challenges. Also, EUR 1.3 billion is allocated to activities related to innovation, business progress and digitisation thus strengthening research and innovation capacity and implementing advanced technologies based on smart specialisation, fostering growth and competitiveness of small and medium-sized enterprises and expanding digital opportunities for citizens, businesses and the State.

Fig. 12. Discretionary revenue and expenditure measures, % of GDP



Source – Ministry of Finance.

Table 4. General government expenditure and revenue indicators under fiscal policy scenario

General government (S13)	ESA code	2021	2022
		% of GDP	
1. Total revenue	TR	37.6	38.6
1.1. Taxes on production and imports	D.2	12.2	11.8
1.2. Current taxes on income and wealth, etc.	D.5	9.9	10.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.7	10.9
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.4	5.3
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		32.6	32.9
2. Total expenditure	TE	42.0	41.7
2.1. Compensation of employees	D.1	11.2	11.5
2.2. Intermediate consumption	P.2	5.4	5.9
2.3. Social benefits	D6M	15.8	16.2
o/w: unemployment benefits		0.5	0.5
2.4. Interest expenditure	D.41	0.4	0.3
2.5. Subsidies	D.3	1.9	0.3
2.6. Fixed capital formation	P.51	3.9	4.1
2.7. Capital transfers	D.9	1.0	0.9
2.8. Other		2.4	2.5

Source – Ministry of Finance.

SECTION 3
COMPARISON OF INDICATORS IN THE DBP AND STABILITY PROGRAMME

Table 5. Comparison of indicators in the DBP and previous economic development scenarios

	2020	2021	2022
Real GDP change, %:			
Stability Programme	–0.8	2.6	3.2
DBP	–0.9	4.3	4.0
Difference	–0.1	1.7	0.8
Scenario of 11 June 2021	–0.9	4.1	4.4
DBP	–0.9	4.3	4.0
Difference	0.0	0.2	–0.4

Source – Ministry of Finance.

The projections of the general government balance indicator for 2021 specified in the DBP and Stability Programme differ due to the updated assumption related to savings of expenditure earmarked for financing the COVID-19 related measures and foreseen higher amounts of general government revenue. The general government balance indicators for 2022 indicated in the DBP and Stability Programme differ as general government finance projections for 2022 are presented in the Stability Programme without taking into consideration the information on new discretionary revenue and expenditure measures received during the development of the DBP. Moreover, the data of the economic development scenario available during the preparation of the Stability Programme significantly differ from the data of the economic development scenario presented in the DBP.

Table 6. Comparison of general government balance projections in the DBP and Stability Programme

	ESA code	2020	2021	2022
		% of GDP		
Stability Programme	B.9	–7.4	–8.1	–6.0
DBP		–7.4	–4.4	–3.1
Difference		0.0	3.7	2.9

Source – Ministry of Finance.

The general government debt projections presented in the DBP and Stability Programme differ due to updated GDP, general government (including EU and other international assistance) balance projections.

Table 7. Comparison of general government debt projections in the DBP and Stability Programme

	2020	2021	2022
	% of GDP		
Stability Programme	47.3	52.1	54.2
DBP	47.1	46.0	45.6
Difference	–0.2	–6.1	–8.6

Source –Ministry of Finance.

PART III
BUDGET FRAMEWORK REFORM

In 2021 Lithuania is implementing the final works on the budget framework reform. The aim of this reform is to establish a sound and efficient medium-term budgetary and programme management framework, which will be linked to an updated State strategic management system.

The Republic of Lithuania Law on Strategic Management[29] was adopted on 25 June 2020, the amendments are made to the Republic of Lithuania Law on the Structure of the Budget and to other relevant legal acts, which embed a new integrated strategic management model, establish and develop a result-oriented strategic management system by integrating strategic planning, regional development and territorial planning processes in order to ensure long-term and coherent progress of the State as well as effective planning and use of the general government finance. Also, 15 areas of activities of the State have been identified. When drawing up the draft budget, the Seimas is suggested to approve the State budget appropriations according to the areas of activities of the State and all the bodies, whose heads are the State budget appropriations managers, assigned to them, thus disclosing to the public and decision-makers the amount of appropriations allocated to different areas of activities of the State and which institutions and bodies operate in these areas. It is also proposed to set out in the draft budget the main NPP progress targets to be pursuit in the areas of activities of the State, the indicators for monitoring them and the targets for these indicators for the budget year concerned. Segregation of the areas of activities of the State in the State budget will link budgetary and strategic management processes and strengthen the focus of the budget on results.

