MINISTRY OF FINANCE
of the Republic of Lithuania

# 2023 Lithuanian Draft Budgetary Plan

**17 October 2022**

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## ABBREVIATIONS

| | |
|---|---|
| **AW** | Average wage |
| **Budget for 2021** | Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2021 |
| **Budget for 2022** | Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2022 |
| **Budget framework reform** | Reform of budgeting and strategic planning framework implemented in Lithuania |
| **COVID-19** | COVID-19 disease (coronavirus infection) |
| **COVID-19 related measures** | Measures related to the management of the COVID-19 pandemic and mitigation of its negative effects |
| **Constitutional Law** | Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty (of 6 November 2014 No. XII-1289) |
| **Council Recommendation for Lithuania** | Council recommendation on the 2022 National Reform Programme of Lithuania and delivering a Council opinion on the 2022 Stability Programme of Lithuania [1] |
| **DBP** | 2023 Lithuanian Draft Budgetary Plan |
| **Draft budget for 2023** | Draft Law of the Republic of Lithuania on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for 2023 |
| **Economic development scenario** | Economic development scenario[2] prepared by the Ministry of Finance, published on 12 September 2022 as well as approved by the fiscal institution[3] |
| **ESA** | European System of Accounts |
| **EU** | European Union |
| **Fiscal institution** | Independent fiscal institution in Lithuania the functions of which are performed by Budget Policy Monitoring Department of the National Audit Office of the Republic of Lithuania |
| **GDP** | Gross domestic product. The draft budgetary plan of Lithuania indicates the GDP value at current prices in 2021 in the amount of EUR 55, 383.1 million |
| **GEC** | General escape clause of the EU Stability and Growth Pact[4] |
| **Government** | Government of the Republic of Lithuania |

[1] **Council Recommendation**, https://op.europa.eu/lt/publication-detail/-/publication/912a27a8-da8f-11ec-a95f-01aa75ed71a1/language-en.

[2] **Economic development scenario**, https://finmin.lrv.lt/en/actual-financial-data/economic-development-scenario.

[3] **Conclusion of the fiscal institution concerning the approval of the economic development scenario,** https://www.valstybeskontrole.lt/LT/Product/24110/isvada-del-ekonomines-raidos-scenarijaus-tvirtinimo.

[4] **2022 European Semester: Spring Package Communication (page 12)**, https://ec.europa.eu/info/system/files/2022_european_semester_spring_package_communication_en.pdf.

| | |
|---|---|
| **Government Programme** | Programme of the XVIII Government of the Republic of Lithuania[5] |
| **HICP** | Average annual inflation measured by the methodologically harmonised index of consumer prices across the EU Member States |
| **Ministry of Finance** | Ministry of Finance of the Republic of Lithuania |
| **MMW** | Minimum monthly wage |
| **NTA** | Non-taxable amount |
| **NPP** | 2021–2030 National Progress Plan[6] |
| **PIT** | Personal income tax |
| **RES** | Renewable Energy Sources |
| **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[7] |
| **RRF plan** | A plan for structural reforms and related investment as well as for implementation of green and digital transformation facilities in Lithuania[8], which is foreseen to be implemented with the funds of the instrument Next Generation EU in 2021–2026 and which has been approved by the EU Council on 26 July 2021 |
| **Seimas** | Seimas of the Republic of Lithuania |
| **SGP** | EU Stability and Growth Pact[9] |
| **Stability Programme** | 2022 Stability Programme of Lithuania approved by the Government Resolution No 404 of 27 April 2022 on 2022 Stability Programme of Lithuania[10] |
| **Structural balance** | General government structural balance indicator |
| **STI** | State Tax Inspectorate |
| **VAT** | Value added tax |

[5] **Seimas Resolution No XIV-72 of 11 December 2020 on Programme of the Eighteenth Government of the Republic of Lithuania**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/973c87403bc311eb8c97e01ffe050e1c?positionInSearchResults=3&searchModelUUID=1b07b36f-911c-444f-a7e6-f1b4c79c31be.

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

[7] At present 70 % of the grant of the facility is dispensed for the EU countries. For Lithuania it makes up about EUR 2.099 billion. The remaining share of 30 % will be dispensed among the Member States in 2022 considering the latest GDP data. Based on projections, Lithuania may receive from this facility non-repayable grants in total amount of about EUR 2.225 billion. If necessary, Lithuania might apply for a loan not larger than 6.8 % of the gross national product in 2019 (approx. EUR 3 billion).

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

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

[10] **2022 Stability Programme of Lithuania**, https://finmin.lrv.lt/uploads/finmin/documents/files/Stability%20Programme%20of%20Lithuania%20for%202022.pdf.

## INTRODUCTION

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area and the Specifications on the implementation of the Two Pack, Lithuania hereby provides the European Commission and the Eurogroup with the DBP.

In the context of the COVID-19 pandemic in 2020, considering the fact that expenditure of the implementation of measures for maintaining economic viability of the country and ensuring health care and public security will have a major impact on general government finance, exceptional circumstances were identified on 27 March 2020[11]. In view of the significant need for COVID-19-related measures in 2020-2021, as compared to 2022 and, given the strong geopolitical uncertainty in Europe, the need to strengthen national defence, to support businesses and people with rising prices, exceptional circumstances due to COVID-19 have been lifted and imposed anew as a result of the geopolitical situation in 2022 and its potential negative impact on general government finance[12] (for more information on the exceptional circumstances in Lithuania, see Section VI of the DBP).

The DBP has been drawn up in line with the draft budget for 2023[13], draft laws on the approval of indicators of the State Social Insurance Fund[14], Compulsory Health Insurance Fund[15] budgets for 2023, as well as taking into account the economic development scenario, updated revenue and expenditure projections of other budgets attributable to the general government. It also takes into account the Council Recommendation for Lithuania, the European Commission's fiscal policy guidelines for 2023[16], estimated expenditure and revenue related to the implementation of the RRF plan measures, the costs of implementing the COVID-19-related measures, support to people and businesses in the face of rising prices. The DBP is aligned with the set of measures for 2022-2023 to implement the Council Recommendation for Lithuania[17].

Lithuania's medium-term objective for 2023 - 2025 is a structural deficit of 1 % of GDP set by Seimas Resolution No XIV-945 of 17 March 2022 on setting the medium-term objective for 2023 - 2025.

The DBP presents Lithuania's general government debt projections for 2022 and 2023 and general government finance projections under policy and no-policy change scenarios. The DBP reviews the macroeconomic situation in Lithuania and its perspectives.

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

[12] **Conclusion of the fiscal institution**, https://finmin.lrv.lt/uploads/finmin/documents/files/Isvada_del_isskirtiniu_aplinkybiu.pdf.

[13] **Draft budget for 2023**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/c44a20b0464a11edb7269d52b4d4fd38?positionInSearchResults=2&searchModelUUID=ec034a99-1ab8-4f9e-a504-fb0d5edc3e76.

[14] **Draft Law on the Approval of Indicators of the Budget for 2023 of the State Social Insurance Fund**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/bf90beb0464711edb7269d52b4d4fd38?positionInSearchResults=0&searchModelUUID=1436d683-e3a6-4160-8a68-de34806f4cd7.

[15] **Draft Law on the Approval of Indicators of the Budget for 2023 of the Compulsory Health Insurance Fund**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/affa041045ad11edb7269d52b4d4fd38?positionInSearchResults=1&searchModelUUID=d28ba19c-a518-4897-8f6b-907b5f4a7d14.

[16] **EC Fiscal policy guidance for 2023 of 2 March 2022**, https://ec.europa.eu/info/sites/default/files/economy-finance/com_2022_85_1_en_act_en.pdf.

[17] **A set of measures for 2022-2023 to implement the Council Recommendation for Lithuania**, https://eimin.lrv.lt/lt/veiklos-sritys/europos-semestras.

## PART I
## MACROECONOMIC SITUATION AND PROSPECTS

The DBP presents the economic development scenario of Lithuania prepared by the Ministry of Finance, which was published on 12 September 2022. The economic development scenario is based on statistics published by 31 August 2022.

In the near future, Lithuania's economy will continue to face negative indirect consequences of the Russian Federation's military aggression against Ukraine and its people. The momentum gained in the economic recovery last year is expected to fade due to the impact of geopolitical tensions and, when the first half of 2022 (GDP grew 3.2 % during this period) ends, economic activity will be rather sluggish for the rest of the year. Based on the assumptions of economic activity and the external environment according to the EC forecasts in July 2022, this year Lithuania's GDP could grow 1.6 %, in 2023 – 1.4%, and in 2024-2025 – 3 % per year. Increased energy tensions in the EU and increased likelihood of an energy crisis increase the negative risks of this scenario realisation.

Military actions of the Russian Federation in Ukraine are expected to negatively affect economic activity in Lithuania, therefore the results of the second half of 2022 will not be as good as those of the first half. In 2022 the number of employed population is expected to grow 1%, and the unemployment rate, calculated according to the Labour Force Survey methodology, will decrease down to 6.3 %. It is projected that in 2023 the number of employed population will remain stable, and the unemployment rate will increase to 6.8 %. In the later years of the medium term, the number of the working-age population will decrease for demographic reasons and will have a negative impact on the labour supply and the development of employment. The unemployment rate will also decrease, but will remain above 6 % due to the relatively high number of long-term unemployed.

As economic activity slows down, the acceleration of wage growth observed in recent years will fade: it is expected that in 2022 the wage growth rate in the country will reach 12 %, in 2023 it may slow down to 8.1 %, and in the later years of the medium term − to 5.0 %.

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

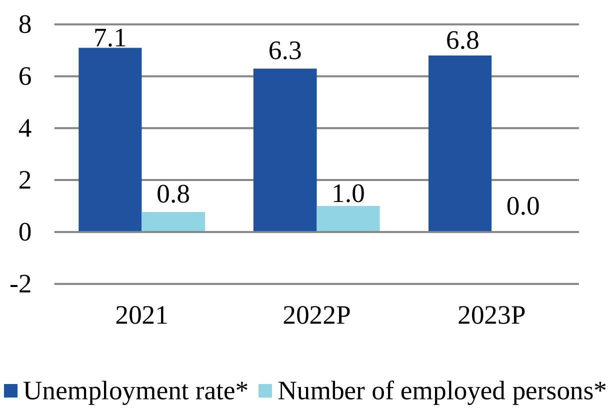
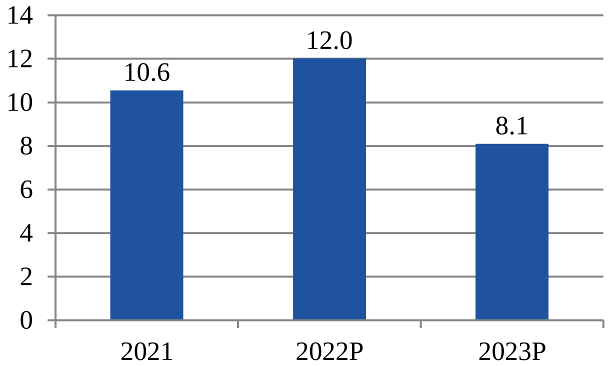



**Fig. 2. Development of average monthly gross wages, %**

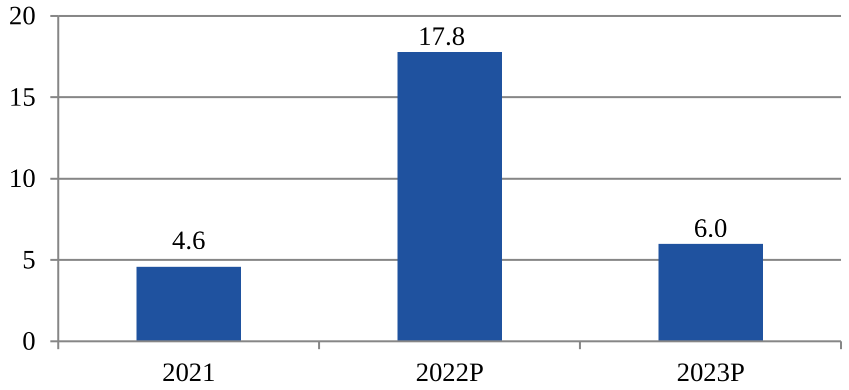



*Sources: Ministry of Finance, Statistics Lithuania.*
* According to the Labour Force Survey methodology.

Russian Federation's military aggression against Ukraine continues to drive up energy prices, and annual inflation, measured by the Harmonized Index of Consumer Prices, in July 2022 increased to 20.9% and according to the preliminary estimates of Statistics Lithuania, it rose to 21.1% in August.

Statistics show that food price growth is losing momentum. In July, the monthly growth of food prices in Lithuania was the weakest in the last 8 months, and the global food price index calculated by the Food and Agriculture Organization of the United Nations decreased for the fourth month in a row. A significant decrease in the index was recorded in July after Ukraine and Russian Federation reached an agreement on the export of grain from Ukrainian ports. A more favourable price development is also observed in the group of industrial non-energy goods, which makes up about a third of the consumer basket. As supply chain constraints eased and consumer purchasing power weakened due to higher inflation, prices of these commodities remained stable in July as compared to the previous month for the first time in half a year. In the middle of 2022, as Russia began to limit gas supplies to Europe, and gas, biofuel and electricity prices on the stock exchanges began to grow rapidly, the period of rising energy commodity prices, especially electricity and thermal energy, may be prolonged. The average annual inflation in 2022 is projected to make up 17.8 %, and high energy commodity prices, on which the war in Ukraine has a significant increasing effect, will form the largest part in its composition. In 2023 the inflation rate will slow down to 6 %, and in 2024-2025, assuming that the prices of energy raw materials will remain stable, the inflation rate should approach 2 %.

