Lietuvos Respublikos
FINANSŲ MINISTERIJA

2021 Lithuanian Draft Budgetary Plan

21 December 2020

CONTENT

TABLES

ABBREVIATIONS

AW	Average wage
Budget framework reform	Reform of budgeting and strategic planning framework launched in 2017 in Lithuania
Constitutional Law	Republic of Lithuania Constitutional Law on the Implementation of the Fiscal Treaty (of 6 November 2014 No. XII-1289)
COVID-19 plan	Action Plan for Economic Stimulus and Mitigation of Coronavirus (COVID-19) Consequences approved by the Government of the Republic of Lithuania at the meeting on 16 March 2020 (Minutes No. 14) and its new version was approved at the meeting of the Government of the Republic of Lithuania on 9 December 2020 (Minutes No. 54[1])
DBP	Revised 2021 Draft Budgetary Plan of Lithuania
DNA plan	DNA Plan for the Future Economy approved by the Government of the Republic of Lithuania at the meeting on 10 June 2020 (Minutes No.28[2])
Draft budget	Republic of Lithuania Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2021
Economic development scenario	Economic development scenario of Lithuania for 2021-2023 developed by the Ministry of Finance, published on 14 September 2020
ESA	European System of Accounts
EU	European Union
GDP	Gross domestic product
General SGP escape clause	General escape clause of the Stability and Growth Pact
Government	Government of the Republic of Lithuania
Initial DBP	2021 Draft Budgetary Plan of Lithuania submitted to the European Commission on 15 October 2020
Ministry of Finance	Ministry of Finance of the Republic of Lithuania
MMW	Minimum monthly wage
NTA	Non-taxable amount
PIT	Personal income tax
Recommendation to Lithuania	EU Council Recommendation on 2020 National Reform Programme of Lithuania along with the Council Opinion on the 2020 Stability Programme of Lithuania

[1] **COVID-19 plan**, https://lrv.lt/uploads/main/meetings/docs/13959_imp_c9dca4162940d47e383ac6a533d07b6e.elektroninio%20dokumento%20nuora%C5%A1as .

[2] **Minutes of the Government Meeting,** https://lrv.lt/uploads/main/meetings/docs/13959_imp_c9dca4162940d47e383ac6a533d07b6e.elektroninio%20dokumento%20nuora%C5%A1as.

RRF	Recovery and Resilience Facility – a new EU instrument of grants and loans to the EU Member States designated for structural reforms and related investment as well as for implementation of green and digital transformation[3].
Seimas	Seimas of the Republic of Lithuania
SGP	EU Stability and Growth Pact [4]
Stability Programme	2020 Stability Programme of Lithuania approved by RoL Government Resolution No. 433 of 29 April 2020[5]
VAT	Value added tax

[3] At present 70 % of the grant share of the facility is dispensed for the EU countries. For Lithuania it makes up about EUR 1.95 billion. The remaining share of 30 % will be dispensed among the Member States in 2022 considering the latest GDP data. Based on projections, Lithuania may receive from this facility non-repayable grants in total amount of about EUR 2.4 billion. If necessary, Lithuania might apply for a loan not larger than 6.8 % of the gross national product in 2019 (approx. EUR 3 billion).

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

[5] **2020 Stability Programme of Lithuania**, https://finmin.lrv.lt/uploads/finmin/documents/files/LT_SP2020_04_30.pdf.

INTRODUCTION

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

Due to the elections of the Seimas in October 2020, the initial DBP was submitted to the European Commission and the Eurogroup on 15 October 2020 based on no-policy-change scenario and policy scenario implemented by the XVII Government[6]. The initial DBP considers the information received by 15 October this year, obligations undertaken and the economic development scenario prepared by the Ministry of Finance and published on 14 September.

Considering the fact that expenses of the implementation of measures for maintenance of economic viability of the country and ensuring health care and public security will have a major impact on general government finance, the Government by its Resolution No. 230 on Delegation of Powers to the Ministry of Finance of 18 March 2020[7] authorised the Ministry of Finance to initiate identification of exceptional circumstances in the Republic of Lithuania. Exceptional circumstances are established and cancelled following Article 7 of the Constitutional Law. According to the Constitutional Law and SGP, exceptional circumstances are considered as an unusual event outside control of public authorities and which has a major impact on financial position of the general government, or a severe economic downturn. On 27 March 2020 the budget policy monitoring institution published its conclusion stating that the situation occurring in the country corresponds to the definition of an unusual event[8].

The SGP general escape clause[9] applied in 2020 and 2021 is considered to be the SGP flexibility clause to be applied by the European Commission due to the COVID-19 pandemic in the EU, euro area economic crisis for the countries facing economic downturn. Under the flexibility clause the deviation of the structural general government balance from the medium-term objective in implementation of the measures to counteract the effects of the COVID-19 pandemic on the economy, health system and social environment is not considered to be not in line with the fiscal discipline rules set in the SGP. Due to great uncertainty and risks related to the development of the COVID-19 pandemic and its impact on general government finance, exceptional circumstances are not cancelled in 2021.

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

[6] **DBP submitted to the EC on 15 October 2020**, https://ec.europa.eu/info/sites/info/files/economy-finance/2021_dbp_lt_lt_0.pdf.
[7] **Government by its Resolution No. 230 on Delegation of Powers to the Ministry of Finance**, https://finmin.lrv.lt/uploads/finmin/documents/files/LRV_nutarimas_%20%C4%AFgaliojimas_FM.pdf.
[8] **Conclusion of the budget policy monitoring institution**, https://www.vkontrole.lt/bp/isvada.aspx?id=10366.
[9] **Official letter of the European Commission concerning the application of the SGP general escape clause**, https://ec.europa.eu/info/sites/info/files/economy-finance/lt.pdf.

Under deteriorating COVID-19 epidemiological situation in the fourth quarter this year, quarantine has been declared again in the territory of Lithuania as of 7 November by Government Resolution No. 1226 on Declaration of Quarantine in the Territory of the Republic of Lithuania.

The XVIII Government has been authorised to act after the Seimas approved the programme of the new Government[10] on 11 December 2020. On 16 December 2020 the new Government updated Resolution No. 1226 which sets the period of quarantine – 31 January 2021 in the territory of Lithuania.