The Strategic Management Methodology[30], elaborating the provisions of the Law on Strategic Management, was approved in 2021, based on which, the progress funds for the implementation of the ten-year planned strategic changes in the State, and the funds for the ongoing activities of the bodies are segregated in the State budget. All State progress will henceforth be planned and implemented in accordance with the NPP, for achievement of strategic objectives and progress targets of which the 10-year financial projections from all sources of public funding are made and which is implemented through national development programmes.

A new budgetary framework, launched in the preparation of the draft budget, will be used in preparation of draft State budgets also for subsequent years.

The Government Programme Implementation Plan identifies the strategic task of the Government "General government finance planning oriented to strategic objectives" – it is planned to prepare the medium-term budgetary rules, methodology for calculation of baseline expenditure and to perform a systematic review of the State budget expenditure. These tasks are also specified in the RRF plan. Preparatory works will be launched at the end of 2021. In 2022, it is planned to develop a concept for a systematic review of the State budget expenditure setting out the objective of the systematic expenditure review, scope of the expenditure under review and the expected

[29] **Law on Strategic Management**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/90386d20bab711ea9a12d0dada3ca61b.

[30] The Strategic Management Methodology approved by Government Resolution No 292 of 28 April 2021, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/5e3aa191a8e511eb98ccba226c8a14d7.

implementation period, as well as to perform the analysis of the application of the medium-term budgetary rules. A successful implementation of the tasks specified in the Government Programme and RRF plans would enable a more efficient planning, allocation and use of the State budget funds already in 2024.

PART IV
METHODOLOGICAL ASPECTS

Table 8. Preparation of the economic development scenario

Estimation technique	Budgetary process stage of the technique applied	Relevant features of the models (techniques) used	Assumptions
Principles of national accounting, econometric and expert evaluation	Economic development scenario	Macroeconomic forecasts are prepared for the medium term by using the macroeconomic model developed according to national accounts. In analysis of individual or more than one potentially interrelated macroeconomic indicators, econometric equations are made, also expert evaluation is carried out. Estimates of potential GDP are based on methodology approved by ECOFIN in 2002	Technical assumptions (oil price, currency exchange rate and interest rates)

Revenue forecasting

Tax revenue forecast is prepared based on macroeconomic forecasts, statistical data, revenue dynamics and the information provided by public authorities. The forecast of revenue from individual taxes may be adjusted through peer review, i.e. considering other circumstances than those provided for in draft amending laws that may affect revenue collection.

Depending on the tax, one or several forecasting methods are applied:

- ✓ Detailed modelling method. Data is collected on the number of taxpayers in each category and the total amount and structure of revenue of that category. A simulation model is created from two blocs: typical taxpayer and aggregating bloc. This model is applied to estimate how much on average an individual taxpayer representing a certain group, the entire group and, ultimately, all taxpayers of the country will pay in taxes.
- ✓ Effective average rate method. The tax rate established by law is adjusted considering the applied reliefs, tax base exemptions and etc. The effective average rate thus assessed is multiplied by the scope of the tax base to obtain a forecast of revenue from appropriate taxes..
- ✓ Elasticity method. A dependency between revenue from a tax increase (decrease) and dynamics of an appropriate base is established. The forecast of revenue from the tax is made considering the elasticity coefficient specific to a particular tax and the forecasted tax base changes.

PART V
EDS AND PUBLIC FINANCE DATA

Table 9. Key assumptions

	2020	2021	2022
Short-term interest rates (average annual)	–0.2	–0.3	–0.2
Long-term interest rates (average annual)	0.4	0.2	0.4
USD/EUR exchange rate (average annual)	1.14	1.20	1.20
Nominal effective exchange rate	3.9	1.9	–0.2

	2020	2021	2022
World (excl. EU) GDP growth, %	–3.4	5.6	4.3
EU GDP growth, %	–6.1	4.2	4.4
Growth of main export markets, %	–5.5	3.9	4.0
World (excl. EU) import growth, %	–9.3	9.0	5.7
Oil prices (Brent, USD per barrel)	43.4	68.7	68.3

Sources: European Commission, Ministry of Finance.