**Fig. 3. Average annual inflation, %**




*Sources: Ministry of Finance, Statistics Lithuania.*

As the energy commodity prices increase, residents' costs for housing maintenance will increase, but the impact of rising prices will be partially absorbed by compensating part of gas and electricity prices, expanding the range of heating compensation recipients, and other measures to support the purchasing power of the most vulnerable groups of society. It is expected that household consumption expenditure could grow 2.5 % in 2022, and as price growth moderates and stabilizes in the medium term, and income keeps increasing, the purchasing power of the population will strengthen and household consumption expenditure will grow on average 3.2 % per year in 2023-2025.

Geopolitical tensions caused by the war in Ukraine, still continuing disruptions in supply chains and extremely increased uncertainty complicate the planning and implementation of investment projects. The extremely volatile situation in the energy resource markets, soaring prices and rising operating costs will lead to more cautious business investment and abandonment of some projects, although the need to enhance operational efficiency and to invest in alternative energy sources is increasing during this period. We project that the investment process in the country will slow down in 2022 – expenditure for the gross fixed capital formation will grow at more than twice slower rate (will increase by 3 %) as in the previous year (in 2021, the growth rate reached 7 %). In the medium term, even after the subsidence of geopolitical tensions, the main factors determining the development of investments will be the continuing lack of suitably qualified employees, the need to maintain competitiveness and to reduce dependence on fossil fuels, the investment policy carried out by the public sector, including the resources of the EU Funds and RRF plan. We project that expenditure for the gross fixed capital formation could be higher by 5.1 % per year in the period 2023-2025.

The scenario was drawn up at the moment of an exceptional increase in the instability of the external environment, with ongoing active military actions in Ukraine. Increased economic uncertainty due to geopolitical tensions in Europe caused by Russian Federation's military aggression against Ukraine, increased risks of long-term inflation, tensions in financial markets and uncertainty about the outlook for the global economy are the main negative risk factors that could lead to changes in the estimates of key indicators in this scenario. The extent of the negative economic consequences for Lithuania will depend on how long the military actions in Ukraine will last and on how the EU countries will manage to cope with the energy challenges. The challenges posed by new strains of COVID-19 also remain among the downside risks.

There is a risk that in the event of unfavourable circumstances, the change in Lithuania's GDP, as compared to the estimates provided for in this scenario, can be at least two percentage points lower in 2023.

**Table 1. Macroeconomic indicators**

| | ESA code | 2021 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| | | MEUR | Change, % | | |
| 1. GDP, chain-linked volume | B1*g | 45, 531.6* | 5.0* | 1.6 | 1.4 |
| 2. Potential GDP | | 45, 096.2 | 4.3 | 3.6 | 2.9 |
| o/w: | | | | | |
| - labour | | | 1.0 | 0.7 | 0.0 |
| - capital | | | 1.6 | 1.5 | 1.5 |
| - total factor productivity | | | 1.7 | 1.4 | 1.4 |
| 3. GDP, at current prices | B1*g | 55, 383.1* | 11.9* | 18.0 | 7.5 |
| GDP components (at constant prices) | | | | | |
| 4. Household consumption expenditure + consumption expenditure of NPIs serving households (NPIs) | P.3 | 28, 256.8* | 7.4* | 2.5 | 2.7 |
| 5. General government consumption expenditure | P.3 | 6, 412.2* | 0.5* | 0.6 | 0.0 |
| 6. Gross fixed capital formation | P.51 | 10, 160.0* | 7.0* | 3.0 | 4.5 |
| 7. Changes in stocks and acquisitions of valuables less disposals, % of GDP | P.52 + P.53 | N.A. | N.A. | N.A. | N.A. |
| 8. Export of goods and services | P.6 | 41, 817.6* | 15.9* | 3.0 | 2.0 |
| 9. Import of goods and services | P.7 | 38, 440.0* | 18.7* | 3.9 | 3.1 |
| Contributions to change in GDP, percentage points (excl. level in MEUR in 2021) | | | | | |
| 10. Final domestic demand | | 44, 719.9* | 5.8* | 2.2 | 2.6 |
| 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 | 3, 377.6* | –0.3* | –0.6 | –1.1 |

* Economic development scenario has been drawn up based on statistical data published on 31 August 2022.

# PART II
# GENERAL GOVERNMENT FINANCE

## SECTION 1
## BALANCES AND FISCAL POLICY ASSESSMENT

### Years 2021 and 2022

The general government deficit planned in the **2021 budget** was 7 % of GDP. In 2021 the value of the general government balance varied from -7 % of GDP value set in the 2021 budget, to -1 % of actual value of GDP.

The main reasons that led to the reduction of the general government deficit: EUR 1.7 billion higher than planned State budget revenue, EUR 300 million lower than planned expenditure on COVID-19-related measures, EUR 400 million lower costs of acquisition of arms, military equipment and military supplies estimated on accrual basis. Although municipal budgets might be in deficit according to the requirements of fiscal discipline, in fact the total of municipal budgets amounted to a surplus of EUR 183 million. For details of the general government indicators for 2021, see the Stability Programme.

**Table 2. COVID-19 related general government expenditure measures**

| General government expenditure | MEUR | | | |
|---|---|---|---|---|
| | 2020 (actual data) | 2021 (actual data) | 2022 (acc. to the 2021 budget) | 2022 (expected use of allocated funds) |
| Compensation of employees | 97.1 | 44.9 | 90.0 | 90.0 |
| Intermediate consumption | 231.1 | 260.10 | 216.7 | 157.8 |
| Social benefits | 571.8 | 242.41 | 6.7 | 6.7 |
| Subsidies | 1, 057.3 | 748.02 | 10 | 10 |
| Capital formation | 529.9 | 0 | 0 | 0 |
| Capital transfers | 122.1 | 0 | 0 | 0 |
| Other | 53.8 | 0 | 0 | 0 |
| Total: | 2, 663.1 | 1, 295.4 | 323.4 | 264.5 |

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

The general government deficit planned in the **2022 budget** was 3.3 % of GDP. In the preparation and approval of the 2022 budget, the need to allocate funds for the implementation of COVID-19 related measures, minimum pensions, salaries of employees in the education and health sectors, construction of a physical barrier on the Lithuanian-Belarusian border, and the implementation of other expenditure policy measures was taken into account. In 2022 EUR 323 million was allocated to COVID-19-related measures to purchase vaccines, to ensure the vaccination process, to pay wage bonuses for medical staff working with COVID-19 infected patients, as well as to vaccination incentive payments.

As the Russian Federation started military actions in Ukraine in February 2022 leading to heightened geopolitical tensions in Europe, the risks to Lithuania's security, economic growth, social environment and general government finance increased. Lithuania is one of the countries hosting Ukrainian people fleeing from the Russian military actions. As prices rise rapidly, there is a growing need to increase the income of the socially most vulnerable groups of the Lithuanian population.

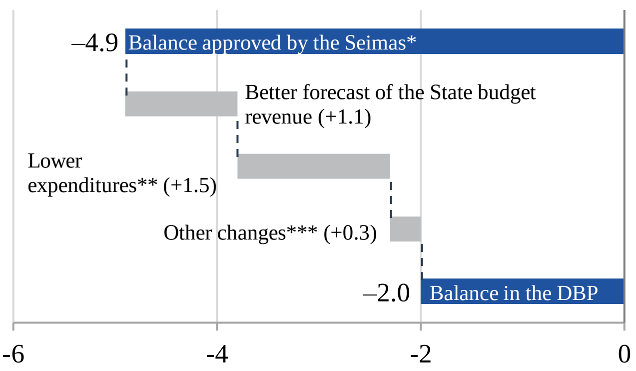
Taking into account the need for strengthening national defence, **in March 2022** the budget for 2022 was amended[18] by allocating the funds amounting to 2.52 % of GDP instead of 2.05 % of GDP. EUR 298 million was allocated to implement this amendment.

The budget for 2022 was amended again **in May 2022**[19]. The Republic of Lithuania Law on Approval of Indicators of the State Social Insurance Fund for 2022 has also been amended. The budget amendment, which led to an increase in the projected general government deficit to 4.9 % of GDP, included the measures related to aid to the Ukrainians, as well as the measures to help the Lithuanian people in the face of sharp price increases, the funds envisaged to mitigate the indirect impact on potential losses of state-owned enterprises due to sanctions imposed on Russia and Belarus, as well as business support. The potential impact of these measures on general government finance in 2022 was estimated to make up EUR 1, 726 million, or 2.9 % of GDP.

Taking into account the latest data available at the time of the preparation of the DBP concerning the implementation of these measures, considering the economic development scenario and updated general government revenue on the basis of the scenario, the general government deficit is expected to reach 2 % of GDP in 2022.

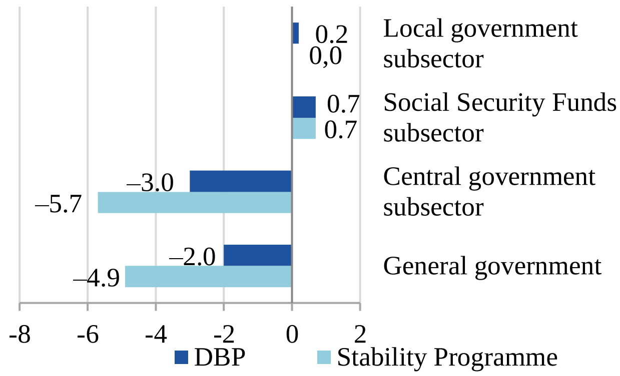
The lower deficit than foreseen in the 2022 budget is also due to lower-than-expected expenditure. It is assumed that almost EUR 300 million may not be spent, or 0.5 % of GDP of the planned funds related to aid to people fleeing from military actions in Ukraine, whose arrival to Lithuania was less in number than projected. Also, about EUR 60 million, or 0.1 % of GDP, may not be spent for COVID-19-related measures. In addition, another EUR 400 million or 2.8 % of planned other State budget appropriations may be saved[20].

**Fig. 4. Comparison of the general government balance estimates in 2022, % of GDP**




*Source –Ministry of Finance.*
** General government balance based on the 2022 budget amendment data.*
***Lower than planned expenditure for COVID-19-related measures, aid to the Ukrainian people in Lithuania, other saved funds.*
****Updated projections of other general government subsectors balances, change in nominal GDP.*

**Fig. 5. General government and subsectors balances in 2022, % of GDP**

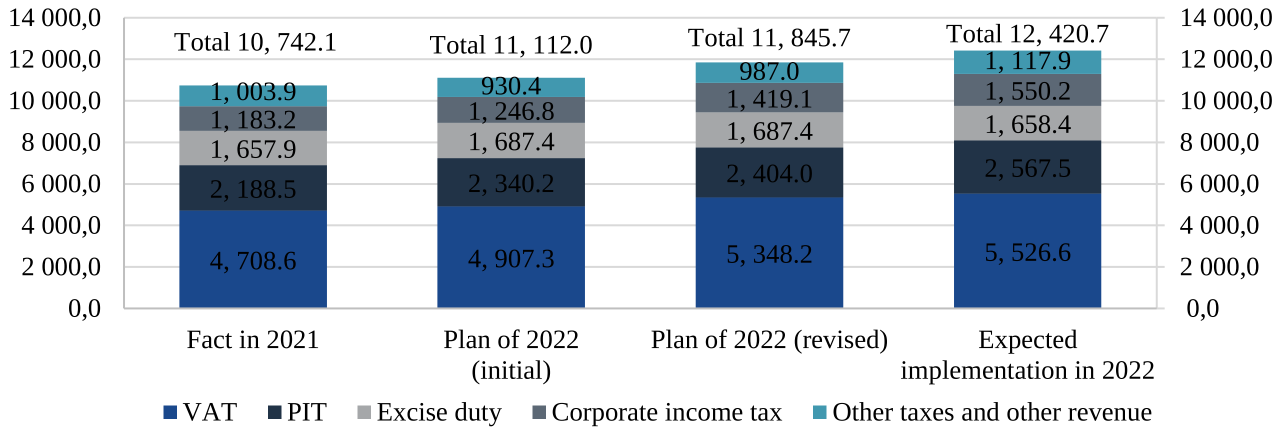



*Source –Ministry of Finance.*

[18] **Law No XIV-943 Amending Article 14 of Republic of Lithuania Law No XIV-745 of 17 March 2022 on Approval of Financial Indicators of the State Budget and Municipal Budgets**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/a8a91e42a5fc11ecaf79c2120caf5094?jfwid=-3u6wv6mul.
[19] **Law Amending the Budget for 2022**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/3d978f53d74911ecb1b39d276e924a5d?positionInSearchResults=0&searchModelUUID=ed73afdb-1f49-46af-81e9-70490bc6705d.
[20] The observed historical trend of saving from 1.5 % and 5 % of all planned State budget appropriations each year.

The reduction in the deficit is also driven by the expected higher-than-planned revenue in 2022. The 2022 Budget Law planned (on cash basis) to raise EUR 11, 112 million of the State budget revenue, excluding EU and other international financial assistance. Following the update of the economic development scenario by the Ministry of Finance in March 2022, after reconsidering the assumptions about tax deferrals, the revenue plan of the State budget for 2022 was also revised – the expected amount to be collected to the State budget makes up EUR 11, 845.7 million. Taking into account the revenue collection data available at the time of the preparation of the DBP, it is estimated that the revised State budget plan will be exceeded by about EUR 575 million, mainly due to better-than-planned collection of VAT, corporate income tax, PIT and excise duty.

**Fig. 6. State budget revenue in 2021 and 2022, EUR million**




*Source: Ministry of Finance.*

It is estimated that in 2022 the State budget will generate revenue, on accrual basis, in the amount of about EUR 741.4 million (1.1 % of GDP), or by 6.4 % more than expected during the revision of the 2022 budget.