The DBP has been drawn up in line with the draft budget, draft laws on the approval of indicators of the State Social Insurance Fund, Compulsory Health Insurance Fund budgets for 2021 revised by the XVIII Government, as well as considering revenue and expenditure projections of other budgets attributable to general government, economic development scenario published on 14 December 2020[11]. The SGP general escape clause applied in 2020 and 2021 as well as exceptional circumstances, EU Council Recommendations to Lithuania[12] were also taken into consideration.

The DBP does not longer consider expenditure and revenue related to the implementation of the RRF plan. It is projected that Lithuania's RRF plan will be submitted to the European Commission in spring of 2021 along with Lithuania's National Reform Agenda. Expenditure and revenue related to the implementation of the RRF plan will be considered in the general government finance projections laid down in the Stability Programme of Lithuania for 2021.

The proceedings of reading and approval of the largest 2021 budgets (State budget and State Social Insurance Fund, Compulsory Health Insurance Fund budgets) attributable to general government according to national legal acts are as follows:

- the first reading of budgets in the Seimas took place on 24 November 2020. After the reading the Seimas returned the budgets to the new Government for update in accordance with the priorities of the new Government, considering proposals of the members of the Seimas, other interested institutions and persons;
- On 16 December the XVIII Government approved the updated budgets and submitted to the Seimas for the second reading. According to Article 177(2) of the Statute of the Seimas of the Republic of Lithuania, in the years of elections the second reading of budgets takes place no later than on 18 December. According to Article 177(5) of the Statute of the Seimas of the Republic of Lithuania, after discussion the Seimas votes on adoption of the budgets in one of the coming meetings of the Seimas. According to Article 131 of the Constitution of the Republic of Lithuania, budgets are approved by the beginning of the new budget year. It is projected that the final decision of the Seimas regarding the approval of the budgets will be made on 22 December 2020.

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

[11] **Economic development scenario published on 14 December 2020**, https://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus.

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

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

Considering this situation, according to the national legal acts *de jure* situation has arisen when there is no possibility of submitting the updated DBP to the European Commission and Eurogroup 30 days before the approval of the budgets in the Seimas. Lithuania took all measures possible that the DBP, after the new Government acquired full powers, would be submitted to the European Commission and Eurogroup as soon as possible. There is *de jure* possibility of revising the budget in 2021.

The DBP presents the overview of Lithuania's macroeconomic situation in 2020–2021 and its perspectives, general government finance, debt projections under policy and no-policy change scenarios.

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 14 December 2020.

Based on the information disposed during the development of the scenario, most of the countries in the world were still affected by the global COVID-19 pandemic, and the epidemiological situation both in Lithuania and in major foreign trade partners of Lithuania was worse than during the first virus wave in spring this year. The risk identified in autumn that it might be necessary to impose more stringent measures with more adverse impact on the economy to contain the virus outbreak has materialised. In the fourth quarter of 2020 most of the EU countries started to impose local quarantine, curfew, some of them decided to impose quarantine at national level. In Lithuania the national quarantine was imposed as of 7 November.

Though the information on several high-performance vaccines was published in November 2020, after phase 3 clinical trials there were no reliable data regarding the effect of the vaccines on individual groups of society and for how long the vaccines remain effective.

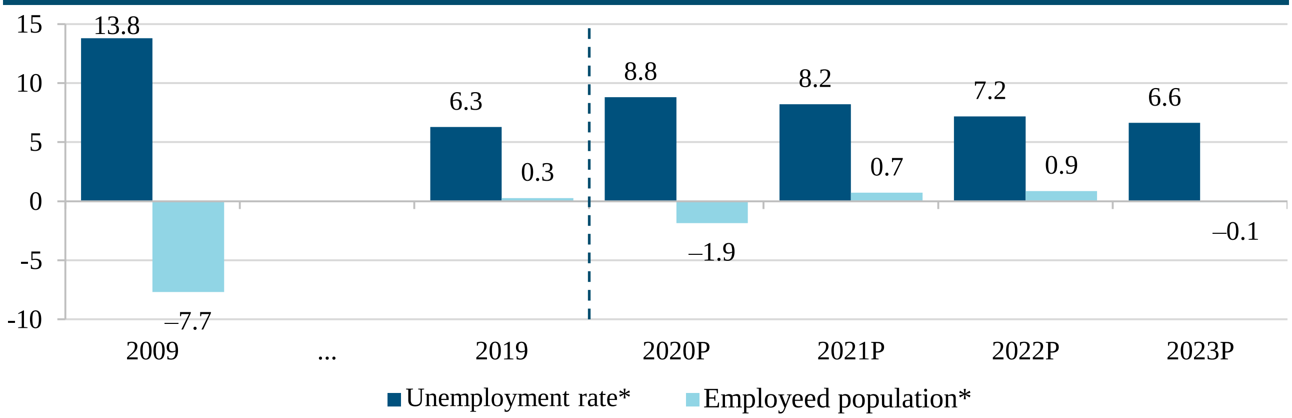
It is likely that vaccines may be accessible for the general public no earlier than in the middle of 2021. Taking into consideration the fact that in order to reach collective immunity it would be necessary to vaccine at least about two thirds of the world population, even after commencement of vaccination of the general public in 2021, the containment of the pandemic could be expected only in 2022. In drafting the scenario we presumed that at least for one more year specific measures of larger or smaller scale will be necessary to contain the virus outbreak and control it, which will limit economic activity and mobility of population, and a positive effect of the vaccine against COVID-19 disease on real economy should actually be felt no earlier than in 2022.

If the assumption made in autumn that an adverse pandemic effect on economy becomes stronger in the fourth quarter this year materialises, we anticipate that due to the shock related to the COVID-19 virus crisis this year Lithuania's economy will shrink 1.5 %. Under markedly deteriorated epidemiological situation in the fourth quarter this year, it is likely that an adverse COVID-19 virus effect on economy will be felt also in the first quarter of 2021, while at the beginning of the second quarter we will have higher economic activity. Over the entire year of 2021 Lithuania's economy could grow 2.8 %, and in outer years of the medium term – on average 3.1 % per year.