Table 10. Price indicators

	2020	2020	2021	2022
	Index (in 2015. = 100)	Change, %		
1. GDP deflator	114.0*	1.1	5.2	2.5
2. Private consumption deflator	110.5*	0.8	3.4	2.5
3. HICP	110.6	1.1	3.4	2.5
4. General government consumption expenditure deflator	140.4*	10.2	8.5	4.2
5. Gross fixed capital formation deflator	110.0*	1.7	3.9	3.0
6. Export (goods and services) price deflator	101.3*	–4.1	3.8	1.5
7. Import (goods and services) price deflator	98.0*	–5.6	8.7	1.6

Sources: Statistics Lithuania, Ministry of Finance, Eurostat.

* Economic development scenario has been drawn up based on statistical data published on 31 August 2021.

Table 11. Labour market indicators

	ESA code	2020	2020	2021	2022
		Indicator value	Change, %		
1. Employment, persons, thou.		1,358.1	–1.5	0.4	0.9
2. Employment, hours worked, thou.		2,467,484	–5.7	–	–
3. Unemployment rate, %		8.5	-	7.4	6.7
4. Labour productivity (gross value added per person employed), EUR thou.		–	0.6	3.9	3.0
5. Labour productivity, hours worked		–	–	–	–
6. Compensation of employees, EUR million	D.1	24,076.9*	6.7	10.8	9.0
7. Compensation per employee, EUR		19,908.1*	8.2	10.4	8.0

Sources: Eurostat, Statistics Lithuania, Ministry of Finance.

* Economic development scenario has been drawn up based on statistical data published on 31 August 2021.

Table 12. Sectoral balances

	ESA code	2020	2021	2022
		% of GDP		
1. Net borrowing	B.9	10.0	5.5	4.6
o/w:				
- balance of goods and services		9.7*	4.9	4.0
- balance of primary incomes and transfers		–1.7**	–2.0**	–2.1**
- capital account		2.0**	2.6**	2.7**
2. Net lending/net borrowing of the private sector	B.9	17.4	9.9	7.7
3. General government net lending / net borrowing	B.9	–7.4	–4.4	–3.1
4. Statistical discrepancy		0	0	0

Sources: Bank of Lithuania, Ministry of Finance.

* Economic development scenario has been drawn up based on statistical data published on 31 August 2021.

** Actual data of 2020 used for preparation of forecasts. Projections for 2021 and 2022 have been drawn up on the basis on international environment assumptions made in accordance with the information published by 18 August 2021, and other information published by 31 August 2021.

Table 13. General government indicators under policy scenario

	ESA code	2021	2022
		% of GDP	
Net lending (+) / net borrowing (–) (B.9) by subsector			
1. General government	S.13	–4.4	–3.1
2. Central government	S.1311	–5.0	–3.6
3. State government	S.1312	–	–
4. Local government	S.1313	–0.1	–0.1
5. Social security funds	S.1314	0.7	0.6
6. Interest payment	D.41	0.4	0.3
7. Primary balance		–4.0	–2.9
8. One-off and other temporary measures		0.0	0.0
9. Real GDP growth (%)		4.3	4.0
10. Potential GDP growth (%)		4.2	3.7
O/w:			
- labour		0.6	0.1
- capital		1.9	2.0
- total factor productivity		1.6	1.6
11. Output gap (% of potential GDP)		–0.7	–0.4
12. Cyclical component of the budget (% of potential GDP)		–0.3	–0.2
13. Cyclically adjusted balance (1 – 12) (% of potential GDP)		–4.1	–3.0
14. Cyclically adjusted primary balance (13 + 6) (% of potential GDP)		–3.7	–2.7
15. Structural balance (13 – 8) (% of potential GDP)		–4.1	–3.0

Source – Ministry of Finance.

