



Lietuvos Respublikos
FINANSŲ MINISTERIJA

2021 Lithuanian Draft Budgetary Plan



15 October 2020

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ABBREVIATIONS

General SGP escape clause	General escape clause of the Stability and Growth Pact
Draft budget	Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2021
Budget framework reform	Reform of budgeting and strategic planning framework launched in 2017 in Lithuania
GDP	Gross domestic product
COVID-19 plan	Action Plan for Economic Stimulus and Mitigation of Coronavirus (COVID-19) Consequences approved by the Government of the Republic of Lithuania at the meeting on 16 March 2020 (Minutes No. 14) and its new version was approved at the meeting of the Government of the Republic of Lithuania on 2 September 2020 (Minutes No. 39 ¹)
DNA plan	DNA Plan for the Future Economy which was approved at the meeting of the Government of the Republic of Lithuania on 10 June 2020 (Minutes No. 28 ²)
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 ³ .
Economic development scenario	Economic development scenario of Lithuania for 2021-2023 developed by the Ministry of Finance, published on 14 September 2020 and approved by the Budget Policy Monitoring Authority
EU	European Union
ESA	European System of Accounts
Ministry of Finance	Ministry of Finance of the Republic of Lithuania
PIT	Personal income tax
Constitutional Law	Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty (of 6 November 2014 No. XII-1289)

¹ **COVID-19 plan**, https://lrv.lt/uploads/main/meetings/docs/12736_imp_1d707c1098ff6d9cd04e05e84e1ecfd6.pdf

² **Minutes of the Government Meeting**,

https://lrv.lt/uploads/main/meetings/docs/12009_imp_c72deffb5c7b1cf91dcf07f87df0269.pdf

https://lrv.lt/uploads/main/meetings/docs/12009_imp_c72deffb5c7b1cf91dcf07f87df0269.pdf

³ At present 70 % of the grant share of the facility is dispensed for the EU countries. For Lithuania it makes up about EUR 1.95 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 2.4 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).

DBP	2021 Draft Budgetary Plan of Lithuania
MMW	Minimum monthly wage
NTA	Non-taxable amount
VAT	Value added tax
Recommendation to Lithuania	EU Council Recommendation on 2020 National Reform Programme of Lithuania along with the Council Opinion on the 2020 Stability Programme of Lithuania
SGP	EU Stability and Growth Pact ⁴
Seimas	Seimas (Parliament) of the Republic of Lithuania
Stability Programme	2020 Stability Programme of Lithuania approved by RoL Government Resolution No. 433 of 29 April 2020 ⁵
AW	Average wage
Government	Government of the Republic of Lithuania

⁴ **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

⁵ **2020 Stability Programme of Lithuania**, https://finmin.lrv.lt/uploads/finmin/documents/files/LT_SP2020_04_30.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, Lithuania hereby submits the DBP to the European Commission and the Eurogroup.

Due to the elections of the Seimas in October 2020, after which the Government will be formed and approved, the DBP submitted to the European Commission and the Eurogroup has been developed based on no-policy-change scenario and policy scenario implemented by the XVII Government, the information received by 15 October this year and obligations undertaken.

The updated DBP will be submitted to the European Commission and the Eurogroup after formation of the new Government, as specified in the Specifications on the implementation of the Two Pack.

The Government, by its Resolution No 152 on Declaration of the State Level Emergency of 26 February 2020⁶ declared a country-wide State level emergency with regard to the threat of the COVID-19 outbreak. The state of emergency in Lithuania is not lifted. Due to disadvantageous epidemic COVID-19 situation, quarantine has been introduced in the territory of the Republic of Lithuania by Government Resolution No 207 on Imposition of Quarantine in the Republic of Lithuania of 14 March 2020⁷. By Government Resolution No 579 of 10 June 2020 On Withdrawal of Government Resolution No 207 on Imposition of Quarantine in the Republic of Lithuania of 14 March 2020⁸ the quarantine regime in the territory of the Republic of Lithuania has been lifted as of 17 June 2020.

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 on Delegation of Powers to the Ministry of Finance of 18 March 2020⁹ 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 budget policy monitoring institution published its conclusion stating that the situation occurring in the country corresponds to the definition of an unusual event¹⁰.

The SGP general escape clause¹¹ – the SGP flexibility clause to be applied by the European Commission due to the COVID-19 pandemic in the EU, euro area economic crisis, for the countries

⁶ **Government Resolution On Declaration of the State Level Emergency**, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/8feb1a7658a111eaac56f6e40072e018>

⁷ **Government Resolution On Imposition of Quarantine in the Territory of the Republic of Lithuania**, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/deaf8694663011eaa02cacf2a861120c/asr>

⁸ **Government Resolution cancelling the quarantine regime**, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/99f1d6b6abcd11ea8aadde924aa85003?jfwid=-eiiqbfydh>

⁹ **Government Resolution On Delegation of Powers to the Ministry of Finance**, https://finmin.lrv.lt/uploads/finmin/documents/files/LRV_nutarimas_%20%C4%AFgaliojimas_FM.pdf

¹⁰ **Conclusion of the budget policy monitoring institution**, <https://www.vkontrole.lt/bp/isvada.aspx?id=10366>

¹¹ **Official letter of the European Commission concerning the application of the SGP clause**,

facing economic downturn, is considered to be applied in 2020 and 2021. Under the flexibility clause the deviation of the structural general government balance from the medium-term objective in implementation of the measures to counteract the effects of the COVID-19 pandemic on the economy, health system and social environment is not considered to be not in line with the fiscal discipline rules set in the SGP. 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 cancelled in 2021. It is considered that exceptional circumstances are cancelled and the SGP general escape clause is no longer in force as of 2022.

The medium-term objective of Lithuania for 2019–2021 is the structural general government deficit of 1 % of GDP set by Seimas Resolution No. XIII-1058 on Setting the Medium-Term Objective of 22 March 2018. The medium-term objective for 2022–2024 will be set by the Seimas in 2021.

The DBP presents a review of Lithuania’s macroeconomic situation and prospects in 2020–2021, general government finance, debt projections as well as the information on the planned implementation of RRF in Lithuania.

The DBP has been drawn up in line with the draft budget, draft laws on the approval of indicators of the SSIF, CHIF budgets for 2021 as well as considering revenue and expenditure projections of other budgets attributable to general government. General government projections have been drawn up based on the economic development scenario considering the SGP general escape clause applied in 2020 and 2021 as well as exceptional circumstances, the RRF implementation expenses and the EU Council Recommendations to Lithuania¹². The action plan for the implementation of the Recommendations to Lithuania¹³ has been approved at the Government meeting on 7 October 2019 (Minutes No. 44¹⁴).

<https://ec.europa.eu/info/sites/info/files/economy-finance/lt.pdf>

¹² **EU Council Recommendations to Lithuania**, <https://data.consilium.europa.eu/doc/document/ST-8434-2020-COR-1/lt/pdf>.

¹³ **The action plan for the implementation of the Recommendations to Lithuania**, <https://lrv.lt/lt/posedziai/lietuvos-respublikos-vyriausybes-pasitarimas-126> (1 klausimo medžiaga)

¹⁴ **Protocol decision of the Government meeting**, https://lrv.lt/uploads/main/meetings/docs/13100_imp_1babdf2def6c24d5b35ff845be301ebb.elektroninio%20dokumento%20nuorasas

PART I

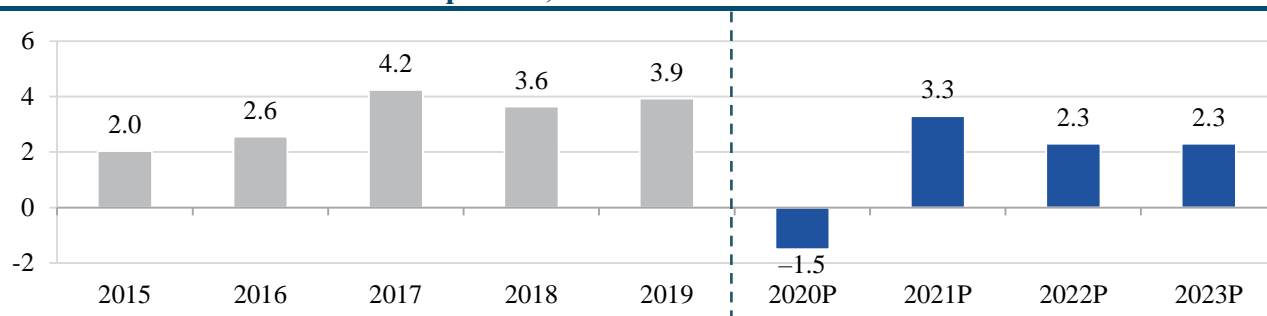
MACROECONOMIC SITUATION AND PROSPECTS

The DBP presents the 2020-2023 economic development scenario of Lithuania prepared by the Ministry of Finance and approved by the budget policy monitoring institution, which was published on the website of the Ministry of Finance on 14 September 2020¹⁵.

The economic development scenario has been drawn up on the basis of the data published and received by 31 August 2020. The assumptions of the external economic environment (trading partners' development, oil prices and the euro-to-dollar exchange rate) match the estimates published by the European Commission in July 2020 and the International Monetary Fund in June 2020. The conclusion of the budget policy monitoring institution concerning the economic development scenario is published on the website¹⁶.

It is projected that due to the shock related to the COVID-19 pandemic, this year Lithuania's economy will shrink by 1.5 %, and in 2021 the expected GDP growth will be 3.3. In subsequent medium-term years GDP could grow on average 2.3 % per year.

Chart 1. Lithuania's GDP developments, %



Sources: Ministry of Finance, Statistics Lithuania.