The COVID-19 pandemic has significantly deteriorated the situation on the labour market in Lithuania. The unemployment rate, estimated according to the population employment study methodology, increased up to 9.3 % in the third quarter of 2020, and the number of employed population decreased 2.6 % as compared to a respective quarter of the previous year. Subsidies applied by the Government to enterprises for downtime and support to self-employed reduced the unemployment risk and mitigated the crisis effect on employees, averted mass redundancies, and the unemployment rate remained below the long-term average (10.9 %). However, the second virus wave in autumn and increased vulnerability of jobs in some economic activities depress expectations of rapid labour market recovery perspectives. To date, due to the pandemic the major employment losses were incurred in accommodation and catering service activities, where the number of employees decreased by one fifth. A slightly lower effect was observed in trade, construction, transport and storage and manufacturing activities. In particular the most vulnerable employees, e.g. young people with less professional skills and representing a significant share of employees in the service sector, low-skilled workers, have been affected. A high job vacancy supply (in the third quarter of 2020 the number of vacancies increased even 0.8 % per year) under growing unemployment shows structural changes on the labour market. On the one hand, the number of people searching for a job has substantially increased; on the other hand, business cannot find how to fill existing vacancies. Structural unemployment may relatively fast turn into long-term unemployment, and this endangers both labour market and economic potential perspectives.

Considering the trends in the first – third quarter of 2020, we anticipate that in 2020 the number of employed population will shrink 1.9 %, and the unemployment rate, estimated according to the population employment study methodology, will increase up to 8.8 %. This year the Government subsidies to enterprises for downtime and support for self-employed as well as capability of enterprises to adapt to perform activities under unusual pandemic conditions will have a cushioning effect on jobs and unemployment in the country. In the first half of 2021 the second virus wave will have an adverse effect on employment, and afterwards under recovery of economic activity and higher labour force demand in the service sector, the unemployment rate will fall down to 8.2 %, however it will be still higher than the rate in 2019. In outer medium-term years the unemployment rate will keep decreasing at less accelerated pace and at the end of the medium term will constitute 6.6 %.

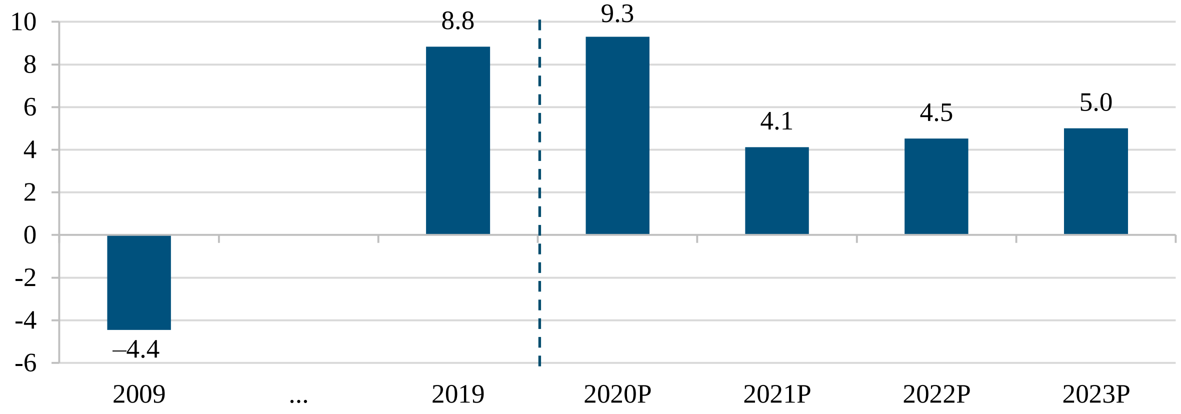
Chart 1. The unemployment rate and changes in employed population, %



Sources: Ministry of Finance, Statistics Lithuania.
* Based on the Labour Force Survey methodology.

The effects induced by the pandemic on the labour market will subdue the wage growth rate. This year wages will grow most rapidly in the public sector. In the private sector, where a part of enterprises, especially operating in accommodation and catering service activities, faced contracting demand and supply as well as imposed downtime, wage development will be less favourable for employees. We predict that this year average monthly gross wages in the country will grow 9.3 %, and in 2021 the growth rate will decelerate down to 4.1 %. The wage growth will be slightly promoted by a 5.8 % higher MMW and a EUR 1 increase in the basic amount of salary for civil servants. In outer medium-term years under decreasing unemployment rate and increasing labour force demand we anticipate that the wage growth rate in the country will gradually accelerate and at the end of the period will be close to 5 %.

Chart 2. Developments of average monthly gross wages, %

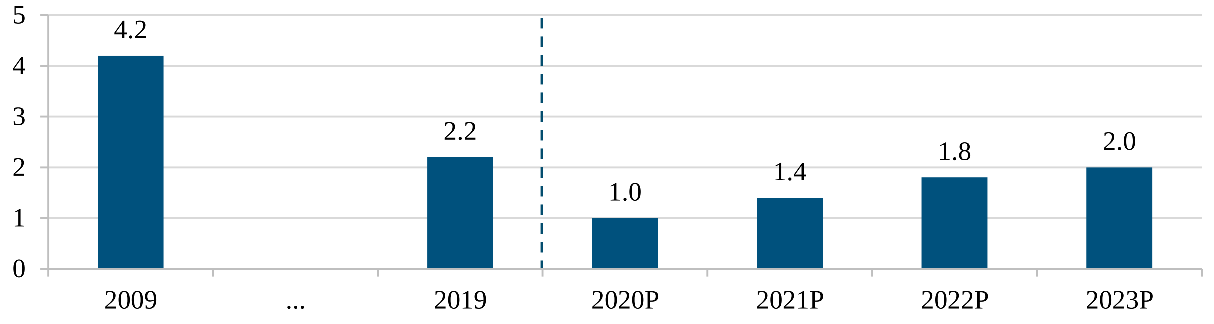


Sources: Ministry of Finance, Statistics Lithuania.

Inflationary pressure in Lithuania and other euro area countries is diminishing, as the global economic downturn induced by the pandemic affects both global and local factors leading to movements in prices. Though the virus spread negatively affects both supply and demand of the global economy, the supply-related problem – disorders of movement of goods across national borders or shortage of some foodstuffs and medical supplies – recently ceases, therefore in the short term prices will be stronger affected by demand which remains weakened. At the beginning of the COVID-19 pandemic the inflation in the country slowed down significantly as a result of global downfall of demand for energy goods and their prices, and with the second virus wave the inflation should remain weak, as the effect of the pandemic on service prices already starts to be more evident. The service inflation in 2021, at least till the second virus wave does not go down, should remain weakened. A sluggish pressure on foodstuff prices is expected to be at the beginning of 2021 due to lower demand for food supply services and increased food stocks in the world related to the COVID-19 pandemic and economic difficulties. However, rising Food Price Index calculated by the Food and Agriculture Organisation (FAO) of the United Nations shows a feasible growth of prices of some food raw materials, e.g. cereals, therefore in the second half of the subsequent year an accelerated increase of foodstuff prices is not excluded.