Table 14. General government revenue and expenditure indicators under no-policy change scenario

General government (S13)	ESA code	2021	2022
		% of GDP	
1. Gross revenues under no-policy change scenario	TR	37.9	38.5
1.1. Taxes on production and imports	D.2	12.3	11.8
1.2. Current taxes on income, wealth and other taxes	D.5	10.0	10.2
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.7	10.8
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.4	5.3
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		32.9	32.8
2. Gross expenditure under no-policy change scenario	TE	37.5	39.7
2.1. Compensation of employees	D.1	10.4	10.7
2.2. Intermediate consumption	P.2	4.6	5.3
2.3. Social benefits	D6M	14.4	15.5
o/w: unemployment benefits		0.5	0.5
2.4. Interest expenditure	D.41	0.4	0.3
2.5. Subsidies	D.3	0.4	0.3
2.6. Fixed capital formation	P.51	3.9	4.1
2.7. Capital transfers	D.9	1.0	0.9
2.8. Other		2.3	2.5

Source – Ministry of Finance.

Table 15. General government debt projections

	2021	2022
	% of GDP	
General government debt at the end of the year	46.0	45.6
Change in general government debt	–1.1	–0.4
Contributions to changes in general government debt		
Primary balance	–4.0	–2.9
Interest expenditure	0.4	0.3
Stock-flow adjustment	–1.3	–0.7
Implicit interest rate on debt	0.9	0.6

Source – Ministry of Finance.

Table 16. State guaranteed debt

	2021	2022
	% of GDP	
State guarantees	1.5	1.7
o/w: related to financial sector	0.0	0.0

Source – Ministry of Finance.

Table 17. Discretionary revenue measures taken by general government

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2021	2022
1.*	Increase of MMW from EUR 607 to EUR 642 starting from 1 January 2021	D.5	9.1	
2.*	Increase of MMW from EUR 642 to EUR 730 starting from 1 January 2022, at the same time increasing the lowest coefficients	D.5		36
3.*	Change in the NTA formula from 1 January 2021	D.5	–26	
4.*	Increase of NTA up to EUR 400 from 1 July 2020, applying it for revenue generated from 1 January 2020	D.5	–42	
5.*	Increase of NTA up to EUR 460, at the same time changing the structure of the formula so as additional benefit is distributed to persons earning up to 1 AW; increase of NTA for the disabled from EUR 600 to EUR 690 and from EUR 645 to EUR 740, accordingly	D.5		–74.1
6.*	Introduction of a progressive (32 %) PIT rate	D.5	17	
7.*	Increase of the wage coefficient applied in calculating refunds of secondments (non-taxable daily allowances) from 1.3 to 1.65 (x MMW)	D.5	–16	
8.*	Basic salary amount increase from EUR 176 to EUR 177 for State politicians, judges, State officials, civil servants and persons employed in public and municipal budget institutions	D.5	4	
9.*	Basic salary amount increase from EUR 177 to EUR 181 for State politicians, judges, State officials, civil servants and persons employed in public and municipal budget institutions	D.5		20.9
10.*	Introduction of the vehicle pollution tax	D.5	17.5	
11.*	Additional corporate income tax of credit institutions	D.5	–2.5	3.4
12.*	PIT deferral for taxpayers affected by the COVID-19 pandemic (**COVID-19 related measure**)	D.5	132.9	61.3
13.*	Deferral of the corporate income tax for taxpayers affected by the COVID-19 pandemic (**COVID-19 related measure**)	D.5	62.8	9.3
14.*	Extension of PIT relief for studies	D.5	–2	
15.*	PIT losses due to the employees in downtime and holding the certificates of incapacity for work due to the COVID-19 pandemic situation (**COVID-19 related measure**)	D.5	3.2	55.4
16.*	Increase of excise duty rates on tobacco products and liquid of electronic cigarettes	D.2	16.3	13.1
17.*	Increase of excise duty rates on ethyl alcohol and alcoholic beverages	D.2	4.2	18.9