The structural general government deficit will reach 1.8 % of GDP in 2022, and the primary structural deficit will increase by 0.6 percentage point of GDP as compared to the primary structural deficit in 2021 (Table 3, Fig.7). The increase in the primary structural deficit shows the countercyclical expansionary (promoting the economy) policy pursued.

The expenditure incurred in 2022 as a result of the following imposed temporary measures: costs of financing the COVID-related measures, or loss of revenue; management of illegal migrant crisis; maintenance of the Lithuanian railway infrastructure and expenditure for the aid to people who fled Ukraine for Lithuania. If there were no expenditure of 0.97 % of GDP[21] in 2022 for financing the temporary measures, the general government deficit would make up 1 % of GDP.

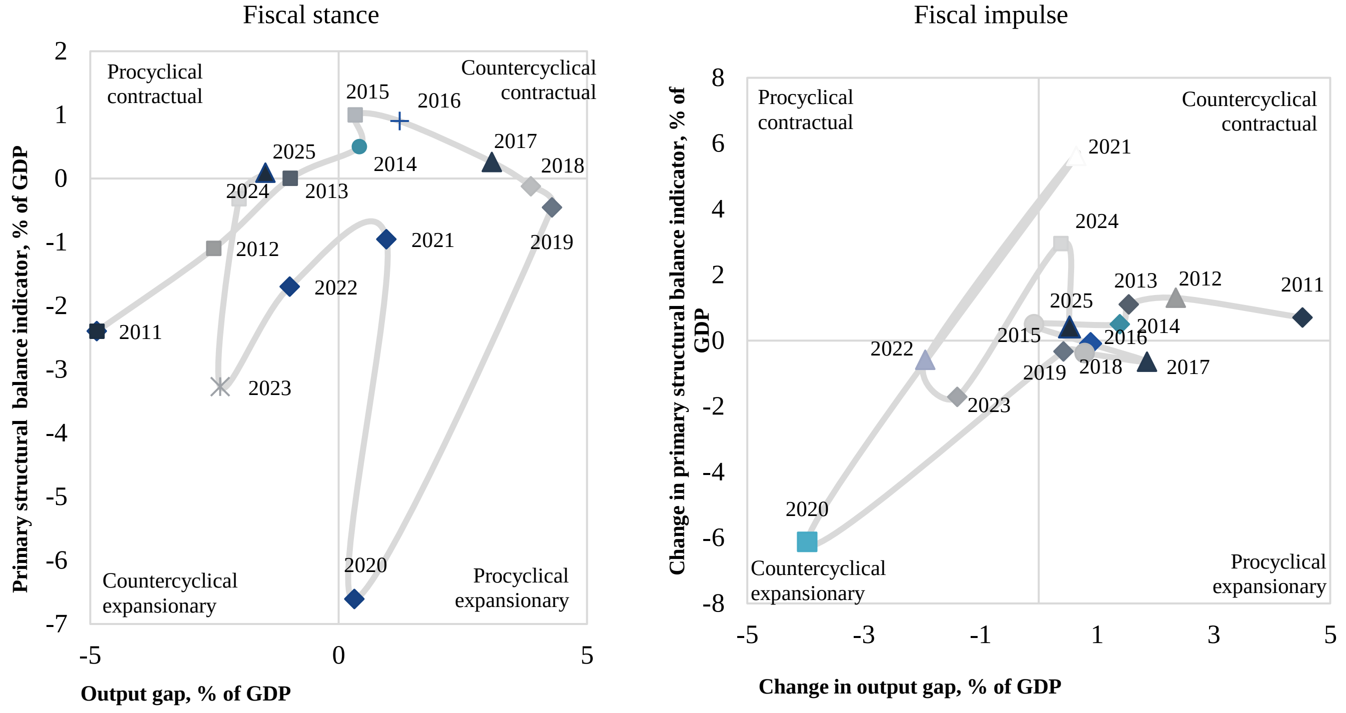
**Table 3. Medium-term general government balances, % of GDP**

| Title of indicator | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| General government balance (nominal) | –1.0 | –2.0 | –4.9 | –1.8 | –1.4 |
| Structural balance | –1.4 | –1.8 | –3.8 | –1.0 | –0.8 |
| Primary structural balance | –1.0 | –1.6 | –3.3 | –0.3 | 0.1 |

*Source –Ministry of Finance.*

[21] The percentage of GDP of temporary measures calculated by taking into account the assumption of potential savings of funds designated to finance these measures.

**Fig. 7. Fiscal policy stance and impulse**




*Sources: Statistics Lithuania and Ministry of Finance.*

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

## Year 2023

Due to the application of the GEC and identified exceptional circumstances, in 2023 the general government is not subject to the SGP and national expenditure growth limitation and structural balance rules.

Taking into account projected revenue and expenditure of the subsectors of the general government, in 2023 the general government deficit will constitute 4.9 % of GDP.

In a context of persistent geopolitical tensions and rapid increases in energy prices, temporary **expenditure measures** are expected to be applied in 2023 in relation to:

- assistance to the Ukrainian people who have fled to Lithuania from Russian military actions in Ukraine;
- support for people through subsidies due to rising heating, hot water, electricity prices;
- business support due to rising electricity prices;
- support to AB Lietuvos geležinkeliai (SC Lithuanian Railways, a company of strategic importance, which suffers losses as a result of the EU sanctions imposed on Russia and Belarus.

In 2023, the expenditure for the implementation of these measures amounts to about EUR 1, 358 million, or 1.9 % of GDP. COVID-19-related expenditure is planned for 2023 as usual health system expenditure.

In 2023, also temporary **tax aid — revenue — measures** will be applied, due to which in 2023 general government revenue, estimated on accrual basis, will decrease by approximately EUR 402 million, or 0.6 % of GDP. Detailed quantitative information on discretionary revenue and expenditure measures is presented in Tables 18 and 19, and a description of the measures – in the DBP Section "Revenue and Expenditure Policy".

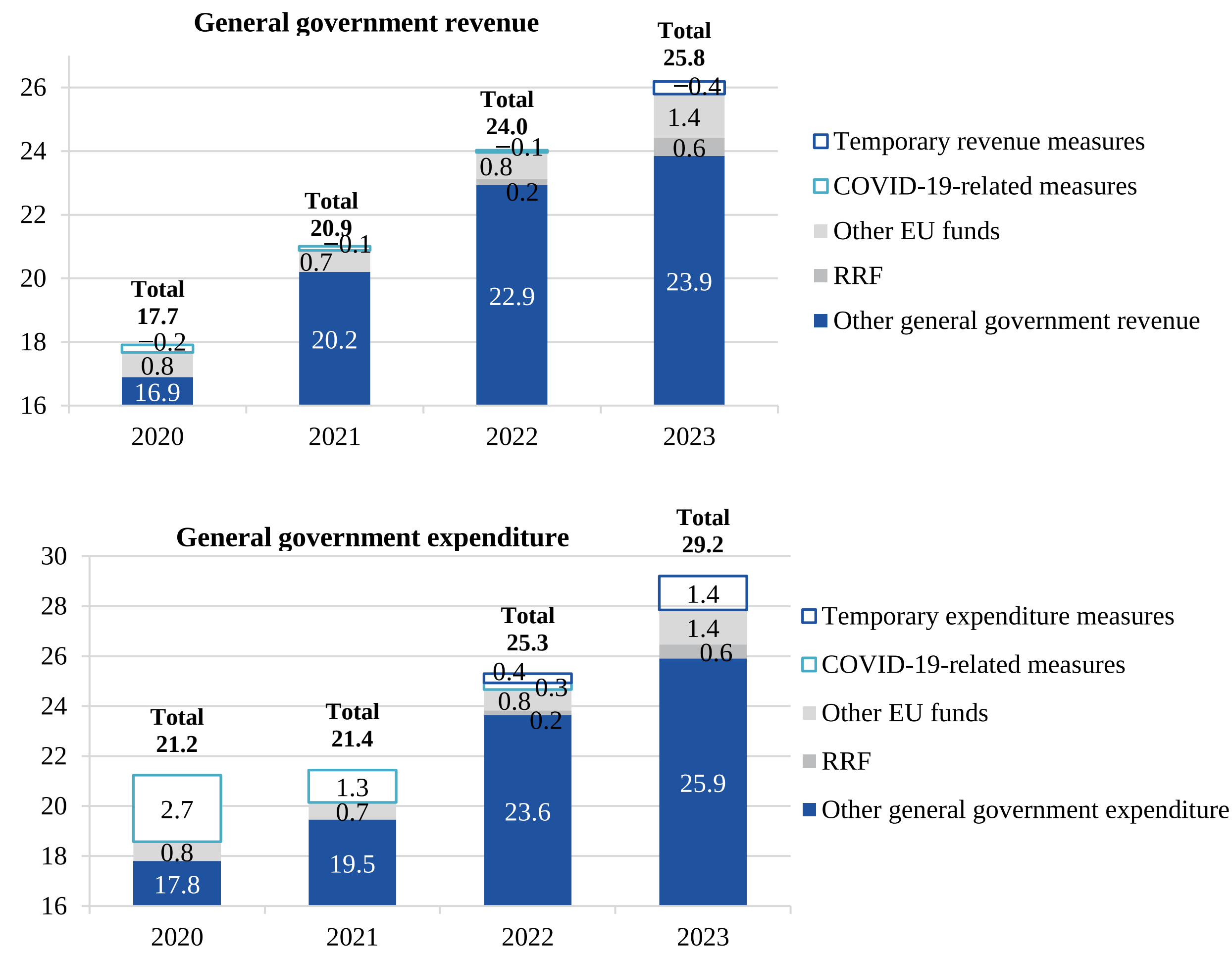
In the absence of temporary measures, the general government deficit in 2023 would amount to 2.4 % of GDP and would be equal to the deficit projected by the Government in the Stability Programme.

Taking into account temporary expenditure measures, the general government expenditure (excluding the EU and other international financial assistance) will increase by EUR 3, 000.2 million, or 12.4 %, as compared to the projected expenditure in 2022. Without taking into account temporary expenditure measures, in 2023 the general government expenditure would increase by EUR 2, 278.3 million, or 9.6 %.

In 2023, the general government revenue (excluding the EU and other international financial assistance) will increase by EUR 919.1 million, or 4 %, as compared to the forecasted revenue for 2022.

The general government revenue, expenditure projections also include the amounts of RRF grants and loans that are expected to be used for the implementation of the measures foreseen in the RRF plan in 2022 –2026. The funds of the RRF loan expected to be used in 2023-2025 affecting the general government balance will amount to EUR 19 million, EUR 51 million and EUR 81 million, respectively. While maintaining the neutrality of the use of the RRF grants to the general government balance, revenue from the RRF is considered equivalent to all expenditure from the RRF.

**Fig. 8. General government revenue and expenditure in 2020–2023, EUR billion**




*Source –Ministry of Finance.*

When forecasting the State budget revenue for 2023, the economic development scenario, loss of revenue due to the existing tax reliefs and extension of VAT rate reduction submitted along with the budget were taken into consideration. The impact of likely tax deferrals and deferred tax payments on revenue was considered, assuming that payments of deferred taxes will start in the second half of 2023. When forecasting income from payments of deferred taxes, the risk that 25 % of total taxes deferred in 2022 and 2023 will not be recovered, was also taken into consideration. The State budget revenue, on accrual basis, excluding the EU and other international financial assistance, is forecasted to increase by EUR 392.2 million in 2023, as compared to the revenue expected to be collected in 2022.

On accrual basis, due to the extension of the VAT rate reduction for accommodation services (extended for an indefinite period), catering, cultural, recreational, sporting and performers' services (extended until 30 June 2023, i.e. for half a year) submitted along with the budget, VAT revenue in 2023 is expected to be about EUR 89 million, or by 0.1 % of GDP lower. Due to possible tax deferrals, the State budget revenue in 2023 will be about EUR 195.2 million, or by 0.3 % of GDP lower. In addition, as a result of the decision to reimburse a 9 % VAT estimated on heat supplied to heat residential premises as well as on hot water supplied to living quarters, the State budget revenue in 2023 will be by approximately EUR 55.6 million lower.

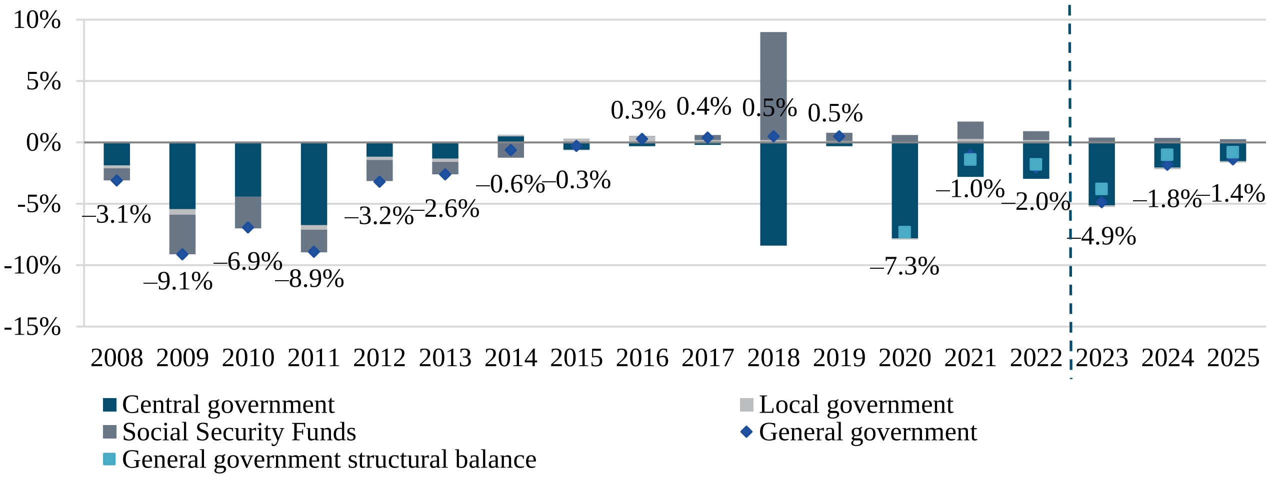
The general government structural deficit is expected to be 3.8 % of GDP in 2023 (Table 3). Without taking into account temporary expenditure and revenue measures, structural deficit in 2023 would represent 1.3 % of GDP and be close to –1 % of GDP – medium-term objective. Under the economic development scenario, the Lithuanian economy, after recovering in 2021 from the shock caused by the COVID-19 pandemic, is affected by the consequences of geopolitical tensions in 2022. The output gap in 2022-2025 remains negative, but in 2023 its estimate of −2.4 % of potential GDP indicates bad times for the economy[22]. The deterioration of the primary structural balance by 1.7 percentage points of GDP in 2023, as compared to the primary structural balance in 2022, points to the intended countercyclical expansionary (economic activity-supporting) fiscal policy.