Due to uncertainty of the development of the pandemic both in Lithuania and external environment, more pronounced acceleration of the investment process in the private sector is highly improbable in the near future. After decreased inclination of the private sector to invest, the investment process in the country will be supported by acceleration of projects implemented from the EU Funds' assistance and implementation of the measures of the DNA plan.

This year household consumption will be promoted by the Government measures supporting personal income. Still vague further development of the COVID-19 pandemic may negatively affect self-determination of people to acquire goods and services.

Statistical data of the labour market shows that despite the virus pandemic and quarantine in the second quarter of 2020, the situation in the labour market in majority of economic activities remained relatively satisfactory. Though the annual change of the number of employed population in the second quarter this year was negative and represented -2.2 %, gross wages grew even 8.5 %. This year the Government grants to enterprises for downtime and support for self-employed as well

¹⁵ **Economic development scenario**, <http://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus>

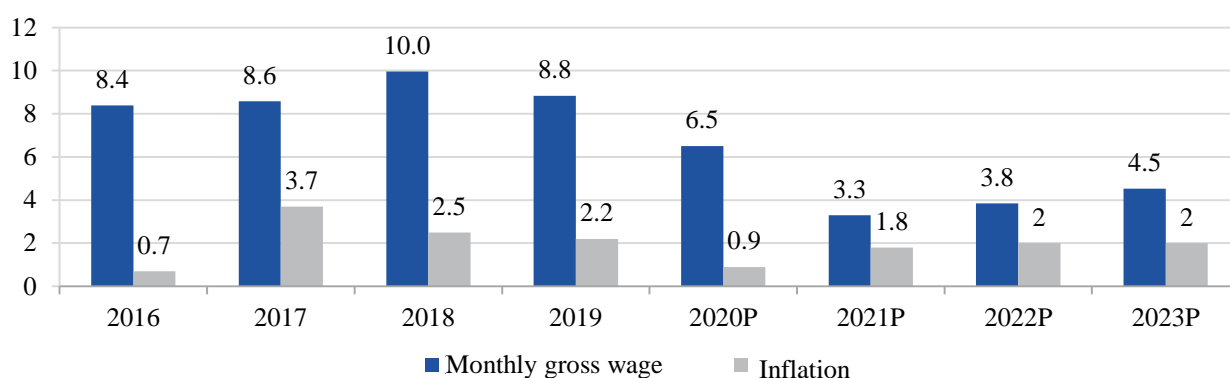
¹⁶ **Conclusion of the independent budget policy monitoring institution**, <http://www.vkontrole.lt/bp/isvados.aspx>

as ability of enterprises to carry out activities by adapting to unusual pandemic conditions had a cushioning effect on the labour market in the country.

The effect caused by the COVID-19 pandemic to the labour market will subdue the growth rate of wages. This year wages will mostly grow in the public sector. While in the private sector where a part of enterprises, especially those providing accommodation and catering services, faced decreased supply and demand, and after imposition of downtime, wage alteration will be less favourable for the employees.

Price developments in the medium term will be mainly influenced by changes in global prices, especially of energy and food products, situation in the national labour market and decisions on administered prices. The scenario predicts that the average annual inflation will remain moderate, and personal income in the medium term will outpace prices, therefore the purchasing power of households in the medium term will keep increasing.

Chart 2. Monthly gross wage and inflation developments, %



Sources: Ministry of Finance, Statistics Lithuania.

Due to unfavourable situation on external trade markets, the export of the Lithuanian goods and services (at constant prices) will decrease this year. Based on assumptions about the recovery of external demand in 2021, the export of the Lithuanian goods and services is also expected to grow.

Uncertainty caused by the pandemic, a risk due to recrudescing tension in global trade, huge uncertainty about the recovery of global economy and increased geopolitical tensions are the main risk factors due to which the estimates of the main indicators specified in this scenario may change. If the key assumptions based on which this scenario has been developed do not materialise, the estimates of the majority of indicators specified in this scenario would also change.

Table 1. Macroeconomic indicators

	ESA code	2019	2019	2020	2021
		MEUR	Change, %		
1. GDP, chain-linked volume	B1*g	42,981.3*	3.9*	-1.5	3.3
2. Potential GDP		41,398.6	4.0	3.4	3.5
o/w:					
- labour factor			0.7	0.5	0.8
- capital factor			1.7	1.3	1.3
- total factor productivity			1.5	1.6	1.4

	ESA code	2019	2019	2020	2021
		MEUR	Change, %		
3. GDP, at current prices	B1*g	48,432.8*	7.0*	-0.6	5.2
GDP components (at constant prices)					
4. Household consumption expenditure + consumption expenditure of NPIs serving households (NPIs)	P.3	26,914.7*	3.2*	-3.0	2.9
5. General government consumption expenditure	P.3	6,491.0*	0.7*	6.8	5.8
6. Gross fixed capital formation	P.51	9,533.0*	7.4*	-6.0	3.8
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	35,644.5*	9.6*	-7.2	7.9
9. Import of goods and services	P.7	33,945.8*	6.0*	-8.4	9.4
Contributions to change in GDP, percentage points (excl. level in MEUR in 2019)					
10. Final domestic demand		42,919.1*	3.7*	-2.0	3.6
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	1,698.7*	2.8*	0.5	-0.3

* Economic development scenario drafted in accordance with statistical data published by 31 August 2020.

Sources: Ministry of Finance, Statistics Lithuania.

PART II GENERAL GOVERNMENT FINANCE

SECTION 1 BALANCES AND FISCAL POLICY ASSESSMENT

Years 2019 and 2020

In 2019, for the fourth year in a row, Lithuania's general government was in surplus. The general government surplus accounted for 0.3 % of GDP, and structural balance -1.3 % of GDP. The year 2019 saw no deviation from the medium-term objective which, taking into account the SGP flexibility clause to Lithuania for expenditure of 0.5 % of GDP incurred in implementation of the structural reforms¹⁷.

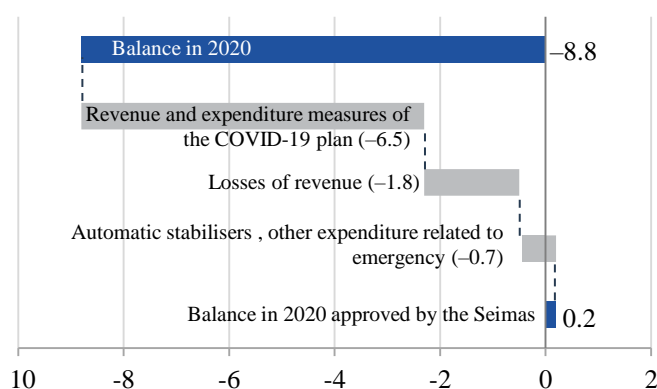
The Republic of Lithuania Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2020 sets the targeted surplus of general government of 0.2 % of GDP. It will not be achieved due to adverse effects on economy, social environment, public finance caused by the COVID-19 pandemic, which manifested in economic downturn, tax deferrals and higher than planned general government expenditure as a result of the implementation of the COVID-19 plan measures.

The Stability Programme projected the general government deficit of 11.4 % of GDP. This deficit estimate was governed by the data on the scope of the COVID-19 plan available in April 2020, economic development scenario and general government revenue projections.

¹⁷ The Description of the structural reforms in the fields of education, health, reduction of shadow economy, innovation, social insurance (pensions) and tax adjustment approved during the Spring Session of the Seimas in 2018, <https://lrv.lt/lt/aktuali-informacija/xvii-vyriausybe/prioritetiniai-darbai/strukturines-reformos>.

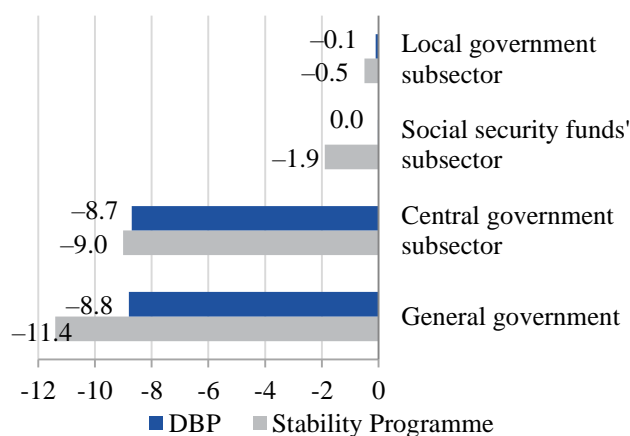
It is currently projected that in 2020 the general government deficit will be 8.8 % of GDP. This deficit is determined by the anticipated abatement of the general government revenue of about EUR 1.1 billion, as compared with the planned revenue, also the actual data on the implementation of the COVID-19 plan and assumptions about the implementation of the COVID-19 plan measures in the remaining months of this year. According to the data on 15 October 2020, EUR 2.9 billion were allocated to appropriation managers for the implementation of the COVID-19 plan measures (affecting the balance by EUR 2.4 billion), where EUR 2 billion have been used out of total amount of the allocated funds. The assumption is made that the implementation of the COVID-19 plan measures in 2020 will make the total effect of EUR 2.9 billion (5.9 % of GDP) on the general government balance indicator.

Chart 3. General government balance developments with regard to the balance approved by the Seimas in 2020, % of GDP



Source – Ministry of Finance.