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2021	2022
18.*	Introduction of the excise duty rate relief from 1 January 2022 for small brewers, under which small breweries (i.e. producing no more than 80, 000 hectolitres of beer per calendar year) will be able to apply a 50 % reduced excise duty rate to 10, 000 hectolitres of beer disposed of per annum	D.2		-2.5
19.*	Decrease of fuel quotas on diesel fuels used in agriculture by about 5 %. Decreased quotas will be applied in issuing permits for 2021–2022 business year, i.e. from 1 July 2021	D.2	2.5	2.5
20.*	Increase of excise duty rate on heated tobacco products from 1 March 2020	D.2	1.7	
21.*	Increase of the lower threshold of the immovable property tax applied to commercial property from 0.3 to 0.5 %	D.2	1.2	
22.*	VAT deferrals to taxpayers affected by the COVID-19 pandemic (**COVID-19 related measure**)	D.2	84.9	24.4
23.*	Refusal of restrictions on compound and repayable overpaid VAT amount for the tax period concerned specified in Article 91(2) of the VAT law	D.2	–30	30
24.*	Withdrawal of the import VAT relief for parcels of value of up to EUR 22 from 1 July 2021	D.2	3	3
25.*	Application of preferential 5 % VAT on e-media — newspapers, magazines and other periodicals — from 1 January 2021	D.2	–1	
26.*	Application of temporary 9 % VAT relief to catering services other than those related to alcoholic beverages, and supplied artistic and cultural services as well as to visits to relevant events from 1 July 2021 to 31 December 2022 (**COVID-19 related measure**)	D.2	–36.5	–52
27.*	Application of 0 % VAT rate for COVID-19 vaccines and in vitro diagnostic medical devices for COVID-19 disease from 1 January 2021 to 31 December 2022 (**COVID-19 related measure**)	D.2	–6	
28.*	The amendments to the pollution tax which entered into force on 1 January 2021	D.2		22
29.	Increase of MMW from EUR 607 to EUR 642 from 1 January 2021	D.6	9.6	
30.	Increase of MMW from EUR 642 to EUR 730 from 1 January 2022, at the same time increasing the lowest coefficients	D.6		56.8
31.	Basic salary amount increase from EUR 176 to EUR 177 for State politicians, judges, State officials, civil servants and persons employed in public and municipal budget institutions	D.6	4.2	
32.	Basic salary amount increase from EUR 177 to EUR 181 for State politicians, judges, State officials, civil servants and persons employed in public and municipal budget institutions	D.6		18.9
33.	Reduction of SODRA contribution 'ceilings' (in 2021 – EUR 60 of AW)	D.6	–21.2	
34.	As of 2021, structural changes in SODRA contribution 'ceilings': combined employees' salaries received from all employers (- EUR 7 million), but part of the employer's contributions is no longer covered by the ceiling (+ EUR 4.6 million)	D.6	–2.4	
35.	Suspension of SODRA budget transfers to private pension funds due to changes in the pension accumulation scheme	D.6	23.2	
36.	Deferrals of social insurance contributions to taxpayers affected by the COVID-19 pandemic (**COVID-19 related measure**)	D.6	19.6	10.1
37.	Losses of social insurance contributions due to the employees in downtime and holding the certificates of incapacity for work due to the COVID-19 situation (**COVID-19 related measure**)	D.6	5.9	61.7

Source –Ministry of Finance.

* Discretionary revenue measures of central government subsector (S.1311).