After analysis of consumer prices development trends, we anticipate that in 2020 the average annual inflation will fall down to 1 % (in 2019 it reached 2.2 %). In 2021 there are no assumptions for a significant downfall of prices of energy goods, therefore the inflation rate will accelerate up to 1.4 %, and at the end of the medium term – up to 2 %. The price development in the medium term will be mainly affected by global prices, especially of energy and foodstuffs, changes, movements in service prices, situation on the national labour market and decisions on administered prices.

Chart 3. Average annual inflation, %



Sources: Ministry of Finance, Statistics Lithuania.

The second national quarantine imposed in November this year may foster more cautious behaviour of consumers, as compared to the summer period when the virus spread was not fast, economic activity kept growing and the mood of population was improving. This is evidenced by statistical data – in the third quarter this year household consumption expenditure increased 1.2 %. More stringent virus containment measures imposed in autumn will limit the access to services, and consumers' determination to acquire goods or services will be affected by prevailing uncertainty. More rigorous virus containment conditions limiting the access of population to services, more cautious behaviour of population this year has led to increasing savings – household deposit[13] growth rate in the second and third quarter of 2020 accelerated (at the end of the second quarter grew 13.4 %, third – 16.3 %). It is likely that when the epidemiological situation improves and restrictions of economic activities abate, next year population could plan expenditure more manfully and designate a share of additionally accumulated funds for consumption. The recovery of consumption will be supported also by the Government decisions improving financial position of population – increasing MMW, increasing support to families with children, adjustments related to labour taxation (increasing the non-taxable amount of income).

Due to limited access to services during quarantine and uncertainty caused by epidemiological situation, household consumption expenditure will fall 3.4 % in 2020, and in 2021 under eased restrictions of economic activities the growth is likely to be 3 %. In outer years of the medium term under accelerated growth of wages, improving financial position of population and epidemiological situation, household consumption expenditure growth rate will also moderately accelerate and could grow on average 3.3 % per year (2022–2023).

Weakened both external and internal demand, increased economic uncertainty due to pandemic, general quarantine imposed in November for the second time this year and restricted activities of some economic sectors will negatively affect the investment process in the country – a

[13] Balance at the end of the period

majority of business will suspend and/or postpone the investment projects. In order to stabilise the economic situation in 2020 the public sector is more active in making investments than the private one. In the third quarter this year the public sector's investments in tangible fixed assets (at current prices) grew 10.3 %, while the private sector reduced such investments by 7.4 %.

After the shock in spring and due to a better epidemiological situation the investment results were better in the third quarter than in the second quarter of 2020, when investments dropped by one tenth. The expenditure on gross fixed capital formation in the third quarter of 2020 shrank less than 2 % (–1.7 %). In January-September of 2020 the investments decreased 3.5 %, where a collapse in investment expenditure for transport equipment (effect of –6.7 percentage point) had a major effect on the decrease.

Due to challenges faced by the transport sector caused by the EU legislative initiatives called Mobility Package coming into force, regulatory changes with regard to payment of employees, epidemiological situation, the investment process in this sector has been disrupted – in the third quarter the investments in transport equipment dropped 44.6 %, and in January-September 2020 declined 47.3 %.

Considering actual statistical data for January-September, investors' expectations, more stringent pandemic containment measures, we anticipate that in 2020 business will suspend investments, and in 2020 gross fixed capital formation in the country will decrease by 5.2 %. If in 2021–2023, as projected, the implementation of projects financed from the EU Funds accelerates, and epidemiological situation stabilises as well as no significant economic restrictions are imposed, foreign demand recovers and business confidence increases, the investments in the country could grow on average 4.3 % per year.

Due to foreign trade markets negatively affected by the pandemic, this year Lithuania's export of goods and services (at constant prices) will fall 2.2 %. Based on assumptions about the recovery of foreign trade, a 6.4 % growth of export of goods and services is expected in 2021. In outer years of the medium term the export of goods and services could grow on average about 5.6 % per year.

The scenario has been developed under circumstances of increased uncertainty. Following seriously deteriorated epidemiological situation in the fourth quarter this year in Lithuania and in its main foreign trade partners, the risk has increased that in order to contain the virus outbreaks and to protect health systems from overheating, the need for imposition of measures negatively affecting the economy in Lithuania and the EU countries may take longer than in the last quarter this year. Tensions caused by the pandemic on the labour market, disruptions of supply chains and changes in business and consumers' behaviour may be affected more than projected in the scenario.

Still existing risk of renewed tensions in global trade, high uncertainty about the recovery of global economy and increased geopolitical tensions as well as feasible pressure in financial markets are the main negative risk factors which may lead to changes in estimates of the main indicators laid down in this scenario.

There is also a positive risk that vaccination of population will start earlier than in the second half of 2021, and a positive vaccination effect on real economy will be felt already in 2021.

The imposition of unprecedented EU economic recovery measures[14] in pursuit of the reforms and making investments in the medium term may foster Lithuania's economic growth more than projected in this scenario.

Table 1. Macroeconomic indicators

	ESA code	2019	2019	2020	2021
		MEUR	Change, %		
1. GDP, chain-linked volume	B1*g	43,298.4	4.3	–1.5	2.8
2. Potential GDP		41,550.0	4.1	3.5	3.7
o/w:					
- labour			0.6	0.2	0.7
- capital			1.8	1.4	1.4
- total productivity			1.7	1.9	1.6
3. GDP, at current prices	B1*g	48,797.4	7.3	–0.6	4.3
GDP components (at constant prices)					
4. Household consumption expenditure + consumption expenditure of NPIs serving households (NPIs)	P.3	26,975.3	3.4	–3.4	3.0
5. General government consumption expenditure	P.3	6,434.6	0.1	6.2	2.5
6. Gross fixed capital formation	P.51	9,636.9	6.2	–5.2	4.7
7. Changes in stocks and acquisitions of valuables less disposals, % of GDP	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
8. Export of goods and services	P.6	35,766.6	9.5	–2.2	6.4
9. Import of goods and services	P.7	33,967.9	6.3	–6.3	6.7
Contributions to change in GDP, percentage points (excl. level in MEUR in 2019)					
10. Final domestic demand		43,024.6	3.5	–2.2	3.2
11. Changes in inventories and acquisitions of valuables less disposals	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
12. External balance of goods and services	B.11	1,798.7	2.5	2.8	0.3

Sources: Ministry of Finance, Statistics Lithuania.