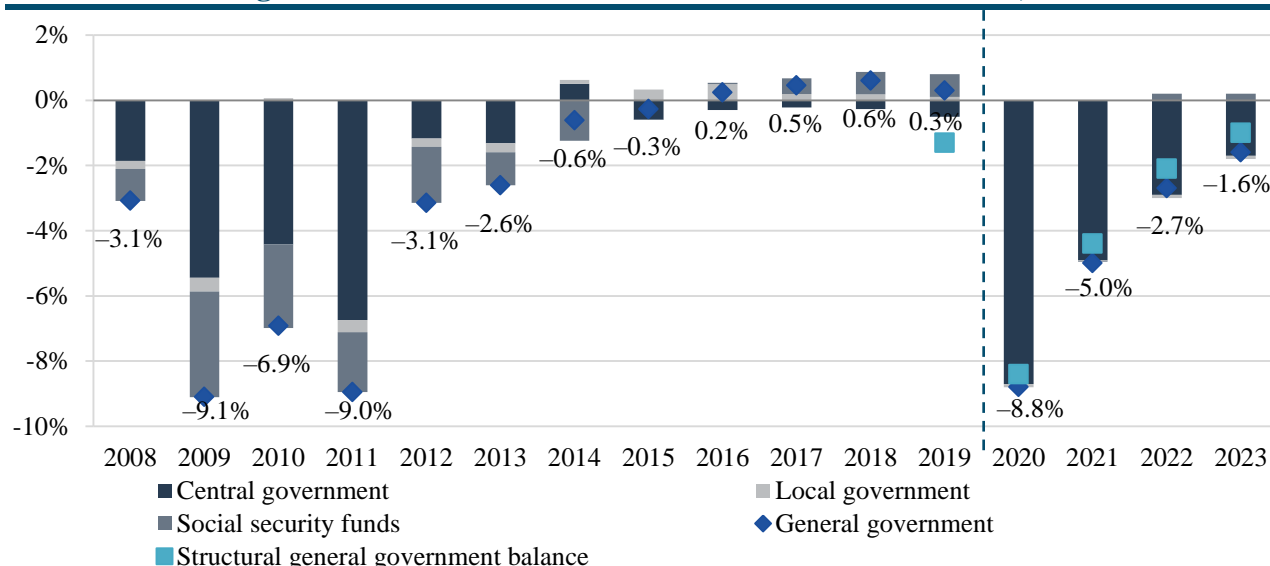
Chart 4. General government sector and subsector balances in 2020, % of GDP



Source – Ministry of Finance.

Due to negative effect of the COVID-19 pandemic on general government finance and general government expenditure in implementation of the COVID-19 plan, the deviation from the medium-term objective will occur in 2020. The structural general government deficit will constitute 8.4 % of GDP in 2020. In estimating the structural balance, here the SGP general escape clause is applied when the effect of the COVID-19 plan measures, as one-off measures, is not eliminated. A negative annual change of the primary structural balance of 7.3 percentage point of GDP in 2020, also considering a negative output gap, shows that fiscal policy pursued in 2020 is countercyclical, stimulating the economy. The projection of the structural general government balance was made under circumstances of exceptionally high uncertainty, when it is difficult to make a reliable assessment of the economic cycle position and the effect of the COVID-19 pandemic on public finance.

Chart 5. General government sector and subsector balances in 2008–2023, % of GDP



Sources: Statistics Lithuania, Ministry of Finance.

Year 2021

Considering the necessity of responding to the needs of vulnerable groups of society, the pursuit of accelerating investments in economic recovery and growth and make them more effective, the general government expenditure, as compared with expenditure planned for 2020, will increase by EUR 3,117.2 million, of which EUR 744 million for the RRF. Though it is not planned to proceed the majority of rapid response – COVID-19 plan– measures to counteract the pandemic effects in 2021, it is not inconceivable that if the pandemic situation gets worse, they may prove necessary.

The RRF proposed by the European Commission will help to address the main challenges for Lithuania: recovery after unexpected crisis caused by the COVID-19 pandemic and increasing resilience of economic and social systems to crises, slow Lithuania’s economic transition towards higher added value, social exclusion and inequality, insufficient quality of education, slow digitalisation of education and training drawbacks, poor overall health outcomes of the Lithuanian population, economic and social regional disparities, challenges posed by the green and digital transformation.

The RRF will create opportunities to significantly expedite the implementation of reforms and related necessary public investment in Lithuania. This facility will help Lithuania not only to solve economic and social problems, but also to ensure that the investment and reforms are oriented towards addressing green and digital reform challenges and sustainable recovery. The implementation of the RRF in Lithuania will be linked to specific challenges and priorities for Lithuania identified in the European Semester, implementation of the Recommendations to Lithuania, national reforms, National Action Plan in Energy and Climate Area.

Lithuania responding to the negative impact caused by COVID-19 on Lithuania’s economy as well as global economic developments, in July 2020 developed the DNA plan which aims to seek for rapid and effective investment in recovery and growth of Lithuania’s economy for it to become more sustainable, innovative and creating higher added value.

The DNA plan identifies 5 investment directions where the main long-term investment flows will be channelled: human capital, digital economy and business, innovation, economic infrastructure as well as climate change and energy. These directions respond to the significant main global economic developments: the need to redirect business chains, endeavour to strengthen strategically important life sciences industry, to move towards the innovation-based and digital economy, the need to increase economic resilience to feasible shocks, to support the green policy and to ensure sustainability.

It is planned to allocate EUR 5.8 billion for this type long-term investment. The purpose and investment directions of the DNA plan overlap with the RRF, therefore part of the actions of the DNA plan, which are in line with the RRF priorities, are planned to be financed from the RRF resources. Whereas the major part of these actions is already planned and prepared for the implementation, and significant investment from the RRF will be launched already in 2021.

In 2021 EUR 813 million of investment is planned from the RRF, of which EUR 744 million in the general government. This amount in the general government financial DBP projections is estimated as revenue of 2021 and, accordingly, as expenditure by maintaining the principle of neutrality of the EU and other international financial assistance to the budget balance. Whereas borrowed funds will be used to advance the implementation of the RRF measures, the general government debt in 2021 will increase. The RRF resources received in subsequent medium-term years would have a positive impact on the debt indicator.

Lithuania has identified fundamental changes which are planned to be achieved by investing the RRF resources. First, the economic progress of Lithuania will be enhanced by making efforts that innovative and high added value business makes the largest possible share of the economy. The transition will be made towards digital and knowledge-based economy, where well paid and high-level employment and skills prevail, innovation and high value products are developed, thus increasing economic resilience to feasible shocks in the future. Second – a balanced development by exploiting economic potential of the Lithuanian regions, ensuring their attractiveness for investment creating high-quality jobs will be pursued. Third – the transition to climate friendly economy will be made. Fourth – investment in qualified labour force consistent with a new economic structure will be made. The efforts will be made to maintain and increase the number of qualified, employable, healthy, skilled and motivated to work people, to increase the number of the Lithuanian residents able to create individual and public welfare.

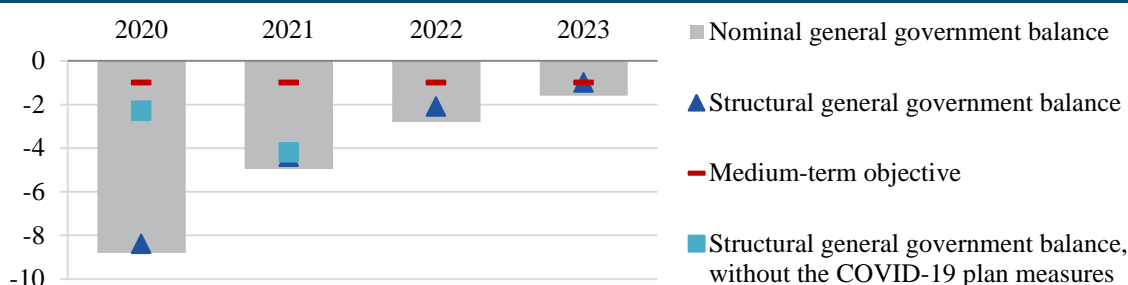
Considering these priority directions, preliminary, the RRF resources will cover investment in the following main areas:

- renewable energy sources, energy efficiency, environmental protection and climate change, circular economy and sustainable transport;
- digital economy, digital connectivity, digitalisation of public administration and services;
- reform of the education system by improving the quality and accessibility of education;
- promotion of innovation and development of scientific potential;
- increasing resilience of the health system and improving accessibility and quality of health services;
- development of the tax system and combat against shadow economy.

The detailed list of planned investment in 2021 is presented in Part VI.

Due to the application of the SGP general escape clause, determined exceptional circumstances, in drafting the budgets attributable to general government for 2021, the SGP and national expenditure growth limitation and structural balance rules are not applied. It is projected that in 2021 the general government deficit will constitute 5 % of GDP, and structural deficit – 4.4 % GDP and will be by 3.4 percentage points of GDP higher than the medium-term objective. Without considering the impact of the COVID-19 plan measures on the general government balance, in 2021 the structural deficit would account for 4.2 % of GDP.

Chart 6. Structural balance in 2020–2023 with / without the impact of the COVID-19 plan measures, % of GDP



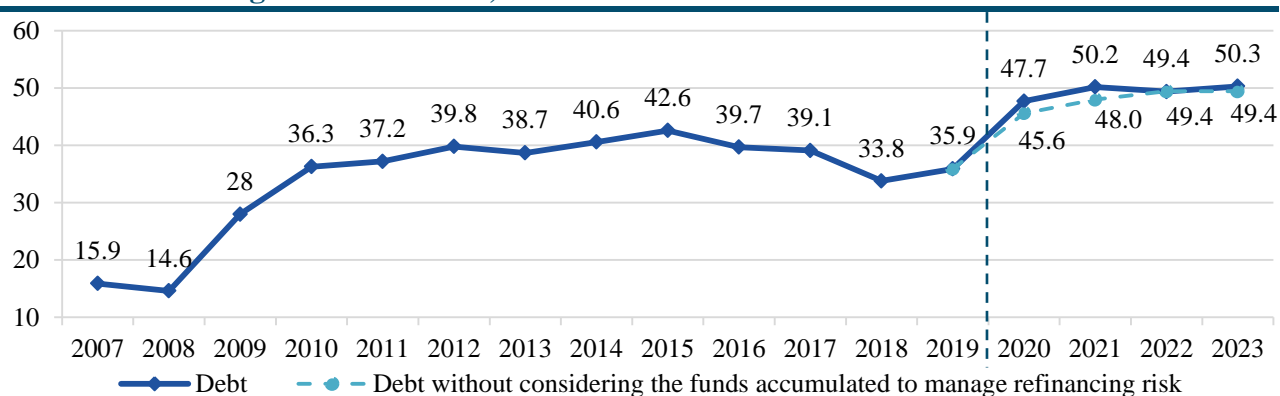
Source – Ministry of Finance.