The indicators presented in the DBP for 2023 may change if the risks of the economic development scenario, fiscal risks specified in Table 21 or other risks materialise in 2023.

Long-term financial sustainability remains a priority for fiscal policy. The general government debt increased during the COVID-19 crisis, however, with overperformance of revenue and not spent all funds designated to appropriations, the debt is expected to fall to 39.1 % of GDP in 2022, as compared to the debt of 46.3 % of GDP in 2020. The need for borrowing to finance temporary measures in 2023 will increase the debt. It is expected that in 2024-2025 such large-scale measures related to the support for people and businesses in the face of rising prices will no longer be needed. Though uncertainty about the geopolitical situation and future economic developments is high, currently it is projected (technical — no-policy-change — projection) that the general government structural balance will approach -0.8 % of GDP at the end of the medium-term, while the general government debt-to-GDP ratio will fall down to 42.1 %.

[22] If the value of the output gap in a given year falls to [-3; − 1.5 %] interval of potential GDP, the economy is considered to be going through bad times.

**Fig. 9. General government sector and subsectors balances in 2008–2025, % of GDP**

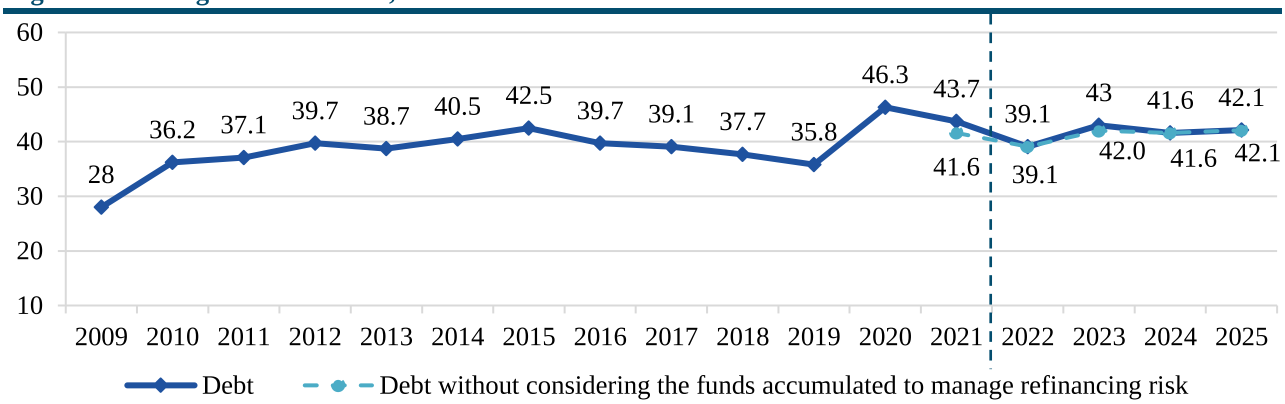



*Sources: Eurostat, Ministry of Finance.*

## General government debt

The general government debt is projected to account for 43 % of GDP at the end of 2023 and this is by 3.9 percentage point higher than at the end of 2022, when debt is expected to reach 39.1 % of GDP. The increase in debt is mainly affected by projected general government deficit of 4.9 % of GDP.

**Fig. 10. General government debt, % of GDP**




*Source – Ministry of Finance.*

## SECTION 2
## REVENUE AND EXPENDITURE POLICY

A fairer and growth-friendly tax system, reduction of poverty and inequality remain the Government policy priorities. As prices rise rapidly, **tax measures aim to contribute to the preservation of real income level for vulnerable groups and to help businesses**. Starting from 1 January 2023, it is suggested to increase NTA for low and middle-income earners. After the Seimas adopts the amendment to the Law on Personal Income Tax[23], for persons earning MMW the NTA for 2023 would be increased from EUR 540 to EUR 625. NTA would increase for population earning more than MMW, however not more than EUR 1, 926, i.e. for persons whose monthly income does not exceed one AW projected for 2023. For higher-income earners, the NTA would not be amended. The NTA for disabled persons and persons with

[23] **Draft Law Amending Article 20 of Republic of Lithuania Law No IX-1007 on Personal Income Tax**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/ee1d1140464a11edb7269d52b4d4fd38?positionInSearchResults=0&searchModelUUID=6a839e8c-2be5-4fe5-8dd6-810d401cdefc.

reduced working capacity would be proportionally increased from EUR 870 to EUR 1, 005 (for persons with a higher disability or lower capacity for work), and for other persons — from EUR 810 to EUR 935.

Together with the 2023 draft budget, the Government provided the Seimas with draft amendments to tax laws to help stabilise business activity slower recovering after the COVID-19 pandemic and maintain its viability, proposing:

- to extend for an indefinite period the application of the current reduced VAT rate of 9 % to accommodation services to contribute to the development of the Lithuanian tourism in order to improve the conditions of this business;
- temporarily to extend the current reduced VAT rate of 9 % to catering services provided by restaurants, cafes and similar catering establishments, as well as a 9 % VAT rate to cultural, recreational, sporting and performers' services.

In view of the consequences of the energy crisis and in order to preserve the viability of taxpayers, it is envisaged that for taxpayers in financial difficulties caused by energy crisis (if the energy costs incurred by the taxpayer in 2021 accounted for 10 % or more of total operating costs) the tax aid measures for tax arrears incurred from 7 October 2022 to 30 April 2023 should be applied, thus allowing to pay these tax arrears without recovery actions by 30 April 2023 or on the terms of the tax loan agreement, but not later than 31 December 2024, by relieving of the interest for late payment and without interest on the tax loan for the entire period of use of the tax loan.

**Table 4. Tax aid measures related to price increases**

| Title of the measure | Objective | Price-effective or income-raising measure | Date of entry into force of the measure | Expiry date of the measure | Group of persons and/or business covered by the measure |
|---|---|---|---|---|---|
| **Support measures for people** | | | | | |
| NTA increase* | To reduce labour taxation on low and middle-income earners, to contribute to preserving real income level for vulnerable groups | Income-raising measure | 1 January 2023 | Non-statutory | Targeted measure focused on more socially sensitive population groups contributing to personal income growth. |
| Compensation of VAT on thermal energy and hot water** | To reduce partially for the residents the financial burden on future heating and hot water bills during heating seasons in 2022-2023 and 2023-2024 | Price-effective measure | 1 October 2022 | 30 April 2024 (expires temporarily during the period 1 May 2023–30 September 2023) | Household customers receiving thermal energy from heating suppliers for heating residential premises and hot water. |

| Title of the measure | Objective | Price-effective or income-raising measure | Date of entry into force of the measure | Expiry date of the measure | Group of persons and/or business covered by the measure |
|---|---|---|---|---|---|
| **Support measures for businesses** | | | | | |
| Tax deferral | To preserve the viability of taxpayers affected by the energy crisis | Income-raising measure | 7 October 2022 | 30 April 2023 | Companies in financial difficulty if their energy costs accounted for 10 % or more of their total operating costs in 2021 |
| Application of the reduced VAT rate of 9 % to **catering services** ** | To contribute to stabilising activity and preserving viability of businesses slower recovering after the COVID-19 pandemic | Income-raising measure | 1 January 2023 | 1 July 2023 | Catering companies |
| Application of the reduced VAT rate of 9 % to **cultural, recreational, sporting and performers' services **** | To contribute to stabilising activity and preserving viability of businesses slower recovering after the COVID-19 pandemic | Income-raising measure | 1 January 2023 | 1 July 2023 | Companies organising art, cultural and sporting events |
| Application of the reduced VAT rate of 9 % to **accommodation services **** | To contribute to the development of the Lithuanian tourism and to improve the conditions of the Lithuanian businesses providing accommodation services | Income-raising measure | 1 January 2023 | Non-statutory | Companies providing accommodation services |

*Source – Ministry of Finance.*
** Legal basis of the measure – Republic of Lithuania Law on Personal Income Tax.*
*** Legal basis of the measure – Republic of Lithuania Law on Value Added Tax.*

The full list of discretionary revenue measures and the quantification of the impact of these measures on general government revenue are presented in Table 18.

The implementation of the plan to increase excise duty rates on ethyl alcohol and alcoholic beverages, tobacco products and their alternative products, approved for 2022-2024, will continue in 2023.

Tax regulation measures and deadlines for their implementation are also foreseen in the RRF plan (Component 6 "Effective Public Sector and Assumptions to Recover from the Pandemic", Reform 6.5 "A Fairer and More Growth-Friendly Tax System"). In order to achieve this goal, tax regulation changes were made in 2021 and 2022, and will continue in 2023 in areas such as the expansion of taxation of sources less detrimental to economic growth, refusal of inefficient tax exemptions and special tax conditions that no longer meet the priorities of the State, as well as a review of the PIT and social security system to protect the population from poverty.

**Reduction of the shadow economy and VAT gap** is one of the Government's priorities.

In the area of improvement of tax administration, better management of tax risks will be sought by reducing opportunities for the manifestation of the shadow economy and VAT gap, creating conditions at national level for more effective prevention of deliberately chosen shadow activities, digitisation of tax authorities, preventing new ways of tax avoidance, raising the level of voluntary tax payment, reducing the tolerance of residents to tax non-payment.

The Action Plan to Reduce Shadow Economy and VAT Gap[24] has been approved, which aims at creating an improved digitalised network for data collection and analysis, promoting voluntary tax payment, ensuring better tax administration, preventing tax infringements in risky sectors, improving prevention of tax offences and raising public awareness in the area of tax payment.

The amendments to the Republic of Lithuania Law on Tax Administration were adopted in 2021 aiming at:

- submitting the data recorded by cash registers electronically in stages to the STI of as of January 2023. The data received will enable digitisation of their administration, simultaneously expanding the electronic services of the STI;
- receiving by the STI the data on international payment transactions as of 2024. The data received will enable the fight against VAT fraud in e-commerce at EU level.

The Republic of Lithuania Law on Cash Payments was adopted in 2022 limiting cash payments in excess of EUR 5, 000 as of 1 November 2022.

The Government has submitted to the Seimas a complex package of laws amending the Law on Tax Administration, the Law on Value Added Tax, the Code of Administrative Offences and related laws, which, if adopted by the Seimas, as of 2023 would create a legal basis for obtaining data from digital trading and service providers, legalise proportionate liability for violations of tax and customs legislation and measures to identify and prevent these violations by tax authorities.

By 2025, the aim will be to modernise the processes of data acquisition, analysis and decision-making carried out by the STI and Lithuanian Customs by using advanced analytical methods and technologies based on the application of artificial intelligence methods, to improve the competencies of employees of tax authorities thus ensuring the performance of everyday functions using advanced methods, to create conditions for the development of the use of electronic documents in business.

By raising consistently public awareness, it is planned to purposefully develop the knowledge of the tax system among children and young people, simultaneously allowing them to learn how to pay in non-cash in practice, to monitor costs and to pay taxes.

**The expenditure policy priority areas in 2023** are growth of personal income, security of the country and society and investment in the future of Lithuania.

Income of working persons as well as social benefits and pensions are expected to be increased in 2023. Expenditure is also increasing for the general pension share financed from the State budget, for wage increase for teachers, lecturers and researchers, internal service system officials, cultural and artistic staff, for increase of the MMW, basic salary, indexation and increase of the basic amounts of social allowances.

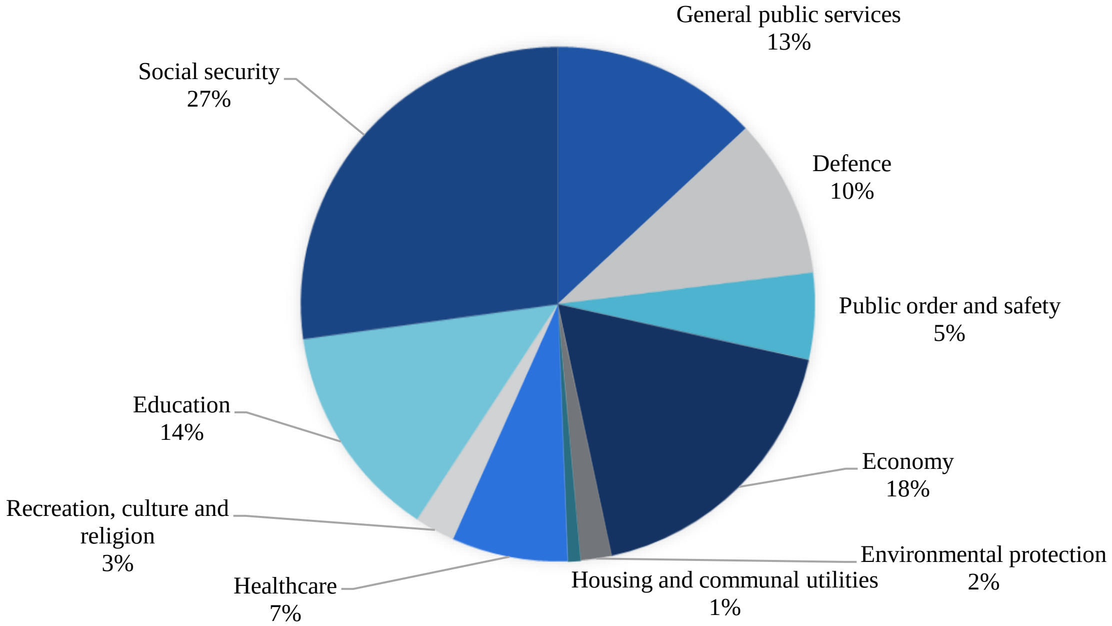
The draft budget for 2023 maintains financing of 2.52 % of GDP for defence, as well as allocates the funds for the acquisition of weapons compatible with NATO military equipment standards, for the implementation of civil protection and security measures relating to the Astravets nuclear power plant.