PART II
GENERAL GOVERNMENT FINANCE

SECTION 1
BALANCES AND FISCAL POLICY ASSESSMENT

Years 2019 and 2020

In 2019, for the fourth year in a row, Lithuania's general government finance was in surplus. The general government surplus accounted for 0.3 % of GDP, and structural balance –1.3 % of GDP. The year 2019 saw no deviation from the medium-term objective, taking into account the SGP flexibility clause to Lithuania for expenditure of 0.5 % of GDP incurred in implementation of the structural reforms[15] valid in 2019.

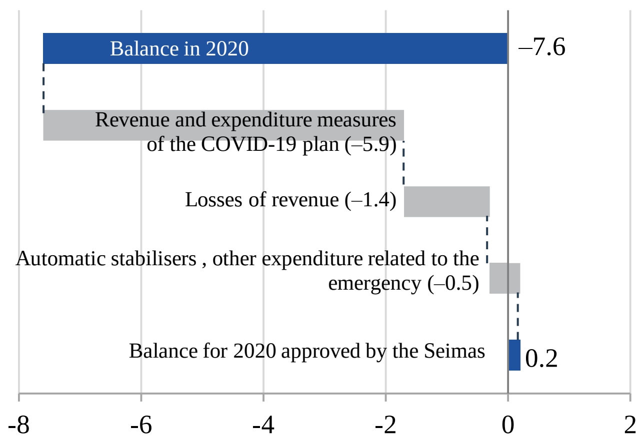
[14] EU economic recovery instrument "*Next Generation EU*".
[15] The Description of the structural reforms in the fields of education, health, reduction of shadow economy, innovation, social insurance (pensions) and tax adjustment approved during the Spring Session of the Seimas in 2018, https://lrv.lt/lt/aktuali-informacija/xvii-vyriausybe/prioritetiniai-darbai/strukturines-reformos.

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

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

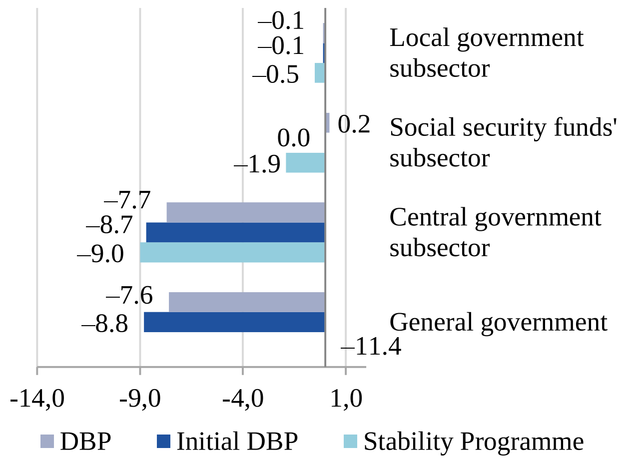
It is currently projected that in 2020 the general government deficit will be 7.6 % of GDP. This deficit is determined by the anticipated increase in the general government revenue, as compared with the revenue planned this autumn when drafting the initial DBP, also the assumptions about the implementation of the COVID-19 plan measures this year. According to the data on 16 December 2020, EUR 3.4 billion were allocated to appropriation managers for the implementation of the COVID-19 plan measures, of which measures affecting the balance constitute EUR 2.7 billion. The assumption is made that the utilisation of the expenditure measures laid down in the COVID-19 plan affecting the balance will account for EUR 2.5 billion (5.1 % of GDP).

Chart 4. General government balance developments in 2020 with regard to the balance approved by the Seimas for 2020, % of GDP



Source – Ministry of Finance.

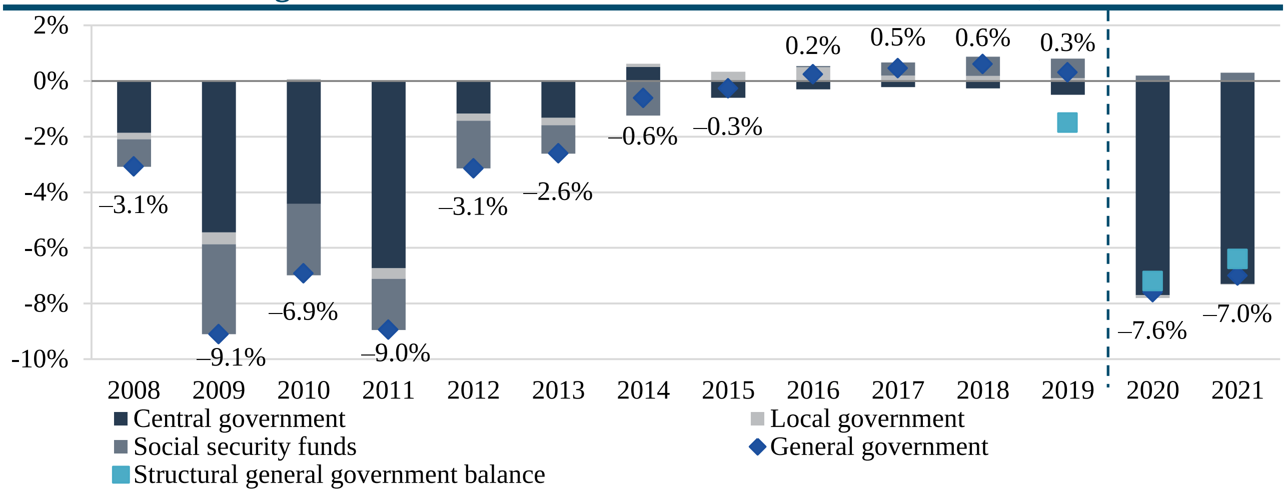
Chart 5. General government and subsectors balances in 2020, % of GDP



Source – Ministry of Finance.

Due to a negative effect of the COVID-19 pandemic on general government finance and general government expenditure in implementation of the COVID-19 plan, the deviation from the medium-term objective will occur in 2020. The structural general government deficit will constitute 7.3 % of GDP in 2020. In estimating the structural balance, here the SGP general escape clause is applied when the effect of the COVID-19 plan measures, as one-off measures, is not eliminated. A negative annual change of the primary structural balance of 6.2 percentage point of GDP in 2020, also considering a negative output gap, shows that fiscal policy pursued in 2020 is countercyclical, stimulating the economy. The projection of the structural general government balance has been made under circumstances of exceptionally high uncertainty, when it is difficult to make a reliable assessment of the economic cycle position.