The indicators for 2020 and 2021 specified in the DBP may change if risks of the economic development scenario or other fiscal risks indicated in Table 18 materialise in 2020 and 2021.

Though uncertainty about the economic and COVID-19 pandemic future development is very high, it is projected that at the end of the medium term the structural general government balance will reach the medium-term objective. Long-term sustainability of general government finance will inevitably be both priority and challenge.

General government debt

It is projected that general government debt at the end of 2022 will account for 50.2 % of GDP and will be higher by 2.6 percentage point than at the end of 2020, which is planned to reach 47.7 % of GDP. The increase in debt, as compared with 2020, is mainly affected by the projected negative balance of the EU and other international assistance (about 2.1 % of GDP) and up-front accumulation of financial resources used to cover the general government debt (about 1.5 % of GDP). The impact of consequences caused by the COVID-19 pandemic on public finance and cash flows is expected to reach about 10.6 % of GDP, i.e. without considering the impact of the COVID-19 pandemic, the general government debt would account for about 37.1 % of GDP. Global financial market trends and the Pandemic Emergency Purchase Programme pursued by the European Central Bank (PEPP) aimed to contribute by monetary policy measures to countering the negative impact of the COVID-19 pandemic on the EU economies, created conditions for further reduction of expenditure on interest despite the increased borrowing volumes.

Chart 7. General government debt , % of GDP

Source – Ministry of Finance.

Table 2. General government debt projections

	2020	2021
	% of GDP	
General government debt at the end of the year	47.7	50.2
Change in general government debt	11.8	2.6
Contributions to changes in general government debt		
Primary balance	-8.2	-4.5
Interest expenditure	0.6	0.5
Stock-flow adjustment	2.5	0.0
Implicit interest rate on debt	1.3	1.0

Source – Ministry of Finance.

Table 3. State guaranteed debt

	2020	2021
	% of GDP	
State guarantees	2.0	2.7
o/w: related to financial sector	0.0	0.0

Source – Ministry of Finance.

SECTION 2

GENERAL GOVERNMENT REVENUE AND EXPENDITURE PROJECTIONS UNDER FORMED POLICY SCENARIO

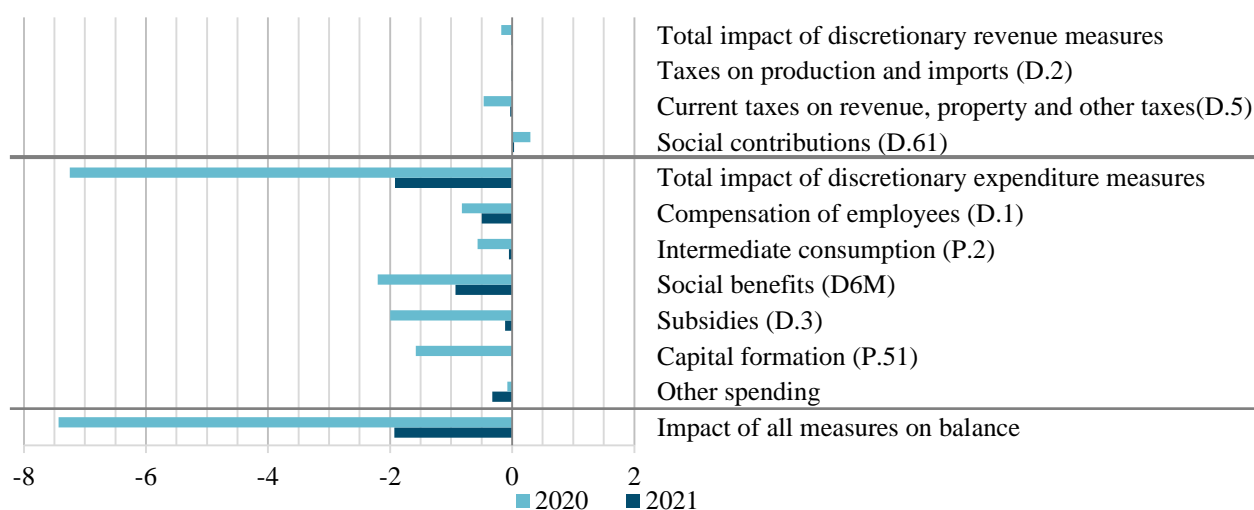
Implementing the EU Council Recommendations to Lithuania and considering the provisions for the improvement of the structure of the tax system in a growth-friendly direction and optimisation of the tax base of the XVII Government Programme Implementation Plan approved by Government Resolution No. 164 on the Approval of the Government of the Republic of Lithuania Programme Implementation Plan of 13 March 2017, the following tax changes are planned in 2021: increased excise duty rates for some tobacco products and reduced scope of excise duty relief for gas oil used in agriculture, thus further expanding the tax base less detrimental to growth, at the same time more contributing to the implementation of environmental protection and health promotion goals. It is planned to further increase progressivity of personal income taxation by reducing the annual income rate subject to a top PIT progressive rate. From 2021 to 2025 the enterprises implementing new mega investment projects will be subject to the corporate income tax relief, so as to attract investment to the country.

The State budget revenue projections for 2021 have been made taking into account the economic development scenario, assumptions on the payments of tax deferrals to enterprises affected by the COVID-19 pandemic and loss of revenue due to existing tax reliefs. It is projected that the State budget revenue, on accrual basis, excluding the EU and other international financial assistance, will increase by EUR 230 million in 2021, as compared with revenue forecasted for 2020.

A list of discretionary revenue measures related to this-year changes in the tax system and the implementation of the COVID-19 plan is presented in Table 15.

It is projected that in 2021 the State budget expenditure will grow due to financing of the DNR plan measures, indexation of the base pension, increase of contributions for the State insured persons, incentive payments to pension funds, contributions to the EU budget, child benefits, MMW, basic salary for teachers, lecturers, other employees of education and science, financing of structural reforms under the implementation, compensation for municipalities for their revenue loss, business support in state of emergency imposed in the country. The information on discretionary expenditure measures is presented in Table 16.

Chart 8. 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	2020	2021
		% of GDP	
1. Total revenue	TR	36.3	37.8
1.1. Taxes on production and imports	D.2	11.6	11.6
1.2. Current taxes on income and wealth, etc.	D.5	8.8	8.4
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.6	10.6
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.8	6.7
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		31.0	30.7
2. Total expenditure	TE	45.2	42.7
2.1. Compensation of employees	D.1	11.8	11.5
2.2. Intermediate consumption	P.2	5.5	6.5

General government (S13)	ESA code	2020	2021
		% of GDP	
2.3. Social benefits	D6M	17.2	16.2
o/w: unemployment benefits		0.7	0.6
2.4. Interest expenditure	D.41	0.6	0.5
2.5. Subsidies	D.3	2.3	0.5
2.6. Fixed capital formation	P.51	4.4	3.8
2.7. Capital transfers	D.9	0.4	0.1
2.8. Other		3.0	3.7

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 (including also the Stability Programme)

	2019	2020	2021
Real GDP change, %:			
Scenario of 20 March 2020	3.9	-1.3	2.2
DBP	3.9	-1.5	3.3
Difference	0.0	-0.2	1.1
Stability Programme (scenario 1)	3.9	-2.8	5.4
DBP	3.9	-1.5	3.3
Difference	0.0	1.3	-2.1
Stability Programme (scenario 2)	3.9	-7.3	6.6
DBP	3.9	-1.5	3.3
Difference	0.0	5.8	-3.3

Source – Ministry of Finance.

The projections of the general government balance indicator for 2020 specified in the Stability Programme and DBP differ due to increased scope of the COVID-19 plan, assumptions of general government expenditure in implementation of the COVID-19 plan, also currently projected lower decrease of nominal GDP and updated general government revenue projections. General government balance indicators for 2021 specified in the Stability Programme and DBP differ as general government fiscal projections presented in the Stability Programme are based on no-policy-change scenario, and the projections in the DBP are prepared considering discretionary revenue and expenditure measures to be applied in 2021.

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

	ESA code	2019	2020	2021
		% of GDP		
Stability Programme (scenario 1)	B.9	0.3	-9.1	-2.4
DBP		0.3	-8.8	-5.0
Difference		0.0	0.3	-2.6
Stability Programme (scenario 2)	B.9	0.3	-11.4	-3.9
DBP		0.3	-8.8	-5.0
Difference		0.0	2.6	-1.1

Source – Ministry of Finance.

General government debt projections specified in the Stability Programme and DBP differ due to change in refinancing risk management measures, updated GDP, general government revenue (including the EU and other international financial assistance), general government balance projections. The decision to support higher liquidity of the State Treasury also has effect on the general government debt projection presented in the DBP.

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

	2019	2020	2021
	% of GDP		
Stability Programme (scenario 1)	36.3	46.8	47.9
DBP	35.9	47.7	50.2
Difference	-0.4	0.9	2.3
<hr/>			
Stability Programme (scenario 2)	36.3	50.6	52.7
DBP	35.9	47.7	50.2
Difference	-0.4	-2.9	-2.5

Source – Ministry of Finance.