Excluding the EU and other international financial assistance, in 2023 the State budget expenditure, as compared to the expenditure approved in the revised 2022 Budget Law (excluding the funds related to

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

the management of the COVID-19 pandemic, the funds for managing the flows of illegal migrants (including the construction of the physical barrier on the border with the Republic of Belarus) and the funds to help people fleeing Ukraine, as well as taking into account the amounts for defence borrowed on behalf of the State in 2022 in order to maintain the financing of 2.52 % of GDP), increases by EUR 959 million (including the aforementioned amounts and excluding borrowed funds — in 2023 the State budget expenditure increases by EUR 828 million).

**Fig. 11. Breakdown of the 2023 State budget expenditure by function**



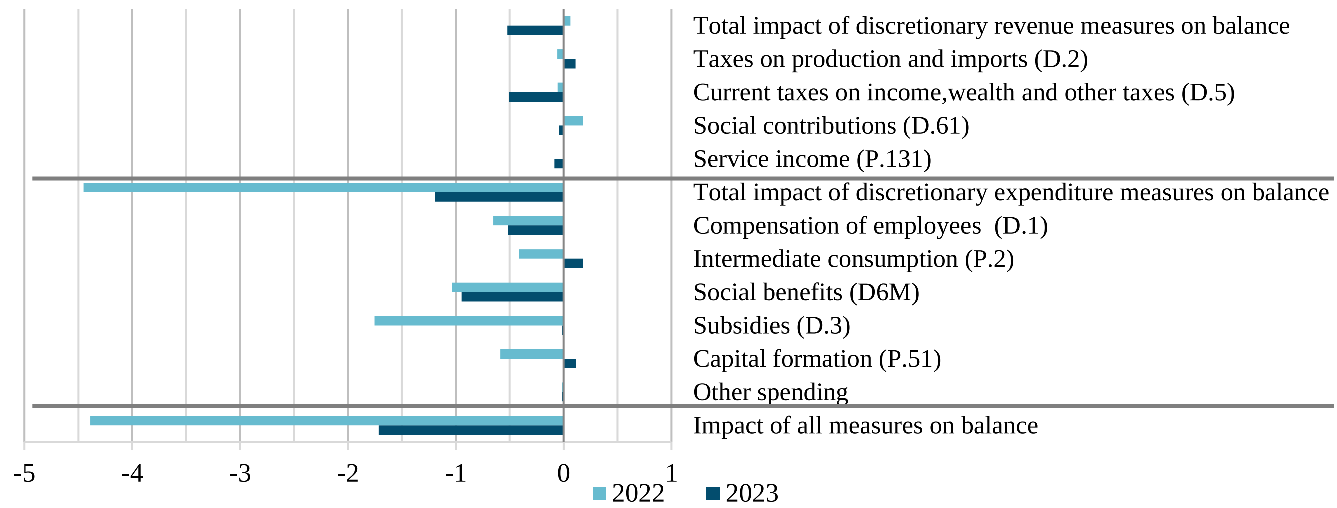

*Source –Ministry of Finance. Total expenditure (including EU funds) makes up EUR 18, 608.5 million.*

The Recommendation for Lithuania to invest in order to increase its growth potential will be implemented in 2023 and the remaining medium-term years. Most of investment, planned to achieve the objectives and targets of the NPP, aim at achieving the overall green and digital EU objectives, investing rapidly and efficiently in Lithuania's economic recovery and growth in order to transform it into a sustainable, innovative and high value-added economy. Important green and digital transformation projects are listed in Table 24. The investment will contribute to increasing the growth potential of the Lithuanian economy. Total investment of EUR 7.3 billion from the RRF plan, 2021-2027 EU Funds' Investment Programme and other NPP EU programmes are planned for 2023-2025. In order to transform the country's economy into a high value-added economy, the major share of funds in the NPP is earmarked for the green transition (45 % of projected funds) and transport (18 %). The investment in human resources, i.e. for social well-being and health –14 %, for science, business, innovation and digital reform – 11 %, for education – 6 %. The largest sources of funds for investment are the assistance from the Cohesion Policy Funds and RRF resources. The strategic reforms in green transition, digitalisation, science and innovation, education, health, labour market areas identified in the RRF plan will lay foundations for transformation of the economy into creation of high added value. The planned reforms and investment will also make a significant contribution to improving the climate change indicators and will have a positive impact on the labour market and poverty reduction. Implementing the 2021–2027 EU Funds' Investment Programme, EUR 2.2 billion is allocated to activities related to green and just[25] transition in order to reorient towards a

[25] *Just transition.*

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

**Fig. 12. Impact of discretionary measures on general government revenue and expenditure, % of GDP**




*Source – Ministry of Finance.*

**Table 5. General government expenditure and revenue indicators under fiscal policy scenario**

| General government (S13) | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|
| | | MEUR | % of GDP | MEUR | % of GDP |
| 1. Total revenue | TR | 23,961.0 | 36.7 | 25,789.3 | 36.7 |
| 1.1. Taxes on production and imports | D.2 | 7,429.2 | 11.4 | 7,898.0 | 11.2 |
| 1.2. Current taxes on income and wealth, etc. | D.5 | 6,685.3 | 10.2 | 6,934.7 | 9.9 |
| 1.3. Capital taxes | D.91 | 11.7 | 0.0 | 11.7 | 0.0 |
| 1.4. Social contributions | D.61 | 6,554.8 | 10.0 | 6,993.5 | 10.0 |
| 1.5. Property income | D.4 | 259.9 | 0.4 | 228.8 | 0.3 |
| 1.6. Other | | 3,020.1 | 4.6 | 3,722.6 | 5.3 |
| Tax burden (D.2 + D.5 + D.61 + D.91 – D.995) | | 20,674.0 | 31.6 | 21,830.8 | 31.1 |
| 2. Total expenditure | TE | 25,295.8 | 38.7 | 29,205.2 | 41.6 |
| 2.1. Compensation of employees | D.1 | 6,789.2 | 10.4 | 7,355.2 | 10.5 |
| 2.2. Intermediate consumption | P.2 | 3,376.2 | 5.2 | 4,254.4 | 6.1 |
| 2.3. Social benefits | D6M | 9,610.6 | 14.7 | 10,777.0 | 15.3 |
| o/w: unemployment benefits | | 294.7 | 0.5 | 353.9 | 0.5 |
| 2.4. Interest expenditure | D.41 | 177.3 | 0.3 | 337.9 | 0.5 |
| 2.5. Subsidies | D.3 | 1,311.6 | 2.0 | 1,389.0 | 2.0 |
| 2.6. Fixed capital formation | P.51 | 1,936.0 | 3.0 | 2,669.1 | 3.8 |
| 2.7. Capital transfers | D.9 | 540.9 | 0.8 | 713.2 | 1.0 |
| 2.8. Other | | 1,554.2 | 2.4 | 1,709.4 | 2.4 |

*Source – Ministry of Finance.*

## SECTION 3
## COMPARISON OF INDICATORS IN THE DBP AND STABILITY PROGRAMME

**Table 6. Comparison of indicators in the DBP and previous economic development scenarios**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| **Real GDP change, %:** | | | |
| | | | |
| Stability Programme | 4.9 | 1.6 | 2.5 |
| DBP | 5.0 | 1.6 | 1.4 |
| Difference | 0.1 | 0.0 | –1.1 |
| | | | |
| Scenario of 30 June 2022 | 5.0 | 1.6 | 2.1 |
| DBP | 5.0 | 1.6 | 1.4 |
| Difference | 0.0 | 0.0 | –0.7 |

*Source – Ministry of Finance.*

The projections of the general government balance indicator for 2022 specified in the DBP and Stability Programme differ due to the updated assumption related to savings of expenditure earmarked for financing the COVID-19-related measures, aid measures for the Ukrainian people in Lithuania, other expenditure and foreseen higher amounts of general government revenue. The general government balance indicators for 2023 indicated in the DBP and Stability Programme would broadly coincide if the general government balance in 2023 were not affected by temporary revenue and expenditure measures amounting to 2.5 % of GDP. Moreover, the data of the economic development scenario available during the preparation of the Stability Programme significantly differ from the data of the economic development scenario presented in the DBP.

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

| | ESA code | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| | | % of GDP | | |
| Stability Programme | B.9 | –1.0 | –4.9 | –2.4 |
| DBP | | –1.0 | –2.0 | –4.9 |
| Difference | | 0.0 | –2.9 | 2.5 |

*Source – Ministry of Finance.*

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

**Table 8. Comparison of general government debt projections in the DBP and Stability Programme**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| | % of GDP | | |
| Stability Programme | 44.3 | 43.3 | 43.7 |
| DBP | 43.7 | 39.1 | 43.0 |
| Difference | -0.6 | –4.2 | –0.7 |

*Source – Ministry of Finance.*

## PART III
## BUDGET FRAMEWORK REFORM

In Lithuania the works on the budget framework reform are ongoing. The aim is to establish an efficient medium-term budgetary and programme management framework, which will be closely linked to the State strategic management system.

Continuing the budget framework reform works, the Programme Implementation Plan[26] of the Eighteenth Government identifies the strategic task of the Government “General government finance planning oriented to strategic objectives”, with the implementation of which it is planned by the second quarter of 2024 to prepare the medium-term budgetary rules, methodological guidelines for the calculation of funds for continuing activities and to implement reviews of the State budget expenditure. These works are also foreseen in the RRF plan. After the implementation of the aforementioned works, it is planned to submit to the Seimas for approval the first objectively and reasonably planned medium-term draft State budget for 2025-2027.

A model of medium-term budgeting and management principles was developed in 2022, based on which the legislation governing medium-term budgeting and management rules will be drawn up in 2023. By the Government decision, it is planned to approve the task of a systematic review of public expenditure by the end of 2022.

Public expenditure reviews were carried out in 2022 in order to review the practices, mechanisms and methods of planning funds for continuing activities of the Ministry of Culture of the Republic of Lithuania and the Ministry of Education, Science and Sport of the Republic of Lithuania. The purpose of these expenditure reviews was to identify potentially inefficient planned funds for continuing activities and to analyse in detail the specificity of the planning of funds for continuing activities of the ministries, the methodologies and mechanisms used for calculating funds. The results of the expenditure review were presented and discussed together with the ministries, as well as during the inter-institutional discussions the decisions were taken on the implementation of part of the recommendations made in relation to the development of methodologies for the identification of missing funds for continuing activities and more accurate planning of funds in the descriptions of the mechanisms. The results of the expenditure review will be used while carrying out a broader systematic expenditure review in 2023.

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[26] **Government Resolution No 155 of 10 March 2021 on the approval of the Programme Implementation Plan of the Eighteenth Government of the Republic of Lithuania**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/bef7d43286fe11eb998483d0ae31615c?positionInSearchResults=6&searchModelUUID=98674a8c-8953-4d90-8c3a-93d9e4a41b6a.

# PART IV
# METHODOLOGICAL ASPECTS

**Table 9. 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 the Economic and Financial Affairs Council (ECOFIN) in 2002 | Technical assumptions (oil price, currency exchange rate and interest rates) |

## Revenue forecasting

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

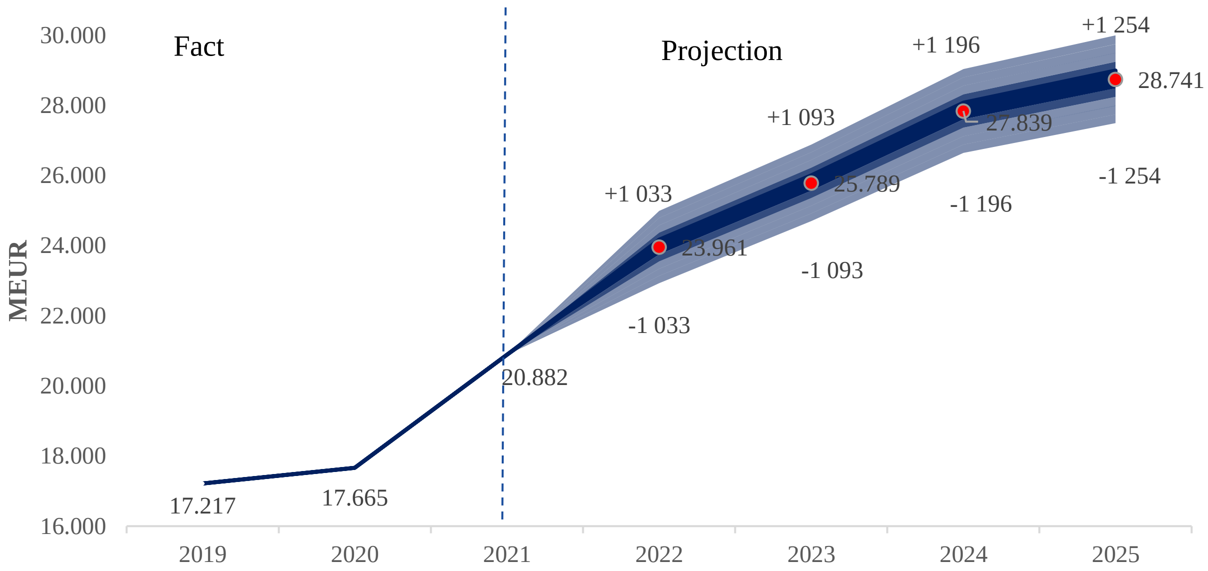
Depending on the tax, one or several forecasting methods are applied:

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

## Sensitivity analysis of revenue

Based on the relationship between the general government tax revenue and nominal GDP, a static sensitivity analysis showed that a change in nominal GDP by 1 % could change the revenue projection presented in the DBP from EUR 219 million in 2023 to EUR 251 million in 2025 (Fig. 13).