Charter 6. General government sector and subsector balances in 2008–2021, % of GDP



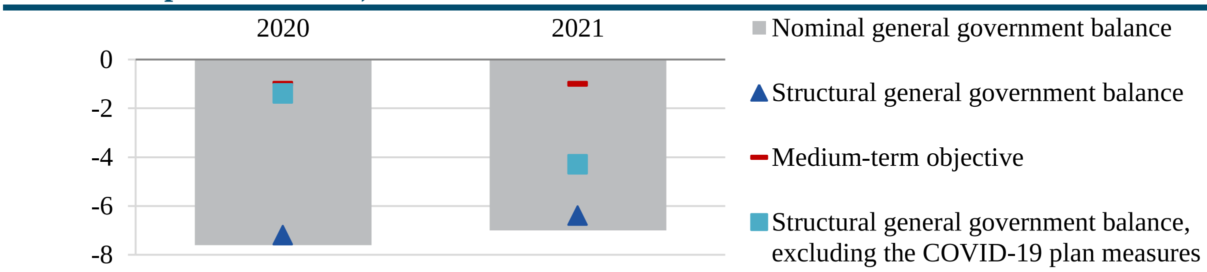
Sources: Statistics Lithuania, Ministry of Finance.

Year 2021

Considering the necessity of responding to the needs of vulnerable groups of society, private and public sector facing negative effects of the COVID-19 pandemic, the attempt of maintaining economic vitality, in 2021 the general government expenditure, as compared with expenditure planned for 2020 in the DBP, will increase by EUR 556.2 million, and with expenditure for 2021 indicated in the initial DBP – by EUR 350.2 million.[16] Due to continuing complex situation related to the COVID-19 pandemic, and imposed its containment measures, temporary support measures in the amount of more than EUR 1 billion are planned in 2021. In pursuit of the most effective use of funds as possible, the funds planned for the support measures in 2021, by the Government decision, will be allocated to the implementing ministries considering constantly changing pandemic situation and the need for measures. Conditions have been created for business to defer the payment of taxes.

Due to the application of the SGP general escape clause, determined exceptional circumstances, in drafting the budgets for 2021 attributable to general government, the SGP and national expenditure growth limitation and structural balance rules are not applied. It is projected that in 2021 the general government deficit will constitute 7 % of GDP and structural deficit – 6.4 % of GDP, and will be by 5.4 percentage points of GDP higher than the medium-term objective. Without considering the impact of the COVID-19 related measures on the general government balance, in 2021 the structural deficit would account for 4.3 % of GDP.

Chart 7. Structural balance in 2020–2021 (including (excluding) the impact of the COVID-19 plan measures), % of GDP



Source – Ministry of Finance.

[16] RRF related expenditure is not included into the updated general government expenditure for 2021.

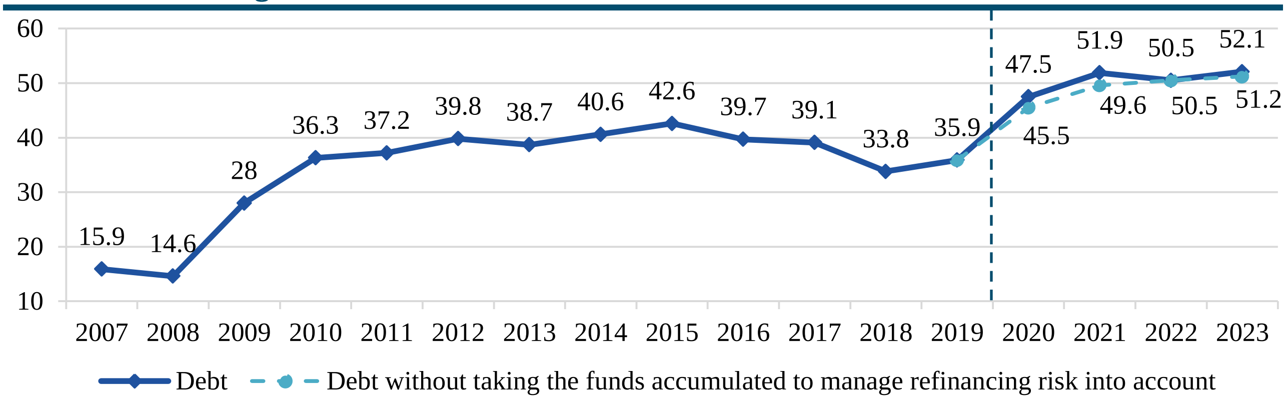
The indicators for 2021 specified in the DBP may change if risks of the economic development scenario or other fiscal risks indicated in Table 18 materialise in 2021.

Though uncertainty about the economic and COVID-19 pandemic future development is very high, it is projected that at the end of the medium term the structural general government balance will be close to the medium-term objective. Long-term sustainability of general government finance will inevitably be both priority and challenge, therefore the Government predicts in its programme the following: "*We will develop the general government debt management strategy in order to return to the optimal general government debt level in the long term*".

General government debt

It is projected that general government debt will account for 51.9 % of GDP at the end of 2021 and will be higher by 4.4 percentage point than at the end of 2020, which is planned to reach 47.5 % of GDP. The increase in debt, as compared with 2020, is mainly affected by the projected negative balance of the EU and other international assistance (about 1.1 % of GDP). It is projected that the impact of consequences caused by the COVID-19 pandemic on public finance and cash flows will reach about 8.5 % of GDP, i.e. without taking the impact of the COVID-19 pandemic into account, the general government debt would account for about 39.1 % of GDP. Global financial market trends and the Pandemic Emergency Purchase Programme pursued by the European Central Bank[17] (PEPP) aimed to contribute by monetary policy measures to countering the negative impact of the COVID-19 pandemic on the EU economies, created conditions for further reduction of expenditure on interest despite the increased borrowing volumes.

Chart 8. General government debt , % of GDP



Source – Ministry of Finance.

Table 2. General government debt projections

	2020	2021
	% of GDP	
General government debt at the end of the year	47.5	51.9
Change in general government debt	11.6	4.4
Factors contributing to changes in general government debt		
Primary balance	–7.1	–6.5
Interest	0.5	0.5
Adjustment to change in debt	3.8	–0.7
Implicit interest rate on debt	1.3	0.9

Source – Ministry of Finance.