PART III BUDGET FRAMEWORK REFORM

The purpose of the budget framework reform is to develop a sound and effective medium-term framework of budgeting and programme management explicitly linked to the strategic planning system and integrating strategic, regional and territorial planning processes. These close links between budgeting and strategic planning processes aim at ensuring a long-term and balanced progress of the State as well as effective planning and use of allocated public finance.

On 25 June 2020 the Seimas adopted the Law on Strategic Management¹⁸ which regulates the result-oriented strategic management system: setting the principles of the strategic management system, defining types of planning documents, their interlinkages and effect on planning progress funds, strengthening the links between the strategic management and State budgeting system. The planning documents prepared according to the provisions of the Law on Strategic Management in the long term will enable to ensure the effective planning and use of the general government finance following the evidence-based and result-oriented management principles.

Also, one of the basic national planning document – National Progress Plan¹⁹ was approved by Government Resolution No. 998 on the Approval of the 2021–2030 National Progress Plan of 9 September 2020, which sets all national strategic goals for the period of 10 years and progress targets for their achievement which will be transferred to the national development programmes of the ministries which have still to be prepared in 2020. The programmes will plan the progress instruments and projects for their implementation, present financial projections necessary for their

¹⁸ **Law on Strategic Management,**

<https://eseimas.lrs.lt/portal/legalAct/lt/TAD/90386d20bab711ea9a12d0dada3ca61b?positionInSearchResults=0&searchModelUUID=c5848937-218c-4cd8-af4f-1d3aaf84ae47>

¹⁹ **National Progress Plan,**

<https://eseimas.lrs.lt/portal/legalAct/lt/TAD/c1259440f7dd11eab72ddb4a109da1b5?positionInSearchResults=0&searchModelUUID=c5848937-218c-4cd8-af4f-1d3aaf84ae47>

implementation. The same rules will apply for planning the progress instruments and projects despite the financing source.

Proceeding the budget framework reform works, in 2020 spending reviews are performed in social security (active labour market policy measures) and education (vocational training institutions) sectors following the methodology for public spending reviews drafted in 2019. It is planned that the results of the spending reviews will be used in negotiations on appropriations planned for 2022 and results to be achieved. Also, the public spending review process will be integrated into the State budget preparation process as an integral element of this process and as it is set by the strategic management methodology. The public spending review will be performed on annual basis in order to find non-priority, inefficient and ineffectively used expenditure of follow-up activities which could be channelled to more effective activities or instruments.

The Strategic Management Methodology elaborating the provisions of the Law on Strategic Management is currently under preparation and is planned to be approved by the end of 2020. The Strategic Management Methodology establishes that the elements (progress tasks, progress tools, projects, their assessment criteria) of strategic planning documents (National Progress Plan, national development programmes) will be directly transferred to the strategic action plans, i.e. budget programmes of appropriation managers, and follow-up activity elements (follow-up activity tasks, measures and their assessment criteria) will be planned in the strategic action plan of the appropriation manager. Also, at present the active preparation for the implementation of the budget framework reform is under way: commenced preparation of pilot new-structure strategic action plans of the ministries for 2022-2024, where follow-up activity expenditure and expenditure for the implementation of progress will be explicitly disaggregated.

A new budgeting framework, considering adopted aforementioned legal acts, will be applied in preparation of draft State budgetary plans for 2022 and subsequent years.

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 amendments 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 of revenue and revenue structure 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 relationship 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

	2019	2020	2021
Short-term interest rates (average annual)	-0.1	-0.2	-0.2
Long-term interest rates (average annual)	0.5	0.2	0.4
USD/EUR exchange rate (average annual)	1.12	1.11	1.12
Nominal effective exchange rate	-1.2	2.4	1.0
Global (excl. EU) GDP growth, %	3.0	-3.9	4.9
EU GDP growth, %	1.5	-8.3	5.8
Growth of main export markets, %	1.4	-7.8	5.3
Global (excl. EU) import growth, %	0.1	-11.5	6.1
Oil prices (<i>Brent</i> , USD per barrel)	64.1	41.8	43.1

Sources: European Commission, Ministry of Finance.

Table 10. Price indicators

	2019	2019	2020	2021
	Index	Change, %		
1. GDP deflator	124.9*	3.0*	0.9	1.8
2. Private consumption deflator	117.5*	1.9*	0.9	1.8
3. HICP (in 2015 = 100)	109.5	2.2	0.9	1.8
4. General government consumption expenditure deflator	143.6*	9.6*	5.0	5.0
5. Gross fixed capital formation deflator	117.4*	2.5*	1.7	1.7

	2019	2019	2020	2021
	Index	Change, %		
6. Export (goods and services) price deflator	111.0*	0.8*	-2.5	1.3
7. Import (goods and services) price deflator	106.7*	-0.7*	-5.6	1.1

* The economic development scenario prepared based on statistical data published by 31 August 2020.

Sources: Statistics Lithuania, Ministry of Finance.

Table 11. Labour market indicators

	ESA code	2019	2019	2020	2021
		Indicator value	Change, %		
1. A number of employed population, thou.		1,378.4	0.3	-1.9	1.3
2. Employment, hours worked, thou.		2,615,886	0.5	-	-
3. Unemployment rate, %		6.3	-	8.8	7.9
4. Labour productivity (gross value added per one employed), EUR thou.		-	3.6	0.4	1.9
5. Labour productivity, hours worked		-	-	-	-
6. Compensation of employees, EUR million	D.1	22,433.3	10.3	4.8	4.9
7. Compensation per employee, EUR		18,293.5	9.8	6.8	3.5

* The economic development scenario prepared based on statistical data published by 31 August 2020.

Sources: Eurostat, Statistics Lithuania, Ministry of Finance.

Table 12. Sectoral balances

	ESA code	2019	2020	2021
		% of GDP		
1. Net borrowing	B.9	6.1	9.3	7.9
<i>o/w:</i>				
- balance of goods and services		5.6*	8.0	7.5
- balance of primary incomes and transfers		-1.2**	-0.9**	-1.7**
- capital account		1.7**	2.2**	2.1**
2. Net lending/net borrowing of the private sector	B.9	5.8	18.1	8.4
3. General government net lending / net borrowing	B.9	0.3	-8.8	-0.5
4. Statistical discrepancy		0	0	0

* The economic development scenario prepared based on statistical data published by 31 August 2020.

** Forecasts for 2020 and 2021 prepared based on the information published by 31 August 2020 (actual data of 2019 used for the preparation of forecasts).

Sources: Bank of Lithuania, Ministry of Finance.

Table 13. General government indicators under fiscal policy scenario

	ESA code	2020	2021
		% of GDP	
Net lending (+) / net borrowing (-) (B.9) by subsector			
1. General government	S.13	-8.8	-5.0
2. Central government	S.1311	-8.7	-4.9
3. State government	S.1312	-	-
4. Local government	S.1313	-0.1	0.0
5. Social security funds	S.1314	0.0	0.0
6. Interest expenditure	D.41	0.6	0.5
7. Primary balance		-8.2	-4.5
8. One-off and other temporary measures		0.0	0.0
9. Real GDP growth (%)		-1.5	3.3

	ESA code	2020	2021
		% of GDP	
10. Potential GDP growth (%)		3.4	3.5
O/w:			
- labour factor		0.5	0.8
- capital factor		1.3	1.3
- total factor productivity		1.6	1.4
11. Output gap (% of potential GDP)		-1.1	-1.3
12. Cyclical component of the budget (% of potential GDP)		-0.4	-0.5
13. Cyclically adjusted balance (1 – 12) (% of potential GDP)		-8.4	-4.4
14. Cyclically adjusted primary balance (13 + 6) (% of potential GDP)		-7.8	-3.9
15. Structural balance (13 – 8) (% of potential GDP)		-8.4	-4.4

Source – Ministry of Finance.

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

General government (S13)	ESA code	2020	2021
		% of GDP	
1. Gross revenues under no-policy change scenario	TR	36.5	37.8
1.1. Taxes on production and imports	D.2	11.7	11.6
1.2. Current taxes on income and wealth, etc.	D.5	9.2	8.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.3	10.6
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.8	6.7
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		31.2	30.7
2. Gross expenditure under no-policy change scenario	TE	37.9	40.8
2.1. Compensation of employees	D.1	10.9	11.0
2.2. Intermediate consumption	P.2	4.9	6.4
2.3. Social benefits	D6M	15.0	15.2
o/w: unemployment benefits		0.7	0.6
2.4. Interest expenditure	D.41	0.6	0.5
2.5. Subsidies	D.3	0.3	0.3
2.6. Fixed capital formation	P.51	2.9	3.8
2.7. Capital transfers	D.9	0.4	0.1
2.8. Other		2.9	3.3

Source – Ministry of Finance.