**Fig. 13. Sensitivity analysis of the general government tax revenue (D.2 + D.5 + D.61 + D.91 – D.995)**




*Source – Ministry of Finance.*

**Note**. The sensitivity analysis of projected tax revenue is carried out on the assumption that nominal GDP increases or decreases by 1 % (dark blue stretch), 2 % (blue stretch) and 5 % (light blue stretch) relative to the indicator projected in the economic development scenario. The central axis of the graph (a blue line for fact, red dots for projection) represents total general government revenue.

# PART V
# ECONOMIC DEVELOPMENT SCENARIO AND PUBLIC FINANCE DATA

**Table 10. Key assumptions**

| | 2021 | 2022 | 2023 |
|---|---|---|---|
| Short-term interest rates (average annual) | –0.3 | 1.0 | 3.4 |
| Long-term interest rates (average annual) | 0.1 | 3.2 | 4.2 |
| USD/EUR exchange rate (average annual) | 1.18 | 1.06 | 1.05 |
| Nominal effective exchange rate | 1.2 | –3.9 | –0.4 |
| World (excl. EU) GDP growth, % | 5.9 | 3.0 | 3.3 |
| EU GDP growth, % | 5.4 | 2.7 | 1.5 |
| Growth of main export markets, % | 5.3 | 1.9 | 1.0 |
| World (excl. EU) import growth, % | 10.9 | 4.1 | 3.6 |
| Oil prices (Brent, USD per barrel) | 70.7 | 108.2 | 95.6 |

*Sources: European Commission, Ministry of Finance.*

**Table 11. Price indicators**

| | 2021 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| | Index (in 2015 = 100) | Change, % | | |
| 1. GDP deflator | 121.6* | 6.5 | 16.2 | 6.0 |
| 2. Private consumption deflator | 115.5* | 4.6 | 17.8 | 6.0 |
| 3. HICP | 115.8 | 4.6 | 17.8 | 6.0 |
| 4. General government consumption expenditure deflator | 158.1* | 10.1 | 15.2 | 6.9 |
| 5. Gross fixed capital formation deflator | 115.1* | 4.8 | 12.0 | 4.2 |
| 6. Export (goods and services) price deflator | 106.5* | 5.6 | 12.5 | 2.4 |
| 7. Import (goods and services) price deflator | 109.8* | 11.9 | 28.5 | 3.6 |

*Sources: Statistics Lithuania, Ministry of Finance, Eurostat.*

* Economic development scenario has been drawn up based on statistical data published by 31 August 2022.

**Table 12. Labour market indicators**

| | ESA code | 2021 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| | | Indicator value | Change, % | | |
| 1. Employment, persons, thou. | | 1, 368.6 | 0.8 | 1.0 | 0.0 |
| 2. Employment, hours worked, thou. | | 2, 537, 023 | 2.8 | – | – |
| 3. Unemployment rate, % | | 7.1 | – | 6.3 | 6.8 |
| 4. Labour productivity (gross value added per person employed), EUR thou. | | – | 4.2 | 0.6 | 1.4 |
| 5. Labour productivity, hours worked | | – | – | – | – |
| 6. Compensation of employees, EUR million | D.1 | 27, 012.8* | 12.6 | 16.5 | 8.1 |
| 7. Compensation per employee, EUR | | 22, 069.3* | 11.4 | 15.3 | 8.1 |

*Sources: Eurostat, Statistics Lithuania, Ministry of Finance.*

* Economic development scenario has been drawn up based on statistical data published by 31 August 2022.

**Table 13. Sectoral balances**

| | ESA code | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| | | % of GDP | | |
| 1. Net borrowing | B.9 | 2.8 | –10.7 | –10.1 |
| *o/w:* | | | | |
| - balance of goods and services | | 4.2 | –7.3 | –9.0 |
| - balance of primary incomes and transfers | | –2.9 | –5.4 | –3.1 |
| - capital account | | 1.5 | 2.0 | 2.0 |
| 2. Net lending/net borrowing of the private sector | B.9 | 3.8 | –8.7 | –5.2 |
| 3. General government net lending / net borrowing | B.9 | –1.0 | –2.0 | –4.9 |
| 4. Statistical discrepancy | | 0 | 0 | 0 |

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

* Economic development scenario has been drawn up based on statistical data published by 31 August 2022.

**Table 14. General government indicators under policy scenario**

| | ESA code | 2022 | 2023 |
|---|---|---|---|
| | | % of GDP | |
| Net lending (+) / net borrowing (–) (B.9) by subsector | | | |
| 1. General government | S.13 | –2.0 | –4.9 |
| 2. Central government | S.1311 | –3.0 | –5.1 |
| 3. State government | S.1312 | – | – |
| 4. Local government | S.1313 | 0.2 | –0.1 |
| 5. Social security funds | S.1314 | 0.7 | 0.4 |
| 6. Interest payment | D.41 | 0.3 | 0.5 |
| 7. Primary balance | | –1.8 | –4.4 |
| 8. One-off and other temporary measures | | 0.2 | –0.2 |
| 9. Real GDP growth (%) | | 1.6 | 1.4 |
| 10. Potential GDP growth (%) | | 3.6 | 2.9 |
| o/w: | | | |
| - labour | | 0.7 | 0.0 |
| - capital | | 1.5 | 1.5 |
| - total factor productivity | | 1.4 | 1.3 |
| 11. Output gap (% of potential GDP) | | –1.0 | –2.4 |
| 12. Cyclical component of the budget (% of potential GDP) | | –0.4 | –1.0 |
| 13. Cyclically adjusted balance (1 – 12) (% of potential GDP) | | –1.6 | –3.9 |
| 14. Cyclically adjusted primary balance (13 + 6) (% of potential GDP) | | –1.4 | –3.4 |
| 15. Structural balance (13 – 8) (% of potential GDP) | | –1.8 | –3.8 |

*Source – Ministry of Finance.*

**Table 15. General government revenue and expenditure indicators under no-policy change scenario**

| General government (S13) | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|
| | | MEUR | % of GDP | MEUR | % of GDP |
| 1. Gross revenues under no-policy change scenario | TR | 24,135.4 | 36.9 | 26,355.2 | 37.4 |
| 1.1. Taxes on production and imports | D.2 | 7,508.8 | 11.5 | 8,006.4 | 11.4 |
| 1.2. Current taxes on income, wealth and other taxes | D.5 | 6,830 | 10.4 | 7,279.3 | 10.4 |

| General government (S13) | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|
| | | MEUR | % of GDP | MEUR | % of GDP |
| 1.3. Capital taxes | D.91 | 11.7 | 0 | 11.7 | 0 |
| 1.4. Social contributions | D.61 | 6,504.9 | 10 | 7,047 | 10 |
| 1.5. Property income | D.4 | 259.9 | 0.4 | 228.8 | 0.3 |
| 1.6. Other | | 3,020.1 | 4.6 | 3,782 | 5.4 |
| Tax burden (D.2 + D.5 + D.61 + D.91 – D.995) | | 20,848.4 | 31.9 | 22,337.4 | 31.8 |
| 2. Gross expenditure under no-policy change scenario | TE | 22,358.1 | 34.2 | 26,658.9 | 37.9 |
| 2.1. Compensation of employees | D.1 | 6,363.2 | 9.7 | 6,903.5 | 9.8 |
| 2.2. Intermediate consumption | P.2 | 3,097.6 | 4.7 | 4,159 | 5.9 |
| 2.3. Social benefits | D.6M | 8,933.4 | 13.7 | 9,999.7 | 14.2 |
| o/w: unemployment benefits | | 294.7 | 0.5 | 353.9 | 0.5 |
| 2.4. Interest expenditure | D.41 | 177.3 | 0.3 | 337.9 | 0.5 |
| 2.5. Subsidies | D.3 | 166.1 | 0.3 | 233.8 | 0.3 |
| 2.6. Fixed capital formation | P.51 | 1,535.8 | 2.3 | 2,613.4 | 3.7 |
| 2.7. Capital transfers | D.9 | 540.9 | 0.8 | 713.2 | 1 |
| 2.8. Other | | 1,543.8 | 2.4 | 1,698.4 | 2.4 |

*Source – Ministry of Finance.*

### Table 16. General government debt projections

| | 2022 | 2023 |
|---|---|---|
| | % of GDP | |
| General government debt at the end of the year | 39.1 | 43.0 |
| Change in general government debt | –4.6 | 3.9 |
| Contributions to changes in general government debt | | |
| Primary balance | –1.8 | –4.4 |
| Interest | 0.3 | 0.5 |
| Stock-flow adjustment | –0.5 | 1.8 |
| Implicit interest rate on debt | 0.7 | 1.3 |

*Source – Ministry of Finance.*

### Table 17. State guaranteed debt

| | 2022 | 2023 |
|---|---|---|
| | % of GDP | |
| State guarantees | 1.2 | 1.7 |
| o/w: related to financial sector | 0.0 | 0.0 |

*Source – Ministry of Finance.*

### Table 18. Impact of discretionary revenue measures taken by general government on the budget

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 1.* | Increase of NTA up to EUR 460, at the same time changing the structure of the formula so as additional benefit is distributed to persons earning up to 1 AW; increase of NTA for the disabled from EUR 600 to EUR 690 and from EUR 645 to EUR 740, accordingly | D.5 | –74.1 | –0.1 | | |
| 2.* | Increase of NTA up to EUR 540 to persons earning up to 1 AW; increase of NTA for the disabled from EUR 690 to EUR 810 and from EUR 740 to EUR 870, accordingly. Comes into effect on 1 June 2022 applying it for income earned from 1 January 2022 | D.5 | –64.9 | –0.1 | –38.1 | –0.1 |
| 3.* | Increase of NTA from EUR 540 to 625 to persons earning up to 1 AW; increase of NTA for the disabled from EUR 810 to EUR 935 and from EUR 870 to EUR 1,005, accordingly, from 1 January 2023 | D.5 | | | –164.3 | –0.2 |
| 4.* | 2022 share of PIT deferrals for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.5 | –28.5 | 0.0 | 28.5 | 0.0 |
| 5.* | 2023 share of PIT deferrals for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.5 | | | –64.6 | –0.1 |

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 6.* | 2022 share of deferrals of the corporate income tax for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.5 | –34.2 | –0.1 | 54.7 | 0.1 |
| 7.* | 2023 share of deferrals of the corporate income tax for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.5 | | | –77.7 | –0.1 |
| 8.* | Increase of excise duty rates on tobacco products and liquid of electronic cigarettes | D.2 | 24.2 | 0.0 | 15.1 | 0.0 |
| 9.* | Increase of excise duty rates on ethyl alcohol and alcoholic beverages | D.2 | 14.6 | 0.0 | 20.6 | 0.0 |
| 10.* | Introduction of the excise duty rate relief from 1 January 2022 for small brewers, under which small breweries (i.e. producing no more than 80, 000 hectolitres of beer per calendar year) will be able to apply a 50 % reduced excise duty rate to 10, 000 hectolitres of beer disposed of per annum | D.2 | –2.7 | 0.0 | | |
| 11.* | 2022 share of VAT deferrals for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.2 | –46.8 | –0.1 | 46.8 | 0.1 |
| 12.* | 2023 share of VAT deferrals for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.2 | | | –106.3 | –0.2 |
| 13.* | Application of temporary 9 % VAT relief to catering services other than those related to alcoholic beverages, and supplied artistic and cultural services as well as to visits to relevant events from 1 January 2023 to 30 June 2023 | D.2 | | | –65 | –0.1 |
| 14.* | VAT for heat supplied to heat residential premises as well as on hot water supplied to living quarters covered from the State budget by applying the VAT rate of 9 percentage points (from 9 to 0 per cent difference) for actually supplied goods to residents in January – April 2022, October 2022 – April 2023 and October 2023 – April 2024 | D.2 | –33.6 | –0.1 | –22 | 0.0 |
| 15.* | The amendments to the pollution tax which entered into force on 1 January 2021 (fiscal effect from 2022) | D.2 | 22 | 0.0 | 29 | 0.0 |
| 16.* | The amendments to the tax on lotteries and gambling | D.2 | 3.7 | 0.0 | 20.2 | 0.0 |
| 17.* | The amendments to the road user charges coming into force on 1 January 2023 | P.131 | | | –59.4 | –0.1 |
| 18. | 2022 share of deferrals of social insurance contributions for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.6 | –25.8 | 0.0 | 25.8 | 0.0 |
| 19. | 2023 share of deferrals of social insurance contributions for period of October 2022 – April 2023 to taxpayers affected by the energy crisis | D.6 | | | –53.5 | –0.1 |

*Source – Ministry of Finance.*
* Discretionary revenue measures of central government subsector (S.1311).
Notes:
1. Adoption stage of all the measures specified in the table is “approved” or “submitted by the Government to the Seimas”, and accounting basis – accrual.
2. The column of the table, indicating 2022, presents the impact of the measures launched in 2022 on general government revenue.
3. The column of the table, indicating 2023, presents the impact of the measures launched in 2023 on general government revenue and/or the amounts neutralising the impact of the measures taken in 2022, but no longer applied in 2023, on revenue.
4. The amount of the impact of the measures presented in the table on revenue does not match the amount in line 3 of Table 20, as the latter amount assesses also the impact of the revenue measures launched before 2022 on revenue in 2022 and/or 2023.

