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COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Lithuania

{SWD(2024) 950 final}

(only the Lithuanian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union’s energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level (‘REPowerEU objectives’). The Facility is expected to strengthen the resilience and potential growth of Member States’ economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support (“grants”), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

CONSIDERATIONS CONCERNING LITHUANIA

6. On 25 October 2024, Lithuania submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Lithuania of 21 October 2024[3]. The Draft Budgetary Plan for 2025 was submitted by the outgoing government. Following the parliamentary elections held on 13 and 27 October 2024, a new government is set to be formed. The new government may revise the draft budget law for 2025 before presenting it to Parliament for adoption.

7. On 21 October 2024, upon the Commission recommendation for Council recommendation on the economic, social, employment, structural and budgetary policies of Lithuania of 19 June 2024[4], the Council recommended Lithuania, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.

8. Lithuania has not yet submitted its medium-term fiscal-structural plan.

9. According to the Draft Budgetary Plan, Lithuania's real GDP is projected to grow by 2.9% in 2025 (2.3% in 2024), while inflation is forecast at 2.5% in 2025 (1.0% in 2024). According to the European Commission Autumn 2024 Forecast, Lithuania's real GDP is projected to grow by 3.0% in 2025 (2.2% in 2024), while inflation is forecast at 1.7% in 2025 (0.9% in 2024). The European Commission Autumn 2024 Forecast incorporates updated data from the 2024 benchmark revision of national accounts and quarterly outturns for the second quarter of 2024. As a result, the composition of growth in 2024 differs in investment and export growth, although the GDP growth projections remain similar. For 2025, the Draft Budgetary Plan projects a weaker contribution of private consumption and a stronger contribution of investment. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be broadly in line with the Commission's forecast for 2025 and 2024. Lithuania complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

10. Based on the Commission's estimates, the fiscal stance[5] is projected to be expansionary at 0.4% of GDP in 2025, following an expansionary fiscal stance of 1.4% in 2024. This measure of the fiscal stance appropriately considers the impact on

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3 Not yet published.

4 Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Lithuania, 19.6.2024, COM(2024)615 final.

5 The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, Lithuania's general government deficit is projected to increase to 3.0% of GDP in 2025 (2.2% in 2024), while the general government debt-to-GDP ratio is set to increase to 43.2% at the end of 2025 (39.4% at the end of 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 11.0% in 2024 and 8.2% in 2025. In turn, according to the European Commission Autumn 2024 Forecast, Lithuania's general government deficit is projected to increase to 2.4% of GDP in 2025 (2.0% in 2024), while the general government debt-to-GDP ratio is set to increase to 41.0% at the end of 2025 (38.3% at the end of 2024). The increase in the deficit is mostly driven by increases in public sector wages, social benefits, a phase-out of the temporary solidarity contribution, as well as by increasing interest expenditure and the general government's intermediate consumption. According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 10.5% in 2024 and 6.6% in 2025. The main differences between both sets of deficit and net expenditure growth projections in 2025 reflect different assumptions about increases in the general government's intermediate consumption and the differences between the debt projections reflect the fact that the European Commission Autumn 2024 Forecast incorporates the benchmark revision of national accounts indicators published on 1 October 2024, which resulted in a material increase of the 2023 nominal GDP level.

12. The Draft Budgetary Plan assumes that expenditure amounting to 1.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.8% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Lithuania. The Draft Budgetary Plan also assumes expenditure supported by loans from the Recovery and Resilience Facility, amounting to less than 0.1% of GDP in 2025, compared with less than 0.1% of GDP in 2024.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include increases in excise duties on fuels, alcohol and tobacco, changes to the formula of the tax-exempt income amount, and an increase in the corporate income tax rate by 1 pp. On the expenditure side, these measures include increases in public sector wages, social benefits (including pensions), as well as several measures aiming to ensure sufficient funding for the national defence projects. According to the Commission estimates, the overall additional impact of the revenue measures decreases the government deficit in the order of 0.1% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, Lithuania's net expenditure is projected to increase by 6.6% in 2025, which corresponds to cumulative growth of 17.8% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates risk not being consistent with the Council Recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with maintaining the general government deficit below

the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term[6].

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to decrease to 3.0% of GDP in 2025 (from 3.1% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to increase to 1.7% of GDP in 2025 (from 1.3% of GDP in 2024).

16. The Draft Budgetary Plan includes medium-term budgetary projections until 2027. The general government deficit is projected to decrease to 2.6% of GDP in 2026 and to 2.4% in 2027. In turn, the general government debt is projected to increase to 46.7% of GDP in 2026 and to 48.8% in 2027.

17. Finally, the Council also recommended Lithuania to provide adequate financing for healthcare, social protection and general public services. The Draft Budgetary Plan includes several permanent expenditure measures that significantly increase social benefits and pensions and raise public wages for health care workers.

18. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Lithuania risks not being in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Lithuania’s net expenditure growth in 2025 risks not being consistent with what was recommended by the Council on 21 October 2024. Therefore, the Commission invites Lithuania to ensure that fiscal policy in 2025 is in line with the Council Recommendation of 21 October 2024. The progress made with the implementation of the Council’s country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

[6] In particular, the annual growth of net expenditure in 2025 and the cumulative growth of net expenditure in 2024 and 2025 in the European Commission Autumn 2024 Forecast appear to exceed the rates that the Commission would consider as an appropriate response to the Council Recommendation of 21 October 2024 and as an appropriate first step in the implementation of the new economic governance.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	0.3	2.3	2.2	2.9	3.0
2	HICP inflation	% change	8.7	1.0	0.9	2.5	1.7
3	General government balance	% GDP	-0.7	-2.2	-2.0	-3.0	-2.4
4	Primary balance	% GDP	-0.1	-1.4	-1.3	-2.0	-1.4
5	General government gross debt	% GDP	37.3	39.4	38.3	43.2	41.0
6	Fiscal stance (*)	% GDP	0.0		-1.4		-0.4
7	Net expenditure growth (annual)	% change		11.0	10.5	8.2	6.6
8	Net expenditure growth (cumulative)	% change				20.1	17.8

Notes :

*The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of these Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
Paolo GENTILONI
Member of the Commission