** Adoption stage of all the measures specified in the table is "approved", and accounting basis – accrual.

Table 18. Discretionary expenditure measures taken by general government

No.	Description of the measure **	ESA code	Budgetary impact, EUR million 2021	Budgetary impact, EUR million 2022
1.*	Increase of MMW up to EUR 642 in 2021, in 2022 – up to EUR 730	D.1	–5.1	–11.9
2.	Increase of MMW up to EUR 642 in 2021, in 2022 – up to EUR 730 (local government)	D.1	–7.8	–18.9
3.*	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2021 – EUR 177, in 2022 – EUR 181)	D.1	–16.8	–65.5
4.	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2021 – EUR 177, in 2022 – EUR 181) (local government)	D.1	–4.8	–20.5
5.*	Increase of wages for persons employed in the education sector	D.1	–69.6	–128.7
6.*	Increase of wages for lecturers, research staff and researchers	D.1	–14.4	–28.6
7.*	Increase of wages for educators, concertmasters and accompaniments	D.1		–2.1
8.*	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions	D.1	–6.9	–13.1
9.	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (local government)	D.1	–9.1	–14.6
10.*	Increase of the wage fund of public institutions and financing of additional positions (central government)	D.1	–19.9	
11.	Increase of the wage fund of public institutions and financing of additional positions (local government)	D.1	–1.6	
12.*	Increase of wages for statutory officials (employed in the interior service, prisons, customs offices, State Security Department and prosecutors, excl. the Ministry of National Defence)	D.1	–9.6	
13.*	Increase of wages for medical staff from 1 April 2020	D.1	–86.5	
14.	Increase of wage coefficients for school leaders, their deputies, heads of the education department (local government)	D.1	–18.0	
15.*	Strengthening police capacity	D.1	–8.3	
16.	Increase of wages for educational aid specialists and other employees of the education system (local government)	D.1	–16.6	–31.3
17.*	Expenditure for custody of people with serious disabilities, support for integration of people with disabilities and wages of social workers	D.1	–10.0	
18.*	Reimbursement of expenditure of personal healthcare institutions for wage increase due to COVID-19 (**COVID-19 related measure**)	D.1	–37.2	37.2
19.	Reimbursement of expenditure of personal healthcare institutions for wage increase due to COVID-19 (Social Security Funds) **(COVID-19 related measure)**	D.1	–52.8	52.8
20.*	Addressing the consequences of the COVID-19 pandemic (acquisition of vaccines and services related to vaccination (logistics, vaccination, medical aids, etc.) (**COVID-19 related measure**)	D.1		–90
		P.2		–210
		D.6M	–23	18.8
21.*	Possible additional costs for institutions due to COVID-19 management measures (**COVID-19 related measure**)	D.1	–30.9	30.9
		P.2	–53.1	53.1
		D.3	–66.0	66.0
22.*	Managing the emergency situation due to increased migratory flows	P.2	–49.2	–61.6
23.*	Other intermediate consumption measures	P.2	–18.5	–13.3
24.	Other intermediate consumption measures (local government)	P.2	–2.6	–6.7
25.*	Expenditure for fulfilment of commitments (protection, medical supplies, laboratory tests, hotline, information technology, etc.), purchase of vaccines and services related to vaccination (logistics, vaccination, medical aids, etc.) (**COVID-19 related measure**)	P.2	–301.8	301.8
26.*	Compensation for the development of digital education and for learning losses caused by the COVID-19 pandemic	P.2	–17	17
27.*	Support to increase benefits and targeted compensations through the implementation of new legislative provisions (social assistance pension base in 2020 (from 54 % to 56 % minimum consumption needs) and to increase the threshold for low pension premiums; to increase target compensation base, social assistance pension base, basic social benefit in 2022)	D.6M	–6	–32.7
28.*	Financial incentive to young families purchasing their first housing	D.6M		–11.5