**Table 19. Impact of discretionary expenditure measures taken by general government on the budget**

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 1.* | Increase of MMW in 2022 – up to EUR 730, in 2023 – up to EUR 840 | D.1 | –11.9 | 0.0 | –14.9 | 0.0 |
| 2. | Increase of MMW in 2022 – up to EUR 730, in 2023 – up to EUR 840 (local government) | D.1 | –18.9 | 0.0 | –22.7 | 0.0 |

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 3.* | Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2022 – EUR 181, in 2023 – EUR 186) | D.1 | –65.5 | –0.1 | –89.1 | –0.1 |
| 4. | Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2022 – EUR 181, in 2023 – EUR 186) (local government) | D.1 | –20.5 | 0.0 | –28.9 | 0.0 |
| 5.* | Increase of wages for persons employed in the education sector | D.1 | –128.7 | –0.2 | –145.5 | –0.2 |
| 6.* | Increase of wages for lecturers, research staff and researchers | D.1 | –28.6 | 0.0 | –33.4 | 0.0 |
| 7.* | Increase of salary for educators, concertmasters and accompaniments | D.1 | –2.1 | 0.0 | | |
| 8.* | Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions | D.1 | –13.1 | 0.0 | –8.5 | 0.0 |
| 9. | Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (local government) | D.1 | –14.6 | 0.0 | –21.5 | 0.0 |
| 10.* | Implementation of the civil service reform | D.1 | | | –16.3 | 0.0 |
| 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 | | | –33.2 | 0.0 |
| 12.* | Increase of wages for residents | D.1 | | | –9.6 | 0.0 |
| 13.* | Increase of wages for cultural workers | D.1 | | | –27.9 | 0.0 |
| 14. | Increase of wages for educational aid specialists and other employees of the education system (local government) | D.1 | –31.3 | 0.0 | | |
| 15.* | Addressing the consequences of the COVID-19 pandemic (acquisition of vaccines and services related to vaccination (logistics, vaccination, medical aids, etc.) (**COVID-19 related measure**) | D.1 | –90 | –0.1 | 90 | 0.1 |
| | | P.2 | –157.8 | –0.2 | 157.8 | 0.2 |
| | | D.6M | –6.7 | 0.0 | 6.7 | 0.0 |
| 16.* | Implementation of the Law Amending Republic of Lithuania Law No. IX-2160 on Economic and Other International Sanctions aiming to ensure the implementation of international sanctions in the Republic of Lithuania according to the areas of activity assigned to it – wages of 15 positions | D.1 | –0.3 | 0.0 | –0.2 | 0.0 |
| 17.* | Compensation for the remuneration of officials and other staff directly involved in the management of an emergency declared nationwide due to a mass influx of foreigners | D.1 | –0.3 | 0.0 | 0.3 | 0.0 |
| 18.* | Managing the emergency situation due to increased migratory flows | P.2 | –36 | –0.1 | 36 | 0.1 |
| 19.* | Other intermediate consumption measures | P.2 | –30.7 | 0.0 | 7.7 | 0.0 |
| 20. | Other intermediate consumption measures (local government) | P.2 | –6.7 | 0.0 | 9.3 | 0.0 |
| 21.* | NATO host country support | P.2 | –35.9 | –0.1 | | |
| 22.* | To prepare for NATO Summit 2023 | P.2 | –1.4 | 0.0 | –35.3 | –0.1 |
| 23.* | To introduce/test the patient transportation service | P.2 | | | –5.6 | 0.0 |
| 24.* | R&D financing | P.2 | | | –43 | –0.1 |
| 25.* | Support to increase benefits and targeted compensations through the implementation of new legislative provisions (social assistance pension base in 2020 (from 54 % to 56 % minimum consumption needs) and to increase the threshold for low pension premiums; to increase target compensation base, social assistance pension base, basic social benefit in 2022) | D.6M | –32.7 | –0.1 | –127.5 | –0.2 |
| 26.* | Increase of basic amounts: BSB from 46 to 49; SSI from 147 to 157; DP from 173 to 185; TCB from 138 to 147. | D.6M | | | –65.5 | –0.1 |
| 27.* | Financial incentive to young families purchasing their first housing | D.6M | –11.5 | 0.0 | | |
| 28.* | Indexation of basic amounts of social benefits | D.6M | –20.1 | 0.0 | | |
| 29.* | Contributions for persons insured from public funds | D.6M | –72.3 | –0.1 | –10.9 | 0.0 |

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 30.* | Free meals for pre-primary school students (from 1 January 2020), school students in the first form (from 1 September 2020) and in the second form (from 1 September 2021) | D.6M | –2.6 | 0.0 | | |
| 31.* | Single person's pension payments | D.6M | –92.1 | –0.1 | | |
| 32.* | Indexation of state social insurance pensions, including the proposed amendments for the payment of a full pension to persons without necessary seniority | D.6M | –68 | –0.1 | | |
| 33. | Additional indexation of part of the individual pension (Social Security Funds) | D.6M | –70 | –0.1 | | |
| 34. | Additional indexation of part of the individual pension (from 1 June 2022) (Social Security Funds) | D.6M | –45 | –0.1 | –45 | –0.1 |
| 35. | Additional indexation of part of the individual pension (Social Security Funds) | D.6M | | | –120 | –0.2 |
| 36.* | Other social benefits | D.6M | –1 | 0.0 | 5.6 | 0.0 |
| 37. | Maternity amendments to the Law on Sickness and Maternity Social Insurance acc. to EU Directive 2019/1158 (Social Security Funds) | D.6M | | | –31.4 | 0.0 |
| 38. | Financing of compensation for heating of dwellings for municipalities | D.6M | –15.9 | 0.0 | –28.7 | 0.0 |
| 39.* | To increase pensions, welfare benefits, benefits linked to the basic amount of social benefit, state-supported income | D.6M | –155.6 | –0.2 | –111.1 | –0.2 |
| 40.* | **Assistance to the Ukrainian people fleeing from Russian military actions in** 2022 (food packages and cards, education for Ukrainian children, cash benefits and reimbursements, health services, etc.) | D.6M | –83.6 | –0.1 | 83.6 | 0.1 |
| 41.* | **Assistance to the Ukrainian people fleeing from Russian military actions **** in 2023 (food packages and cards, education for the Ukrainian children, cash benefits and reimbursements, health services, etc.) | D.6M | | | –221.3 | –0.3 |
| 42.* | Business support package (subsidies for companies and persons engaged in individual activities most affected by the COVID-19 pandemic, reimbursement of the COVID-19 tests for small and medium-sized businesses, compensation of tour operators for returning tourists from abroad after the declaration of emergency, market fee compensation) (**COVID-19 related measure)** | D.3 | –10 | 0.0 | 10 | 0.0 |
| 43.* | Support for partial compensation for losses suffered by operators in the pig farming sector | D.3 | –15.4 | 0.0 | 15.4 | 0.0 |
| 44.* | Maintenance costs of the national railway infrastructure incurred as a result of the application of sanctions against the Republic of Belarus — balancing the revenue and costs of the activities of the railway infrastructure manager in connection with the management of the railway infrastructure (maintenance of the Lithuanian railway infrastructure) | D.3 | –103 | –0.2 | 103 | 0.1 |
| 45.* | Implementation of the measure (investment activity) "Investment by legal persons in the substitution or reduction of fossil fuels and/or the use of renewable energy sources". | D.3 | –5 | 0.0 | –25 | 0.0 |
| 46.* | **Subsidy** for residents and businesses receive a subsidy **due to a sharp increase in gas and electricity prices** in 2022 | D.3 | –940.3 | –1.4 | 940.3 | 1.3 |
| 47.* | **Subsidy** for residents and businesses receive a subsidy **due to a sharp increase in gas and electricity prices** foreseen in 2023 | D.3 | | | –1,046 | –1.5 |
| 48.* | Ensuring business continuity of *AB Infra* and implementing the EU co-financed infrastructure projects | D.3 | –71.7 | –0.1 | 71.7 | 0.1 |
| 49.* | Ensuring the financing of investments for infrastructure activities to the public railway infrastructure manager | D.3 | | | –79.2 | –0.1 |
| 50.* | Installation of the physical barrier and safety systems at the Lithuanian-Belarusian border | P.51 | –120.8 | –0.2 | 138.1 | 0.2 |
| 51.* | Increasing the financing of the Ministry of National Defence | P.51 | –262.1 | –0.4 | | |
| 52.* | To infrastructure for military mobility | P.51 | | | –55.7 | –0.1 |

| No. | Description of the measure | ESA code | 2022 | | 2023 | |
|---|---|---|---|---|---|---|
| | | | MEUR | % of GDP | MEUR | % of GDP |
| 53.* | Other discretionary expenditure measures | Other | –10.4 | 0.0 | –11.0 | 0.0 |

*Source – Ministry of Finance.*

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

****** The scope of the measure reflects the assumption that the measure will apply to 50,000 people who have left Ukraine to Lithuania.

**Notes:**

1. Adoption stage of all the measures specified in the table is "approved".
2. Change means additional need for funds necessary for implementation of the measure, as compared to the amount of funds allocated in the previous year.
3. The column of the table, indicating 2022, presents the impact of the measures launched in 2022 on general government expenditure.
4. The column of the table, indicating 2023, presents the impact of the measures launched in 2023 on general government expenditure and/or the amounts neutralising the impact of the measures taken in 2022, but no longer applied in 2023, on expenditure.

### Table 20. Amounts excluded from the expenditure benchmark

| | ESA code | 2021 | | 2022 | 2023 |
|---|---|---|---|---|---|
| | | MEUR | % of GDP | % of GDP | |
| 1. Expenditure on the EU programmes fully matched by the EU Funds‘ revenue | | 676.1 | 1.2 | 1.6 | 2.8 |
| 1a. Gross fixed capital formation expenditure financed from the EU assistance | P.51 | 377.2 | 0.7 | 0.6 | 1.1 |
| 2. Cyclical unemployment benefit expenditure | | –10.9 | –0.02 | –0.04 | 0.01 |
| 3. Discretionary revenue measures | | 191.5 | 0.3 | 0.1 | –0.5 |
| 4. Revenue increase mandated by law | | 0.0 | 0.0 | 0.0 | 0.0 |

*Source – Ministry of Finance.*

### Table 21. A list of medium-term fiscal risks

| Risk | Risk source | Degree of a risk | Probability of risk occurrence |
|---|---|---|---|
| Changes in the geopolitical situation | As geopolitical tensions persist or worsen, security (including cyber) and defence needs may increase, leading to higher general government expenditure | high | high |
| Illegal refugee crisis at the Lithuanian-Belarusian border | In the event of an escalation of the refugee crisis, additional funds may be needed to manage it and/or to strengthen the protection of the Lithuanian-Belarusian border | medium | high |
| COVID-19 pandemic development | In the event of a recurrent outbreak of COVID-19, additional funds to finance the COVID-19-related measures may be needed. This would lead to an increase in the general government expenditure | medium | medium |
| Implementation of the RRF plan | If during the implementation of the RRF plan part of indicators presented in the plan are not achieved and part of the RRF grant is not received, the general government balance may deteriorate, as compared to the planned one | medium | medium |
| Activities of the State-owned enterprises | Improving or deteriorating performance may increase or decrease the amounts of dividends paid to the State budget | medium | medium |
| Deposit and investment insurance | In the event of bankruptcy of credit institutions, central government expenses would increase due to fulfilment of obligations to depositors | low | low |
| Statistical corrections of data on national defence expenditure | Significant differences between forecast of acquisition costs of military equipment, weapons and supplies and actual data estimated in general government financial accounting on accrual basis (acc. to ESA) may increase or decrease general government expenditure | high | high |
| Environment in global financial markets | Developments in global financial markets may increase the Government borrowing costs | medium | medium |
| Natural disasters | The use of measures to mitigate the effects of rainfall, fires, droughts, epidemics on the public and/or private sector may lead to an increase in government expenditure and/or a decrease in revenue | 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 22. Impact of grants under the RRF on general government finance projections**

| Title of the indicator | % of GDP | | | | | | |
|---|---|---|---|---|---|---|---|
| | ESA code | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| **RRF grants (revenue)** | | | | | | | |
| **RRF grants included in the revenue projection** | | – | **0** | **0.1** | **0.8** | **1.0** | **0.7** |
| **Revenue of RRF grants (cash flow)*** | | – | **0.5*** | **0.0** | **1.5** | **0.4** | **0.2** |
| **Expenditure for implementation of the RRF plan measures** | | | | | | | |
| Compensation of employees | D.1 | – | 0 | 0 | 0 | 0 | 0 |
| Intermediate consumption | P.2 | – | 0 | 0.04 | 0.4 | 0.4 | 0.3 |
| Social benefits | D.62+ D.632 | – | 0 | 0 | 0 | 0 | 0 |
| Interest payment | D.41 | – | 0 | 0 | 0 | 0 | 0 |
| Subsidies | D.3 | – | 0 | 0 | 0 | 0 | 0 |
| Current transfers | D.7 | – | 0 | 0 | 0 | 0 | 0 |
| **CURRENT EXPENDITURE, TOTAL** | | – | **0** | **0.04** | **0.4** | **0.4** | **0.3** |
| **Gross fixed capital formation** | **P.51g** | – | **0** | **0.1** | **0.4** | **0.6** | **0.4** |
| **Capital transfers** | **D.9** | – | **0** | **0** | **0** | **0** | **0** |
| **CAPITAL EXPENDITURE, TOTAL** | | – | **0** | **0.1** | **0.4** | **0.6** | **0.4** |
| **Other costs financed by RRF grants** | | | | | | | |
| **Diminution in tax revenue** | | – | – | – | – | – | – |
| **Other costs affecting revenue** | | – | – | – | – | – | – |
| **Financial transfers** | | – | – | – | – | – | – |

*Source – Ministry of Finance.*

**Note:** The amount of RRF funds allocated to Lithuania recalculated in June 2023 decreased by EUR 125 million. This decrease is expected to be covered by the RRF loan, without abandoning the implementation of the envisaged measures or reducing their volume. However, the RRF plan has not yet been modified, therefore the amounts indicated may be adjusted.