[17] *Pandemic Emergency Purchase Programme* (PEPP).

Table 3. State guaranteed debt

	2020	2021
	% of GDP	
State guarantees	1.0	2.7
o/w: related to financial sector	0.0	0.0

Source – Ministry of Finance.

SECTION 2
GENERAL GOVERNMENT REVENUE AND EXPENDITURE PROJECTIONS UNDER FORMED POLICY SCENARIO

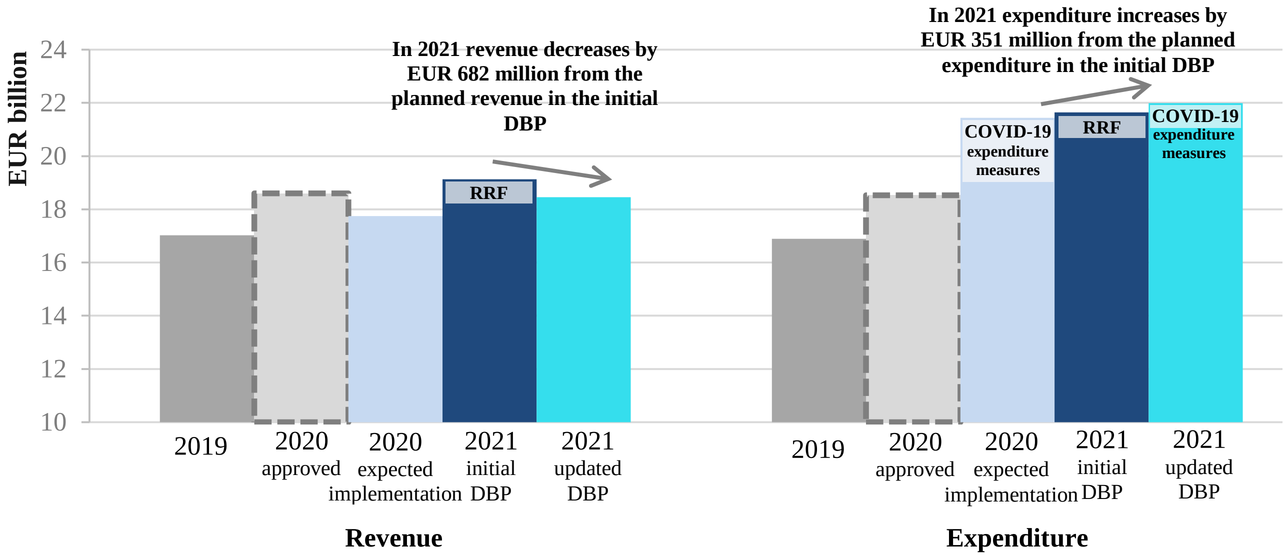
Implementing the EU Council Recommendations to Lithuania and considering the provisions for the improvement of the structure of the tax system in a growth-friendly direction, optimisation of the tax base, the following tax changes are planned in 2021: increased excise duty rates for some tobacco products and reduced scope of excise duty relief for gas oil used in agriculture, thus further expanding the tax base less detrimental to growth, at the same time more contributing to the implementation of environmental protection and health promotion goals. It is planned to further increase progressivity of personal income taxation by reducing the annual income rate subject to a top PIT progressive rate. The PIT relief promoting lifelong learning has been extended, also the import VAT relief for low value parcels will be withdrawn from 1 July 2021. From 2021 to 2025 the enterprises implementing new mega investment projects will be subject to the corporate income tax relief, so as to attract investment to the country.

The State budget revenue projections for 2021 have been made taking into account the economic development scenario, assumptions on tax deferrals to enterprises affected by the COVID-19 pandemic and loss of revenue due to existing tax reliefs. It is projected that the State budget revenue, on accrual basis, excluding the EU and other international financial assistance, will increase by EUR 14.7 million in 2021, as compared with revenue forecasted for 2020. The State budget revenue estimated in the DBP, excluding the EU and other international financial assistance, will decrease by EUR 62.8 million, as compared with a respective revenue projection in the initial DBP.

A list of discretionary revenue measures related to these changes in the tax system and the estimation of the COVID-19 measures is presented in Table 15.

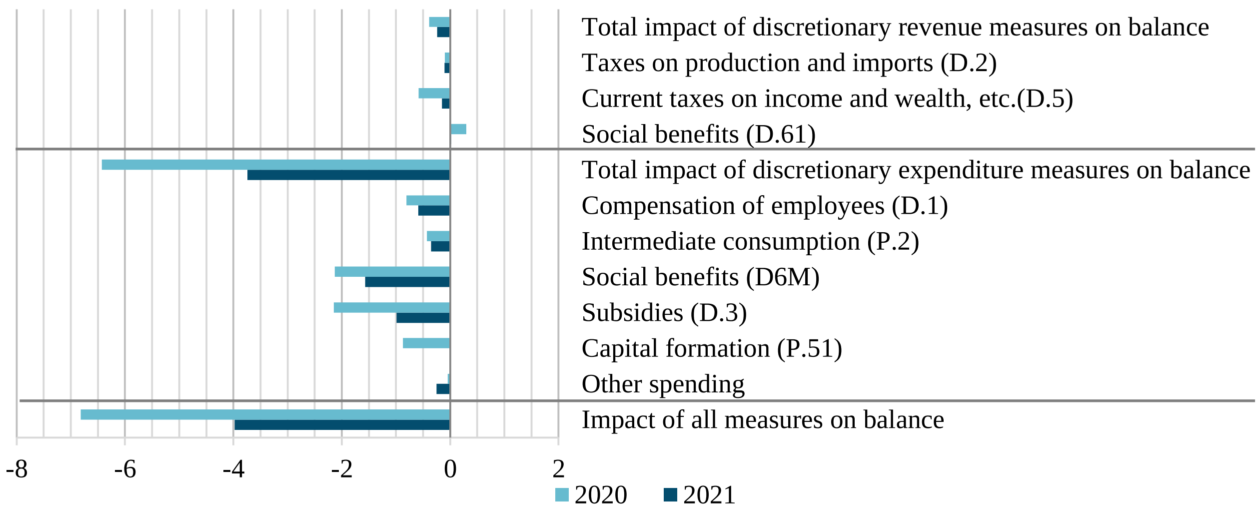
It is projected that in 2021 the State budget expenditure growth, as compared with expenditure planned in 2020, will be determined by the COVID-19 pandemic and the implementation of measures to cushion negative effects caused by the pandemic containment measures, more rapid indexation of the base pension, increase of contributions for the State insured persons, incentive payments to pension funds and contributions to the EU budget, child benefits, salary for teachers, lecturers, other employees of education and science, MMW, basic salary, compensation for municipalities for their revenue loss. In 2021 the State budget expenditure, as compared with the planned in the initial DBP, increased by EUR 1,129 million. The information on discretionary expenditure measures is presented in Table 16.