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2021	2022
29.*	Increase of the child benefit up to EUR 60 in 2020, up to EUR 70 in 2021	D.6M	–62.4	
30.*	Indexation of basic amounts of social benefits	D.6M	–27.5	–20.1
31.*	Contributions for persons insured from public funds	D.6M	–50.2	–72.3
32.*	Free meals for pre-primary school students (from 1 January 2020), school students in the first form (from 1 September 2020) and in the second form (from 1 September 2021)	D.6M	–10.4	–2.6
33.*	Single person’s pension payments	D.6M	–15.3	–92.1
34.*	Indexation of state social insurance pensions, including the proposed amendments for the payment of a full pension to persons without necessary seniority	D.6M	–148.0	–68
35.	Indexation of state social insurance pensions (Social Security Funds)	D.6M	–119.0	
36.*	Additional indexation of pension acc. to the amendment submitted by the President of the Republic	D.6M	–36.6	
37.	Additional indexation of pension acc. to the amendment submitted by the President of the Republic (Social Security Funds)	D.6M	–29.4	
38.	Additional indexation of part of the individual pension (Social Security Funds)	D.6M		–70
39.*	Other social benefits	D.6M	–6.2	–1
40.	Maternity amendments to the Law on Sickness and Maternity Social Insurance acc. to EU Directive 2019/1158 (Social Security Funds)	D.6M		–8.5
41.*	Ensuring the payment of sickness benefits for people looking after children, elderly people and people with disabilities, when the infection containment regime is imposed in education institutions or social care and employment centres, also for people suffering from serious chronic diseases **(COVID-19 related measure)**	D.6M	–69.2	69.2
42.*	Temporary payment of job-search allowances for the unemployed who have not participated in active labour market policy measures **(COVID-19 related measure)**	D.6M	–147.2	147.2
43.*	Payment of fixed rate sickness benefits, equal to 1 amount of the minimum consumption need per month, for self-employed persons who paid social insurance contributions before obtaining the right to receive the sickness benefit and due to emergency situation cannot further carry out their activities **(COVID-19 related measure)**	D.3	–124.8	124.8
44.*	Subsidies for wages during downtime in 2021 **(COVID-19 related measure)**	D.3	–300.4	300.4
45.*	After the expiry of the downtime and/or quarantine the State support for employers to retain employment after the downtime or to recruit the unemployed belonging to the target groups in 2021 **(COVID-19 related measure)**	D.3	–76.4	76.4
46.*	Interest reimbursement for small and medium-sized enterprises **(COVID-19 related measure)**	D.3	–16.9	16.9
47.*	Provision of subsidies to small or medium-sized enterprises affected by the COVID-19 pandemic following the State support scheme coordinated with the European Commission **(COVID-19 related measure)**	D.3	–100	100
48.*	Business support package (subsidies for companies and persons engaged in individual activities most affected by the COVID-19 pandemic, reimbursement of the COVID-19 tests for small and medium-sized businesses, compensation of tour operators for returning tourists from abroad after the declaration of emergency, market fee compensation) **(COVID-19 related measure)**	D.3	–96.5	96.5
49.*	Other discretionary expenditure measures	Other	–17.7	–4.7

Source – Ministry of Finance.
***** Discretionary revenue measures of the central government subsector (S.1311).
****** Adoption stage of all the measures specified in the table is “approved”.
Note. Change means additional need for funds necessary for implementation of the measure, as compared to the amount of funds allocated in the previous year.

Table 19. Amounts excluded from the expenditure benchmark

	ESA code	2020		2021	2022
		MEUR	% of GDP	% of GDP	
1. Expenditure on the EU programmes fully matched by the EU Funds‘ revenue		763.1	1.6	1.6	2.5
1a. Gross fixed capital formation expenditure financed from the EU assistance	P.51	414.4	0.8	0.8	1.4
2. Cyclical unemployment benefit expenditure		47.5	0.1	0.1	0.0
3. Discretionary revenue measures		–107.4	–0.2	0.4	0.6
4. Revenue increase mandated by law		0.0	0.0	0.0	0.0

Source – Ministry of Finance.

Table 20. A list of medium-term fiscal risks

Risk	Risk source	Degree of a risk	Probability of risk occurrence
COVID-19 pandemic development	Under deteriorating COVID-19 pandemic situation, the need may occur to increase the amount of funds allocated to finance the COVID-19 related measures or to apply the revenue measures. Therefore, general government expenditure may increase or revenue decrease.	high	high
Implementation of the RRF plan	If during the implementation of the RRF plan part of indicators presented in the plan are not achieved and part of the RRF grant is not received, the general government balance may deteriorate, as compared to the planned one.	medium	medium
Activities of the State-owned enterprises	Improving or deteriorating performance may increase or decrease the amounts of dividends paid to the State budget.	medium	medium
Deposit and investment insurance	In the event of bankruptcy of credit institutions, central government expenses would increase due to fulfilment of obligations to depositors	low	low
Statistical corrections of data on national defence expenditure	Significant differences between forecast of acquisition costs of military equipment, weapons and supplies and actual data estimated in general government financial accounting on accrual basis (acc. to ESA) may increase or decrease general government expenditure	high	high
Political cycle	A pressure to assume long-term commitments may increase general government expenditure, if new sustainable sources of income for fulfilment of these long-term commitments are not foreseen	high	medium
Environment in global financial markets	Developments in global financial markets may increase the Government borrowing costs	medium	low
Natural disasters	Torrential rain, fires, epidemics may increase general government expenditure	medium	medium
Demographic changes	Changing age structure of the society, better or worse than expected migration balance may affect the general government balance either positively or negatively	medium	medium

Source – Ministry of Finance.