Table 15. Discretionary revenue measures taken by general government

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
1.*	Increase of MMW from EUR 555 to EUR 607 starting from 1 January 2020	D.5	14.6	
2.*	Increase of MMW from EUR 607 to EUR 642 starting from 1 January 2021	D.5		9.1
3.*	Increase of NTA up to EUR 300 in 2019, expanding the NTA application limit to 2 AW, and increase of NTA up to EUR 400 from 1 July 2020 by applying it for revenue generated from 1 January 2020, NTA formula change from 1 January 2021	D.5	-142	-68

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
4.*	Increase of NTA for the disabled: for people with greater capability for work – up to EUR 600, people with lower capability for work – up to EUR 645	D.5	-15	
5.*	Introduction of a progressive (32 %) PIT rate	D.5	12.5	17
6.*	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	34.6	-16
7.*	Funds allocated for the implementation of the National Collective Agreement (incl. increase in basic amount)	D.5	31.2	
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		4.0
9.*	Introduction of the vehicle pollution tax	D.5	12.5	17.5
10.*	Additional corporate income tax of credit institutions	D.5	17.7	-26.2
11.*	PIT deferral for taxpayers affected by the COVID-19 pandemic (COVID-19 plan measure)	D.5	-100	25
12.*	Deferral of the corporate income tax for taxpayers affected by the COVID-19 pandemic (COVID-19 plan measure)	D.5	-30	22.5
13.*	PIT losses 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.5	-60	
14.*	Increase of excise duty rates on tobacco products and liquid of electronic cigarettes from 1 March 2019	D.2	15.6	15.6
15.*	Increase of excise duty rates on ethyl alcohol and alcoholic beverages	D.2	18.8	3.3
16.*	Increase of excise duty rate on diesel fuels used in agriculture from 1 January 2020	D.2	1.1	
17.*	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
18.*	Increase of excise duty rate on diesel fuels	D.2	44.6	
19.*	Increase of excise duty rate on petrol	D.2	10.3	
20.*	Increase of excise duty rate on heated tobacco products from 1 March 2020	D.2	6.9	1.4
21.*	Introduction of the pollution tax on waste going to a landfill	D.2	2.0	
22.*	Decrease of the non-taxable amount of the immovable property tax for individuals down to EUR 150,000	D.2	2.4	
23.*	Increase of the lower threshold of the immovable property tax applied to commercial property from 0.35 to 0.5 %	D.2		1.2
24.*	VAT tax deferrals to taxpayers affected by the COVID-19 pandemic (COVID-19 plan measure)	D.2	-108	
25.*	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
26.	Increase of MMW from EUR 555 to EUR 607 starting from 1 January 2020	D.6	15.3	
27.	Increase of MMW from EUR 607 to EUR 642 starting from 1 January 2021	D.6		9.6
28.	Funds allocated for the implementation of the National Collective Agreement (incl. increase in basic amount)	D.6	32.7	
29.	Basic salary amount increase from EUR 176 to EUR 177 for State politicians, judges, State officials and civil servants as well as persons employed in public and municipal institutions	D.6		4.2
30.	SODRA contribution ‘ceilings’	D.6	-11.3	-22.4
31.	Suspension of SODRA budget transfers to private pension funds due to changes in the pension accumulation scheme	D.6	181.5	23.2

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
32.	Increase of the wage coefficient applied in calculating refunds of missions (non-taxable allowances) from 1.3 to 1.65 (x MMW)	D.6	31.7	
33.	Deferrals of social insurance contributions to taxpayers affected by the COVID-19 pandemic (COVID-19 plan measure)	D.6	-35	
34.	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	-71	
Total:			-86.3	-6.5

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”, and accounting basis – accrual.

Table 16. Discretionary expenditure measures taken by general government

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
1.*	Increase of MMW from EUR 380 to EUR 400, in 2019 – to EUR 555, in 2020 – to EUR 607, in 2021 – to EUR 642 (central government)	D.1	-7.4	-5.1
2.	Increase of MMW from EUR 380 to EUR 400, in 2019 – to EUR 555, in 2020 – to EUR 607, in 2021 – to EUR 642 (local government)	D.1	-12.2	-7.8
3.*	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (from 1 January 2018 from EUR 130 to EUR 132; in 2019 – EUR 173, in 2020 – EUR 176, in 2021 – EUR 177) (central government)	D.1	-39.5	-16.8
4.	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (from 1 January 2018 from EUR 130 to EUR 132; in 2019 – EUR 173, in 2020 – EUR 176, in 2021 – EUR 177) (local government)	D.1	-12.6	-4.8
5.*	Increase of wages for persons employed in the education sector	D.1	-93.8	-69.6
6.*	Increase of wages for public health care professionals (in 2020 increase of wages for employees working in institutions subordinate to the Ministry of Health under employment contracts)	D.1	-2.0	
7.*	Increase of wages for lecturers, research staff and researchers	D.1	-4.6	-9.2
8.*	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (central government)	D.1	-13.1	-6.9
9.	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (local government)	D.1	-15.9	-9.1
10.*	Increase of wages for residents	D.1	-0.5	
11.*	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	-15.7	-1.6
12.*	Increase of wages for mediators from 1 January 2020	D.1	-0.4	
13.*	Increase of the wage fund of public institutions and financing of additional positions (central government)	D.1	-13.7	-6.2
14.	Increase of the wage fund of public institutions and financing of additional positions (local government)	D.1	-5.1	
15.*	Increase of wages for medical staff from 1 April 2020	D.1	-90.0	-86.5
16.	Increase of wage coefficients to maximum for school managers, education of their deputies and heads of education units	D.1		-18.0
17.*	Manning, increase of wages for officials to build police capacities (for work in communities, to strengthen the action groups of criminal police in police stations)	D.1		-8.3
18.*	Reconstruction, repairs of national or secondary roads (COVID-19 plan measure)	D.1 P.2 P.51	-150.0	
19.*	Unfreeze of funds of the programmes for road maintenance and climate	D.1	-160.0	

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
	change (COVID-19 plan measure)	P.2 P.51		
20.*	Additional expenditure for health, incl. bonuses for health staff (COVID-19 plan measure)	D.1 P.2	-2.9	
21.*	Additional expenditure for public institutions involved in emergency management, incl. bonuses for staff (COVID-19 plan measure)	D.1 P.2	-20.1	
22.*	DNA plan (COVID-19 plan measure in 2020)	D.1 P.2 P. 51 Other	-161.3	-113.3
23.*	Acquisition of personal protective equipment, reagents, medical and other equipment (COVID-19 plan measure)	P.2	-160.6	
24.*	Measures for mitigation of adverse consequences of the COVID-19 pandemic on mental health (COVID-19 plan measure)	P.2	-2.4	
25.*	Additional expenditure for non-government organisations operating in social area and providing basic social services (COVID-19 plan measure)	P.2	-2.0	
26.*	Ensuring better conditions for elderly people to indulge in public social and cultural life and other activities (COVID-19 plan measure)	P.2	-0.3	
27.*	Reimbursement of delivery services costs of periodicals in rural and urban areas provided by SC Lietuvos Paštas (COVID-19 plan measure)	P.2	-0.6	
28.*	Promotion of tourism sector following COVID-19 pandemic (holiday vouchers scheme for medical staff working in the Republic of Lithuania, transformation of tourism sector by developing upgrading, retraining and digitalisation in implementation of the measure "E-business model", application of innovation and introduction of new tourism services in implementation of the measure "Innovative vouchers" (COVID-19 plan measure)	P.2	-18.0	
29.*	Reimbursement of expenditure incurred by municipalities in delivery of material resources to eliminate the COVID-19 pandemic effects and to manage its spread under the State level emergency (COVID-19-related measure)	P.2	-12.0	
30.*	Preparation for feasible accident in Astravets Nuclear Power Plant (central government)	P.2		-6.0
31.	Preparation for feasible accident in Astravets Nuclear Power Plant (local government)	P.2		-2.6
32.*	Merge of Šiauliai University to Vilnius University	P.2		-2.3
33.*	Increase of social assistance benefits by implementing new provisions of the laws (in 2020 social assistance pension base (amount of minimum consumption needs from 54 % to 56 %), and increase of premium ceilings for small pensions)	D.6M	-10.9	-6.0
34.*	Increase of pensions for officials due to increase of the basic pension and its indexation	D.6M	-1.8	
35.*	Increase of the child benefit from EUR 30 to EUR 50 in 2019, to EUR 60 in 2020	D.6M	-149.2	-63.0
36.*	Indexation of basic amounts of social benefits	D.6M	-20.0	-27.5
37.*	Contributions for persons insured from public funds	D.6M	-87.9	-50.2
38.*	Insurance from public funds for nurses of the people with disabilities with a need for a special permanent care	D.6M	-4.0	
39.*	Free meals for pre-primary school students (from 1 January 2020) and primary school students (from 1 September 2020)	D.6M	-4.0	-10.4
40.	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 schools or social care and employment centres, also for people suffering from serious chronic diseases (COVID-19 plan measure)	D.6M	-140.0	
41.	Temporary payment of job-search allowances for the unemployed who have not participated in active labour market policy measures (COVID-19 plan measure)	D.6M	-137.8	-34.5

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
42.	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 carry out their activities (COVID-19 plan measure)	D.6M	-108.0	
43.	Support of self-employed persons who received self-employed person's benefit and who will change their activities undertaken (COVID-19 plan measure)	D.6M	-10.0	
44.*	One-off payments of EUR 200 for beneficiaries of social insurance pensions and social assistance benefits (COVID-19 plan measure)	D.6M	-182.0	
45.*	In granting cash social allowances for low income earners, temporarily disposable assets are not assessed and state-supported income (SSI) rate is increased from 1 SSI to 1.1 SSI for setting the right to the social benefit (COVID-19 plan measure)	D.6M	-31.6	
46.*	Lump-sum payment for families with children (adopted children), and for children deprived of parental care (COVID-19 plan measure)	D.6M	-72.0	
47.	Expansion of provisions of the social security programme for artists and allocation of additional funds for the implementation of this programme (COVID-19 plan measure)	D.6M	-0.8	
48.*	Financing the activities of summer camps for children and other non-formal education activities (COVID-19 plan measure)	D.6M	-5.5	
49.*	Ensuring personal income during the COVID-19 pandemic (COVID-19 plan measure)	D.6M	-60.3	
50.*	Incentive payments to Pillar II pension funds	D.6M	-36.0	-23.0
51.*	Indexation of state social insurance pensions (central government)	D.6M		-134.5
52.	Indexation of state social insurance pensions (social security funds)	D.6M		-114.6
53.*	Indexation of state pensions	D.6M		-1.6
54.	Increase of social scholarships	D.6M		-4.6
55.*	Support for business to preserve jobs during the COVID-19 pandemic and after it, promoting creation of new jobs following the COVID-19 pandemic (COVID-19 plan measure)	D.3	-202.7	-8.0
56.	Support for business to preserve jobs during the COVID-19 pandemic and after it, promoting creation of new jobs following the COVID-19 pandemic (COVID-19 plan measure)	D.3	-35.4	
57.	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 (COVID-19 plan measure)	D.3	-299.1	-50.0
58.	Promotion of employers to participate more actively in implementation of vocational training in form of apprenticeships, to organise vocational training (COVID-19 plan measure)	D.3	-5.0	
59.*	Support for creation of new jobs in enterprises and for creation of jobs for the unemployed with 45-55 % of work capacity (COVID-19 plan measure)	D.3	-4.7	
60.*	Implementation of the concept of reducing the burden of lease commitments on business. It is planned to defray 50 % of lease payments for enterprises the activities of which is limited or suspended during quarantine (COVID-19 plan measure)	D.3	-90.0	
61.*	Subsidies for small enterprises (COVID-19 plan measure)	D.3	-100.0	
62.*	Interest reimbursement for small and medium-sized enterprises (COVID-19 plan measure)	D.3	-50.7	
63.*	Reimbursement of market charges (COVID-19 plan measure)	D.3	-6.0	
64.*	Preservation of liquidity of the agricultural sector, better access of financial services for economic entities whose activities are related to agriculture, food business and rural development, and reduction of borrowing costs, i.e. creating conditions for reimbursement of interest and margin to economic entities which are no longer able to pretend for interest reimbursement (COVID-19 plan measure)	D.3	-52.0	
65.*	Temporary State support to milk producers, keepers of bovine or porcine	D.3	-48.4	