According to the data available at the time of the preparation of the DBP, the share of the RRF grant to Lithuania totals EUR 2,099.1 million. The remaining unused share of the RRF grant of EUR 225.5 million for the period 2020-2025 is expected to be used in 2026. Accordingly, it is assumed that the income on cash basis will amount to EUR 269.1 million.

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

**Table 23. The use of the RRF loan**

| Title of the indicator | % of GDP | | | | | | |
|---|---|---|---|---|---|---|---|
| | ESA code | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| **RRF loan (cash flow)** | | | | | | | |
| **Amounts of RRF loan received from the EU** | | – | – | – | **0.2** | **0.4** | **0.4** |
| **Repayments of RRF loan to the EU** | | – | – | – | **0** | **N.A.*** | **N.A*** |
| **Expenditure for implementation of the RRF plan measures** | | | | | | | |
| Compensation of employees | D.1 | – | – | – | 0 | 0 | 0 |
| Intermediate consumption | P.2 | – | – | – | **0.3** | **0.5** | **0.6** |
| Social benefits | D.62+ | – | – | – | 0 | 0 | 0 |
| Interest payment | D.41 | – | – | – | 0 | 0 | 0 |
| Subsidies | D.3 | – | – | – | 0 | 0 | 0 |
| Current transfers | D.7 | – | – | – | 0 | 0 | 0 |
| **CURRENT EXPENDITURE, TOTAL** | | – | – | – | **0.3**** | **0.5**** | **0.6**** |
| **Gross fixed capital formation** | **P.51g** | – | – | – | **0** | **0** | **0** |
| **Capital transfers** | **D.9** | – | – | – | **0** | **0** | **0** |
| **CAPITAL EXPENDITURE, TOTAL** | | – | – | – | **0** | **0** | **0** |
| **Other costs financed by the RRF loan** | | | | | | | |

| Title of the indicator | % of GDP | | | | | | |
|---|---|---|---|---|---|---|---|
| | ESA code | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| **Diminution in tax revenue** | | – | – | – | – | – | – |
| **Other costs affecting revenue** | | – | – | – | – | – | – |
| **Financial transfers** | | – | – | – | – | – | – |

*Source – Ministry of Finance.*
***Note***: As the adjustment to the RRF plan by supplementing it with the RRF loan is only under preparation, the payment schedule is based on presumptions and will be known more accurately only after the approval of the supplement of the RRF plan with new measures.
According to the data available at the time of the preparation of the DBP, the RRF loan designated for Lithuania totals EUR 1,119.3 million. The remaining part of unused RRF loan amount to EUR 163.5 million for the period 2023-2025 is expected to be used in 2026. Accordingly, it is assumed that the remaining available amount of the loan will constitute EUR 228.4 million.
* The repayment schedule of the RRF loan is not known at the time of the preparation of the DBP.
** The amounts to be used are likely to be reallocated by transferring some of them to capital expenditure. The funds of the RRF loan planned for 2023-2025, only 0.03 % of GDP, 0.07 %of GDP and 0.1 % of GDP respectively, are considered as affecting the general government balance. The rest of the above amounts is expected to be used through on-lending, and therefore will not affect the general government balance.

**Table 24. Key projects for green and digital transformation**

| MEUR | 2023 | 2024 | 2025 |
|---|---|---|---|
| **Green transformation** | | | |
| **Total amount*** | **1, 027** | **1, 129** | **1, 489** |
| **o/w:** | | | |
| Creation of poverty energy communities, direct loans to companies for the development of RES in their territory, installation of centralised remote RES parks | 159 | 279 | 359 |
| Installation of RES power plants and storage facilities for legal entities and RES communities | 30 | 40 | 50 |
| Biofuel production and integration of charging stations for private electric vehicles | 14 | 21 | 23 |
| Increasing the use of RES for heating and cooling production | 15 | 0 | 0 |
| RES deployment and improvement of energy efficiency in industrial plants | 23 | 32 | 15 |
| Dismantling of nuclear facilities | 55 | 40 | 33 |
| Organic farming. Financing of continuing commitments for organic farming | 41 | 51 | 54 |
| Implementation of the project for the interconnection of the electricity system with the continental European networks in synchronous mode | 40 | 92 | 144 |
| Renovation of buildings (EU and State budget funds) | 105 | 230 | 313 |
| **Digital transformation** | | | |
| **Total amount *** | **207** | **159** | **158** |
| Reform “Customer-Oriented Services “ | 30 | 30 | 26 |
| Reform “Reform of State IT Governance “ | 24 | 24 | 24 |
| Digitising the business processes of high value-added industries to accelerate and make efficient the involvement of small and medium-sized enterprises in international value chains | 16 | 1 | 2 |
| Promotion of the automation of industrial production processes, the deployment of robotic systems and digitisation technologies (digitalisation of industry) | 14 | 1 | 2 |
| Reform “Prerequisites for Innovative Technological Solutions in Business and Everyday Life “ | 12 | 7 | 5 |
| Development of advanced electronic communication technologies and next-generation communication networks (including 5G networks) | 15 | 17 | 17 |

*Source – Ministry of Finance.*
* The total amount includes the following sources of funding: RRF funds, funds of the EU Investment Programme 2021-2027, Connecting Europe Facility funds.

**Table 25. State guarantees**

| Guarantee measures | Maximum possible amount of guarantees on 31 December 2023 (MEUR / % of GDP) | | Guarantees provided, acc. to the data of 31 August 2022 (MEUR / % of GDP) | |
|---|---|---|---|---|
| **State guarantee measure related to the COVID-19 pandemic:** | **309.7** | **0.44** | **222.7** | **0.34** |
| Guarantees for tour operators administered by INVEGA * | 2.8 | 0.00 | 2.8 | 0.00 |
| Portfolio guarantees administered by INVEGA* | 19.1 | 0.03 | 18.2 | 0.03 |
| Individual guarantees administered by ACGF* | 9.9 | 0.01 | 17.8 | 0.03 |
| State guarantees on loans and non-equity securities used to meet the objectives of stimulating economy affected by emergencies and to increase the financial liquidity of business | 150.0 | 0.21 | 100.0 | 0.15 |
| State guarantees on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak | 84.0 | 0.12 | 84.0 | 0.13 |
| State guarantees for European Investment Bank on its established Pan-European Guarantee Fund in response to COVID-19 | 44.0 | 0.06 | 0.0 | 0.00 |
| **State guarantees not related to COVID-19 measures:** | **898.4** | **1.28** | **544.4** | **0.83** |
| State guarantees on INVEGA* commitments under guarantees | 312.3 | 0.44 | 197.3 | 0.30 |
| State guarantees on the ACGF* commitments under guarantees | 194.0 | 0.28 | 126.6 | 0.19 |
| State guarantees on loans to finance public investment projects and/or used to supplement the working capital of enterprises important for ensuring national security, which are specified in the Republic of Lithuania Law on the Protection of Objects of Importance to Ensuring National Security | 238.2 | 0.34 | 132.1 | 0.20 |
| State guarantees on State-subsidized loans specified in the Republic of Lithuania Law on Science and Studies | 128 | 0.18 | 86.5 | 0.13 |
| State guarantees on loans granted by the European Investment Bank | 2.9 | 0.00 | 1.9 | 0.00 |
| State guarantees for a loan from the International Bank for Reconstruction and Development from own resources under the loan agreement to ensure the continuity of public services in Ukraine | 10.0 | 0.01 | 0.0 | 0.00 |
| State guarantee to the European Commission for exceptional macro-financial assistance to Ukraine under Decision (EU) 2022/1628 | 13.0 | 0.02 | 0.0 | 0.00 |
| **Total State guarantees** | **1, 208.1** | **1.72** | **767.1** | **1.17** |

*Source – Ministry of Finance.*
* INVEGA – JSC Investment and Business Guarantees, ACGF – Agricultural Credit Guarantee Fund.
*Note: In Lithuania, there are no issued state guarantees securing collateral or margin in energy futures markets.*

## PART VI
## EXCEPTIONAL CIRCUMSTANCES IN LITHUANIA

Exceptional circumstances are identified and lifted in accordance with Article 7 of the Constitutional Law. According to the Constitutional Law and the SGP, exceptional circumstances shall mean an extraordinary event which is beyond the control of public authorities of the state and which has a significant impact on the financial position of general government, or severe economic downturn.

As the Russian Federation started military actions against Ukraine in February 2022 leading to extremely severe geopolitical situation in Europe, following Seimas Resolution No. XIV-929 of 24 February 2022 on the Approval of the Decision of the President of the Republic of Lithuania to Declare a

State of Emergency in the Territory of the Republic of Lithuania [27] the state of emergency was imposed on the territory of the Republic of Lithuania, which was extended by Seimas Resolution No. XIV-1244 of 28 June 2022 on the Introduction of the State of Emergency until 12:00 p.m. of 15 September 2022. Moreover, the Seimas, by its Resolution No. XIV-1413 of 13 September 2022 on the Introduction of the State of Emergency, identified the state of emergency until 12:00 p.m. of 16 December 2022 throughout the border section of the Republic of Lithuania at the state border with the Republic of Belarus, Kaliningrad region of the Russian Federation and at border inspection posts outside the border section of the border area.

The increase in geopolitical tensions caused by the Russian Federation's military actions against Ukraine since February 2022 has had a significant impact on the security, social and economic situation, including a rapid growth of energy prices, in Lithuania and the EU as a whole. High uncertainty about the geopolitical situation in Europe during the second half of 2022 – in 2023 is likely to continue to have negative consequences for the economies of the EU Member States, including Lithuania, and increased social tensions in societies. In this context, it is necessary to have measures targeted and focused on the most vulnerable groups of society, as well as designed to help the Ukrainian people who have fled the country and sought refuge in Lithuania as a result of military actions and to strengthen Lithuania's national security and defence capabilities. The need for these measures and the significant negative impact on general government finance will remain in 2023.

The Government, in light of the shrinking need for COVID-19-related measures, as compared to 2020-2021, and the need to strengthen the country's defence in the face of geopolitical tensions, to help people with rising prices, authorised the Ministry of Finance to initiate the lifting of exceptional circumstances identified due to COVID-19 and the new imposition of exceptional circumstances due to the geopolitical situation and its potential negative impact on general government finance[28]. The Fiscal Institution in its conclusion of 20 September 2022 approved the lifting of the exceptional circumstances due to COVID-19 and the consistency of the geopolitical situation in 2022 and its potential negative impact on general government finance with the concept of exceptional circumstances[29].

Once exceptional circumstances have been identified, in accordance with Article 7(3) of the Constitutional Law, the Ministry of Finance updates the economic development scenario once a quarter, publishes it, and the Fiscal Institution provides a conclusion to the Seimas on the approval of this scenario.

In exceptional circumstances and taking into account the fact that the output gap calculated on the basis of the economic development scenario will be negative in 2022-2025, the fiscal discipline rules laid down in the Constitutional Law do not apply to the general government in 2022. The draft budget for 2023 is prepared in the light of exceptional circumstances imposed and considering the GEC.

The GEC applied as of 2020 is the flexibility clause of the SGP applied by the European Commission in the context of the COVID-19 pandemic in the EU, euro area economic crisis, economic downturn faced by the Member States in 2020 and the large-scale government expenditure related to the management of

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[27] **Seimas Resolution No. XIV-932 of 10 March 2022 on the Declaration of the State of Emergency**, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/c2966eb2a07111ec9e62f960e3ee1cb6?positionInSearchResults=0&searchModelUUID=db305de9-607b-41e5-b6ec-7220e05d4217.

[28] **The authority of the Government to the Ministry of Finance**, https://finmin.lrv.lt/uploads/finmin/documents/files/Nutarimas%20d%C4%97l%20%C4%AFgaliojim%C5%B3%20suteikimo1.pdf .

[29] **Conclusion of the fiscal institution**, https://www.valstybeskontrole.lt/LT/Product/24111/isvada-del-susidariusios-padeties-atitikties-isskirtiniu-aplinkybiu-savokai.

the COVID-19 pandemic and the mitigation of its consequences for the economy, social environment and the health system. The European Commission, considering uncertainty of geopolitical situation as a result of the Russian Federation's military actions against Ukraine that started in February 2022, and the negative impact of this situation on the EU economy and economies of its individual countries under rapid rise in energy prices, as well as the need for support measures in 2022-2023 that will increase the general government expenditure and/or reduce revenue, extended the application of the GEC to 2022-2023. Under GEC, fiscal discipline rules set in the SGP shall not apply, and the deviation of the structural government balance from the MTO by implementing the measures necessary to mitigate the consequences of exceptional circumstances on people, public sector or the economy shall not considered to be inconsistent with the SGP.