EUROPEAN
COMMISSION

Brussels, 21.11.2018
C(2018) 8020 final

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Lithuania

{SWD(2018) 520 final}

COMMISSION OPINION

of 21.11.2018

on the Draft Budgetary Plan of Lithuania

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING LITHUANIA

3. On the basis of the Draft Budgetary Plan for 2019 submitted on 15 October 2018 by Lithuania, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Lithuania is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with its medium-term budgetary objective of -1.0% of GDP, taking into account the allowances linked to the implementation of the systemic pension reform and the structural reforms for which a temporary deviation is granted.

5. According to the Commission 2018 autumn forecast, the Lithuanian economy is expected to grow by 3.4% in 2018 and 2.8% in 2019, the main drivers being consumption and investment. The macroeconomic scenario underlying the Draft Budgetary Plan, projecting similar economic growth rates, is plausible. Lithuania complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

6. The Draft Budgetary Plan expects a headline budget surplus of 0.6% of GDP in 2018 and 0.4% in 2019. Those projections are in line with the Commission 2018 autumn forecast. The structural balance[1] of the Draft Budgetary Plan is estimated to amount to a deficit of 0.6% of GDP in 2018, which should remain at that level in 2019. The Commission 2018 autumn forecast projects the same structural deficit for 2018 and a deficit of 0.5% in 2019.

7. From 2018, the government targets a slightly expansionary fiscal stance as is indicated by a decrease in the (recalculated) structural primary balance. With respect to the Recommendations[2] of 13 July 2018 addressed by the Council to Lithuania to

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

[2] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Lithuania and delivering a Council opinion on the 2018 Stability Programme of Lithuania, OJ C 320, 10.9.2018, p. 64-67.

improve tax compliance and broaden the tax base to sources less detrimental to growth as well as to improve the design of the tax and benefit system to reduce poverty and income inequality, the Draft Budgetary Plan takes into account the labour taxation reform, legislated in mid-2018 and set to come into force from 1 January 2019. It concerns different aspects affecting the tax burden on labour, including the reduction of social security contributions; the introduction of a progressive personal income tax rate schedule (20% and 27%); the increase of the basic tax-free allowance; as well as the introduction of ceilings for social insurance contributions. While the tax wedge on labour in Lithuania is above the EU average for low-income earners, those measures are expected to reduce the tax wedge for the whole working population. In total, for 2019, the Draft Budgetary Plan includes discretionary revenue measures and expenditure measures with a cumulative negative budgetary impact of around 0.8% of GDP. Adjustments to the personal income tax and social insurance contributions are set to result in revenue loss amounting to approximately 1 percentage point of GDP in 2019. The losses in revenue are partially compensated by terminating transfers of the social insurance contributions from the State Social Insurance Fund to private pension funds, amounting to 0.4% of GDP in 2019. The Draft Budgetary Plan also envisages additional tax revenues stemming from improved tax administration (approximately 0.5% of GDP) while other smaller adjustments, e.g. to the excise duties on tobacco products, should result in additional government income of 0.2% of GDP. Overall, discretionary revenue measures are set to have a positive effect of 0.1% of GDP in 2019. On the expenditure side, planned wage increases in the public sector are set to result in higher government spending of approximately 0.5% of GDP. Increases in social benefits and other types of social support should amount to 0.4% of GDP in 2019.

8. According to the information provided in the Draft Budgetary Plan, with the recalculated structural balance of -0.6% in 2018 and 2019, Lithuania is expected to remain above its medium-term budgetary objective in 2018 and 2019, which is confirmed by the Commission 2018 autumn forecast. At the same time, expenditure developments should be monitored carefully, especially in light of possible future risks to the robustness of revenues, to safeguard fiscal sustainability in line with the Stability and Growth Pact.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Lithuania is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2019 budget.

The Commission is also of the opinion that Lithuania has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the CSRs will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

For the Commission
Pierre MOSCOVICI
Member of the Commission