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
	animals and vegetable producers; payments to enterprises involved in processing of agricultural products in dairy, beef and veal, poultry and eggs sectors and incurred losses due to the COVID-19 pandemic situation) (COVID-19 plan measure)			
66.*	Compensation to travel agents for transportation of tourists from foreign countries after imposition of emergency (COVID-19 plan measure)	D.3	-1.0	
67.*	Support to business to preserve liquidity (COVID-19 plan measure)	D.3	-53.9	
68.*	Reimbursement of expenditure incurred by JS Toksika in carrying out removal works of dangerous structures, waste management of the preparation of fires areas, waste sorting and emergency treatment services due to emergency declared in Alytus municipality and territories of Alytus municipality, when a fire broke out in the tyre recycling enterprise JSC Ekilogistika in Alytus.	D.3	-2.0	
69.*	Promotion of film industry, support continuity of activities carried out by cultural and art organisations, introduction of digital cultural products and services, also introduction of new cultural products and/or services (COVID-19 plan measure)	D.3	-12.3	
70.*	Additional funds to investment projects included into the Public Investment Programme for more rapid implementation; to other planned investment projects and not included into the Public investment Programme; to launch the implementation of various new investment projects and to acquire other unplanned intangible and tangible fixed assets, if agreements on planned works and unplanned assets for acquisition are concluded by 1 July 2020 (COVID-19 plan measure)	P.51	-345.0	
71.*	Capital formation of the Business Support Fund (COVID-19 plan measure)	P.51	-101.2	
72.*	Implementation of financial instruments aimed to preserve liquidity of business operators of the Republic of Lithuania (administration costs of financial instruments of JSC Investment and Business Guarantees) (COVID-19 plan measure)	Other	-6.0	
73.*	One-off partial reimbursement of 10 % of state pensions and other social benefits reduced during crisis.	Other	0.1	
74.*	Financing of free Bachelor level studies	Other		-4.0
Total:			-3,493.8	-972.0

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”, and accounting basis – accrual.

Table 17. Amounts to be excluded from the expenditure benchmark

	ESA code	2019		2020	2021
		MEUR	% of GDP	% of GDP	
1. Expenditure on the EU programmes fully matched by the EU funds revenue		735.7	1.5	2.0	4.0
1a. of which investments fully matched by EU funds revenue	P.51	420.3	0.9	1.1	1.3
2. Cyclical unemployment benefit expenditure		-47.1	-0.1	0.2	0.2
3. Discretionary revenue measures		63.5	0.1	-0.2	0.0
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0

Source – Ministry of Finance.

Table 18. A list of medium-term fiscal risks

Risk	Risk source	Degree of a risk	Likelihood of occurrence of a risk
COVID-19 pandemic development	Under deteriorating COVID-19 pandemic situation, the need may occur to apply the COVID-19 plan measures and therefore, general government expenditure would increase or revenue would decrease	high	high
RRF	<p>Not all Parliaments of the EU Member States may ratify in time, by the end of the year, the Council Decision on the system of own resources of the European Union, which is a legal framework for the European Commission to borrow on behalf of the EU on international capital markets and to finance subsidies or loans to the Member States. In case the Decision on Own Resources does not come into force by the end of 2020, the date on borrowing markets would be postponed, as well as the start date of the EU RRF (especially particularly relevant measure covering even 90 % of RRF funds). There is a possibility that it would result in delayed dates of submission of the national RRF plans and their approval, what would possibly lead to later advance and intermediate payments for implemented plan activities.</p> <p>In case the EU institutions approve only a part of Lithuania's RRF plan measures as eligible acc. to RRF criteria or if Lithuania fails to achieve the indicators specified in Lithuania's RRF plan, the full amount of the RRF grants or part thereof is likely not to be received. Thus the general government balance may deteriorate, as compared with the one planned in the DBP</p>	medium	high
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 in general government financial accounting on accrual basis (acc. to ESA) may increase or decrease general government expenditure	high	high
Political cycle	2020 is a year of elections of the Seimas – a higher pressure to assume long-term commitments may increase expenditure	high	high
Environment in global financial markets	Developments in global financial markets may increase the Government borrowing costs	medium	low
Changes in the resources from the 2021–2027 EU Multiannual Financial Framework (EU MFF)	In case the European Parliament fails to approve the Council Regulation laying down the multiannual financial framework for the years 2021 to 2027 by the end of 2020, a new multiannual budget would not come into force. In absence of a new EU Multiannual Financial Framework, in 2021 the ceilings for commitments and payment appropriations specified in the available EU multiannual framework for 2020 would be prolonged. This would determine the changes in the scope of assistance to Lithuania, as compared with the agreement reached in July 2020 in the conclusions of the European Council, the financing of programmes of the new period could not be launched	low	high
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 19. Assumptions on revenue and expenditure of general government (S.13) in the context of the Recovery and Resilience Facility (RRF)

No.		ESA code	EUR million	
			2020	2021
RRF financing planned in the DBP				
1.	RRF grants (cash basis)		–	243.2
2.	RRF grants included in general government revenue projections (accrual basis)		–	744
3.	RRF loans		–	–
Expenditure financed from the RRF grants or loans included in the DBP				
4.	RRF related expenditure included in general government expenditure projections, o/w:		–	744
	Compensation of employees	D.1	–	0.2
	Intermediate consumption	P.2	–	488.4
	Social benefits	D.62+D.632	–	–
	Interest expenditure	D.41	–	–
	Subsidies	D.3	–	–
	Current transfers	D.7	–	–
	Gross fixed capital formation	P.51	–	60.8
	Capital transfers	D.9	–	–
	Other expenditure		–	194.6
5.	RRF related tax expenditures, acquisition of financial assets and other costs included in DBP		–	–

Source – Ministry of Finance.

Table 20. COVID-19 plan guarantee measures

No.	Measure	Description of the measure	Measure adoption stage	Amount of possible guarantees		Actual implementation	
				MEUR	% of GDP	MEUR	% of GDP
Measures planned for 2020							
1.	Individual guarantees	Guarantees are issued on loans and leasing contracts to economic entities affected by COVID-19, which from 16 March 2020 faced liquidity problems though on 31 December 2019 they were not considered to be an enterprise/farm in difficulty whose activities are related to agriculture, production and processing of agricultural products, forestry, rural development, aquaculture and fishery.	Adopted	30.0	0.1	5.9 (by 30 September 2020)	0.01
2.	Portfolio guarantees on loans and leasing contracts	Guarantees are issued on loans and leasing contracts to small and medium sized and large enterprises which faced difficulties in 2020 due to the COVID-19 outbreak though they were not in difficulty on 31 December 2019.	Adopted	460.6	0.96	24.4 (by 31 August 2020)	0.05
3.	Guarantees for performance of obligations of travel agents	Guarantees are issued on performance of obligations of travel agents holding a valid travel agent's certificate allowing to be engaged in domestic and outbound tourism.	Adopted	10.0	0.02	0.5 (by 31 August 2020)	0.001
Total:				520.6	1.08	30.8	0.06
Measures planned for 2021							
1.	Individual guarantees	Guarantees are issued on loans and leasing contracts to economic entities affected by COVID-19, which from 16 March 2020 faced liquidity problems though on 31 December 2019 they were not considered to be an enterprise/farm in difficulty whose activities are related to agriculture, production and processing of agricultural products, forestry, rural development, aquaculture and fishery.	Adopted	20.0	0.04	-	-
2.	Guarantees on loans and non-equity securities	Guarantees are issued on loans and non-equity securities used for implementation of goals of stimulating the economy affected by emergencies and enhancement of financial liquidity of business.	Adopted	400.0	0.83	-	-
Total:				420.0	0.87	-	-

Sources: Ministry of Finance, INVEGA, Agricultural Credit Guarantee Fund.

Note. It is projected that in 2020 there will be no need to fulfil guarantee obligations. The risk for fulfilment of guarantee obligations in 2021 is preliminary EUR 22 million. This estimate is not included into the general government expenditure projection for 2021.