Table 21. Impact of grants under the RRF on general government finance projections, EUR million

Title of the indicator	EUR million							
	ESA code	2020	2021	2022	2023	2024	2025	2026
RRF subsidies (revenue)								
RRF subsidies included in the revenue projection		**–**	**25.0**	**345.4**	**586.4**	**585.9**	**454.3**	**227.9**
Revenue of RRF subsidies (on cash flow basis)*		**–**	**289.1***	**562.5**	**569.3**	**317.0**	**190.9**	**286.9**
Expenditure for implementation of the RRF plan measures								
Compensation of employees	D.1	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Intermediate consumption	P.2	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Social benefits	D.62+ D.632	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Interest payment	D.41	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Subsidies	D.3	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Current transfers	D.7	–	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
CURRENT EXPENDITURE, TOTAL		**–**	**9.2**	**101.0**	**240.1**	**264.1**	**214.5**	**154.8**
Gross fixed capital formation	**P.51g**	**–**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
Capital transfers	**D.9**	**–**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**
CAPITAL EXPENDITURE, TOTAL		**–**	**15.8**	**244.4**	**346.3**	**321.9**	**239.9**	**73.1**
Other costs financed by RRF subsidies								
Diminution in tax revenue		–	–	–	–	–	–	–
Other costs affecting revenue		–	–	–	–	–	–	–
Financial transfers		–	–	–	–	–	–	–

Source – Ministry of Finance.

*RRF advance was received in 2021, in 2022–2026 the RRF cash flow is projected in accordance with the schedule of financial contributions presented in the Annex to the Proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Lithuania.

Table 22. State guarantees in 2021

Guarantee instrument	The maximum possible amount of guarantees in December 2022 (EUR million / % of GDP)		Guarantees provided, according to the data of 31 August 2021 (EUR million / % of GDP)	
State guarantee instruments related to the COVID-19 pandemic:	**303.3**	**0.53**	**112.3**	**0.21**
Guarantees for tour operators administered by INVEGA*	0.0	0.00	2.6	0.00
Portfolio guarantees administered by INVEGA*	19.2	0.03	17.7	0.03
Individual guarantees administered by the ACGF*	6.2	0.01	8.0	0.01
State guarantees on loans and non-equity securities used to meet the objectives of stimulating economy affected by emergencies and to increase the financial liquidity of business	150.0	0.26	0	0.00
State guarantees on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak	84.0	0.15	84.0	0.16
State guarantees on the European Investment Bank set up by the	44.0	0.08	0.0	0.00

Guarantee instrument	The maximum possible amount of guarantees in December 2022 (EUR million / % of GDP)		Guarantees provided, according to the data of 31 August 2021 (EUR million / % of GDP)	
European Guarantee Fund to respond to the COVID-19 pandemic				
State guarantees not related to COVID-19 measures:	**661.6**	**1.16**	**439.8**	**0.82**
State guarantees on INVEGA* commitments under guarantees	239.9	0.42	150.5	0.28
State guarantees on the ACGF* commitments under guarantees	160.8	0.28	98.9	0.18
State guarantees on loans to finance public investment projects and/or used to supplement the working capital of enterprises important for ensuring national security, which are specified in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security	145	0.25	108.7	0.20
State guarantees on State-subsidized loans specified in the Republic of Lithuania Law on Science and Studies	113	0.20	79.9	0.15
State guarantees on loans from the European Investment Bank	2.9	0.01	1.8	0.00
Total State guarantees	**964.9**	**1.69**	**552.1**	**1.03**

Source – Ministry of Finance.

* INVEGA – UAB Investment and Business Guarantees, ACGF – Agricultural Credit Guarantee Fund.