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

PART VI
PROJECTED RRF IMPLEMENTATION

Table 21. Projected RRF implementation

Measure		2021, EUR million
Green reform		
Renewable energy sources		
Promotion of renewable energy sources in transport and encouraging mobility	Promotion of the production of biomethane	5.0
	Development of stationary LNG infrastructure (charging stations)	2.1
	Acquisition of transport vehicles using electricity, compressed natural gas, liquefied natural gas, biomethane, hydrogen and introduction and/or development of their necessary infrastructure by ensuring the baseload consumer of the developed infrastructure	5.0
Promotion of production and consumption of clean and effective energy	Modernisation and development of the electricity distribution network by adapting to the bounce of renewable energy sources	20.0
	Exploitation of renewable energy sources (solar, wind, geothermal energy, biofuel or etc.) in public and residential (for individuals from various social groups) buildings which by the right of ownership belong to the State, municipalities, traditional religious communities, religious associations or centres	5.0
	Exploitation of renewable energy sources (solar, wind, geothermal energy, biofuel or etc.) in public, commercial buildings of private legal persons, other purpose civil engineering facilities (landfills, wastewater treatment plants) by substituting the use of fossil fuel	5.0
	Exploitation of renewable energy sources (i.e. heat pumps: air–water, land – water, water–water; biofuel boilers) in one or two-apartment residential houses of natural persons by substituting heat devices using fossil fuel	2.0
	Introduction of the offshore wind infrastructure	0.4
	Preparatory works for the expansion of wind power plants in maritime area of Lithuania	2.5
	Investment support for low power plants of renewable energy sources (solar, wind power plants)	7.0
	Installation of electricity storage facilities (200 MW)	100.0
	Installation of solar power plants in Visaginas	2.5
	Use of hydrogen for storage of energy produced from renewable energy sources and/or balancing of networks	2.0
	Acquisition of reserve heat generating installations and preparation of necessary infrastructure for their junction	5.0
Installation of renewable energy sources (photovoltaic plants and Sunlight collecting apparatus) for drying of agricultural products and for other production processes	5.0	
Total for renewable energy sources:		168.5
Energy efficiency		

Measure		2021, EUR million
Reduction of energy consumption in residential or public buildings and enterprises	Implementation of energy consumption efficiency measures of private legal persons (acc. to energy audit reports)	5.0
	Remote data reading: modernisation of heat accounting and hot water meters (incl. installation of heat meters in apartments and heat cost allocators (with individual control possibility)).	7.2
Total for energy efficiency:		12.2
Environmental protection and climate change		
Increasing resilience to climate change	Regulatory drainage: reconstruction of drainage infrastructure and application of smart drainage during drought periods (grants for owners of the State and private land plots)	10.0
Reduction of greenhouse gas emissions and air pollution	Promotion of substituting commercial vehicles by electric vehicles	10.3
	Application of energy efficient, climate change friendly investment in sustainable agricultural production	2.5
Total for environmental protection and climate change:		22.8
Total for the green reform:		203.4
Digitalisation		
Digital economy and society		
Digitalisation of traditional business <i>Investment in digitalisation of enterprises and boosting productivity, digitalisation of clusters (e.g. application of AI, development of industry 4.0)</i>	Reorientation of industry by introducing digital technologies and promoting expansion of circular economy (e.g. innovation in field of packaging and food, reuse and recycling of used textile products, incl. <i>Industry 4.0 Lab</i>)	45.5
Expansion of digital industry market participants <i>Instruments enabling expansion of available market leaders, emerge of new ones and attraction of new investors</i>	Solutions of automation of robotics processes in service sector and artificial intellect	3.0
Expansion of digital services, data sandboxes for business <i>Digitalisation of e-government, its services to business and data opening</i>	LT.AI – fostering AI and the creation of the Lithuanian language resources for AI in Lithuania	2.0
	Creation of measures fostering the open ecosystem for non-cash payments in education institutions	5.0
	Ensuring intelligence data processing, analysis and their cybersecurity	1.1
	Introduction of the network for identification of threats in cyberspace	4.5
Total for digitalisation:		61.1

Measure		2021, EUR million
Elements for implementation of the Council Recommendations		
Education		
Increasing capacities of the education system to react to market needs <i>Created better opportunities for the education system within a short period of time to offer training or study programmes in line with market needs, introduce innovation in the training process</i>	Preparation of market relevant programmes, attraction of skilled lecturers in order to ensure the needs of regional labour market and free economic areas, introduction of digital instruments and IT resources for innovative education methods	39.7
	Development of education innovation, natural sciences, technologies, engineering, arts and mathematics (hereinafter – STEAM) in general education, including rotation of teachers, improvement of compensations and obtaining additional qualification grade, preparation of digital content and cultivation of digital competences, development of activities of STEAM open access centres.	29.9
	Development of financial literacy and entrepreneurship in form 1 – 8	4.0
	Implementation of joint initiatives of the European universities	9.8
	Introduction of dropout prevention measures in higher education schools (in information and communication technologies)	2.0
	Creation of the competence platform for health specialists of Lithuania	1.2
	Formation of innovative study programmes, incl. digital health modules, specialists of cardiovascular diseases and retraining of these specialists	0.3
Increasing number of STEAM specialists <i>Increasing number of STEAM specialists by giving priority to specialists of engineering industry and information technologies</i>	Informal education programmes of higher education, special equipment for higher education and vocational training schools to prepare STEAM specialists and educators	14.9
	Targeted scholarships to STEAM focusing on IT and educational sciences students	10.0
Increasing potential of science <i>Strengthening of the leading universities in order to have national internationally competitive universities with significant potential of science</i>	Short-term studies (in health, social and etc. fields), analysis and setup of diagnostics related to COVID-19	8.0
	Acceleration programme <i>Horizon Europe</i>	40.0
	Increasing potential of science, incl. additional doctoral positions and sufficient R&D financing	25.0
Total for education:		184.7
Innovation and science		
Business innovation capacity building <i>Improved innovation capacities of enterprises (competencies, equipment and etc.) and fostered</i>	<i>International House</i> coordinated services for foreign nationals based on one-stop-shop principle	0.2
	Support of short-term new innovative activities by promoting enterprises to introduce innovative products creating higher added value as compared with traditional ones	1.2
	Strengthening of pastoralism and dairy research base and adaptation to creation, implementation and development of innovation	1.5

Measure		2021, EUR million
<i>business innovation</i>	Promotion of green innovation by financing the projects of development and introduction of green innovation in enterprises by using subsidies (green ino-vouchers) and co-investment fund	5.0
	Transformation of the tourism sector	50.0
Introduction of competence centres for development of innovation <i>Development of human expertise, acquisition of laboratories, development of clusters, adaptation of buildings in forming the basic smart specialisation development centres</i>	Foundation of the life sciences incubator in Vilnius University	6.0
	Development of the bio technology business incubator	0.9
	Equipment of research and education institutions and its employment in economically vital life fields of sciences, information and communication technology, industry 4.0, industry 5.0, <i>FinTech</i>	25.0
	Bio-medical Engineering Innovation and Competence Centre for the development of remote health monitoring technology	2.8
	Improving infrastructure of the Nuclear and Particle Physics Centre of Vilnius University and strengthening of science potential	1.7
	Establishment of R&D infrastructure of smart energy systems	8.0
	Infrastructure for development and assessment of sustainable green economy innovation	7.1
Better cooperation between science and business <i>Promotion of cooperation between higher education institutions and enterprises in implementation of joint research and in commercialisation of solutions</i>	Experimental or Pilot Production Centre – Incubator	13.5
	Photonics and innovative production technology incubator	12.1
	Saulėtekis high technology business development and enlargement incubator	9.1
	Development of the instrumental infrastructure for creation, prototyping of life sciences technology innovation and training of professionals of the life sciences industry	4.0
	Foundation of the European Space Agency’s incubator in Lithuania and implementation of activities	1.8
Development of innovation, including health, infrastructure	Experimental animal and preclinical research infrastructure (transmission medicine infrastructure)	14.1
	Development of the Mathematics and IT studies infrastructure in Vilnius University	16.6
	Development of the Chemistry Faculty studies infrastructure in Vilnius University	17.4
	Neuroscience Psycho-physiological Research Centre of the Lithuanian University of Health Sciences	3.8
	Odontology science and study base infrastructure of the Lithuanian University of Health Sciences	7.2
Total for innovation and science:		208.9
Health		
Enhancing efficiency of the health system and increasing its resilience to shocks, development of innovative health services	Introduction of the innovative logo-therapeutic tool and smart assistant, exploitation in rehabilitation	0.9
	Development of advanced clinical investigations	3.5
	Establishment of AI platform in Santaros Clinics of Vilnius University	3.3
Application of personalized	Foundation of the Health Analytics, Innovative Management Solutions and Remote Monitoring Centre of Kaunas Clinics	4.0

Measure		2021, EUR million
medicine solutions in clinical practice		
Improving quality and safety of health services	Regional clusterisation of innovative outpatient services for patients with cardiovascular diseases in the Eastern and South-eastern Lithuania (stage I)	7.3
	Cluster of infectious diseases (centres in Vilnius and Kaunas)	5.7
	Individualised (Precision) Medicine Centre of Kaunas Clinics – personal health data holomics platform	16.3
	Advanced Immune Response Research Centre	7.5
	Foundation of the Centre of Pharmaceutical Products Innovation and Development	3.5
	Introduction of innovative digital solutions for accumulation and management of health data and adaptation to the integrated and remote activities (digital health)	2.1
Digitalisation of the health sector and employment of health data	Foundation of the Centre of Health Analytics, Innovative Management Solutions and Remote Monitoring of Kaunas Clinics	3.9
Total for health:		58.0
Tax system		
Tax administration efficiency enhancement	Consolidation, optimisation and ensuring continuous operation of information resources of the State Tax Inspectorate	1.7
Total for the tax system:		1.7
Total for measures for the implementation of the Recommendations to Lithuania:		453.2
Value of additional measures – projects which could be launched in 2021:		95.0
TOTAL:		812.8

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