Chart 9. General government revenue and expenditure levels in 2019-2021, EUR billion



Source – Ministry of Finance.

Chart 10. Discretionary revenue and expenditure measures, % of GDP



Source – Ministry of Finance.

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

General government (S13)	ESA code	2020	2021
		% of GDP	
1. Total revenue	TR	36.6	36.5
1.1. Taxes on production and imports	D.2	11.8	11.6
1.2. Current taxes on income and wealth, etc.	D.5	8.9	8.5
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.7	10.8
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.7	5.2
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		31.3	30.9
2. Total expenditure	TE	44.2	43.5
2.1. Compensation of employees	D.1	11.8	11.7
2.2. Intermediate consumption	P.2	5.5	5.8
2.3. Social benefits	D6M	17.0	17.0
o/w: unemployment benefits		0.6	0.6

General government (S13)	ESA code	2020	2021
		% of GDP	
2.4. Interest expenditure	D.41	0.5	0.5
2.5. Subsidies	D.3	2.3	1.1
2.6. Fixed capital formation	P.51	4.2	3.8
2.7. Capital transfers	D.9	0.3	0.1
2.8. Other		2.5	3.5

Source – Ministry of Finance.

SECTION 3
COMPARISON OF INDICATORS IN THE DBP AND STABILITY PROGRAMME

Table 5. Comparison of indicators in the DBP and previous economic development scenarios (including also the Stability Programme)

	2019	2020	2021
Real GDP change, %:			
Scenario of 20 March 2020	3.9	–1.3	2.2
DBP (December 2020)	4.3	–1.5	2.8
Difference	0.4	–0.2	0.6
Stability Programme (scenario 1)	3.9	–2.8	5.4
DBP (December 2020)	4.3	–1.5	2.8
Difference	0.4	1.3	–2.6
Stability Programme (scenario 2)	3.9	–7.3	6.6
DBP (December 2020)	4.3	–1.5	2.8
Difference	0.4	5.8	–3.8
DBP (October 2020)	3.9	–1.5	3.3
DBP (December 2020)	4.3	–1.5	2.8
Difference	0.4	0.0	–0.5

Source – Ministry of Finance.

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

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

	ESA code	2019	2020	2021
		% of GDP		
Stability Programme (scenario 1)	B.9	0.3	–9.1	–2.4
DBP		0.3	–7.6	–7.0
Difference		0.0	1.5	–4.6
Stability Programme (scenario 2)	B.9	0.3	–11.4	–3.9
DBP		0.3	–7.6	–7.0
Difference		0.0	3.8	–3.1

	ESA code	2019	2020	2021
		% of GDP		
Initial DBP	B.9	0.3	–8.8	–5.0
DBP		0.3	–7.6	–7.0
Difference		0.0	1.2	–2.0

Source – Ministry of Finance.

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

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

	2019	2020	2021
	% of GDP		
Stability Programme (scenario 1)	36.3	46.8	47.9
DBP	35.9	47.5	51.9
Difference	–0.4	0.7	4.0
Stability Programme (scenario 2)	36.3	50.6	52.7
DBP	35.9	47.5	51.9
Difference	–0.4	–3.1	–0.8
Initial DBP	35.9	47.7	50.2
DBP	35.9	47.5	51.9
Difference	0.0	–0.2	1.7

Source – Ministry of Finance.

PART III
BUDGET FRAMEWORK REFORM

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

On 25 June 2020 the Seimas adopted the Law on Strategic Management[18] which regulates the result-oriented strategic management system: setting the principles of the strategic management system, defining types of planning documents, their interlinkages and effect on planning progress funds, strengthening the links between the strategic management and State budgeting system. The planning documents prepared according to the provisions of the Law on Strategic Management in the long term will enable to ensure the effective planning and use of the general government finance following the evidence-based and result-oriented management principles.

Also, one of the basic national planning document – National Progress Plan[19] was approved

[18] **Law on Strategic Management**, https://eseimas.lrs.lt/portal/legalAct/lt/TAD/90386d20bab711ea9a12d0dada3ca61b?positionInSearchResults=0&searchModelUUID=c5848937-218c-4cd8-af4f-1d3aaf84ae47.
[19] **National Progress Plan,** https://eseimas.lrs.lt/portal/legalAct/lt/TAD/c1259440f7dd11eab72ddb4a109da1b5?positionInSearchResults=0&searchModelUUID=c5848937-218c-4cd8-af4f-1d3aaf84ae47.

by Government Resolution No. 998 on the Approval of the 2021–2030 National Progress Plan of 9 September 2020, which sets all national strategic goals for the period of 10 years and progress targets for their achievement which will be transferred to the national development programmes of the ministries which have to be prepared later in 2020. The programmes will plan the progress instruments and projects for their implementation, present financial projections necessary for their implementation. The same rules will apply for planning the progress instruments and projects despite the financing source.

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

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

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

PART IV
METHODOLOGICAL ASPECTS

Table 8. Preparation of the economic development scenario

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

Revenue forecasting

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

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

- ✓ Detailed modelling method. Data is collected on the number of taxpayers in each category and the total amount and structure of revenue of that category. A simulation model is created from two blocs: typical taxpayer and aggregating bloc. This model is applied to estimate how much on average an individual taxpayer representing a certain group, the entire group and, ultimately, all taxpayers of the country will pay in taxes.

✓ Effective average rate method. The tax rate established by law is adjusted considering the applied reliefs, tax base exemptions and etc. The effective average rate thus assessed is multiplied by the scope of the tax base to obtain a forecast of revenue from appropriate taxes.

✓ Elasticity method. A dependency between revenue from a tax increase (decrease) and dynamics of an appropriate base is established. The forecast of revenue from the tax is made considering the elasticity coefficient specific to a particular tax and the forecasted tax base changes.

PART V
ECONOMIC DEVELOPMENT SCENARIO AND PUBLIC FINANCE DATA

Table 9. Key assumptions

	2019	2020	2021
Short-term interest rates (average annual)	–0.1	–0.2	–0.2
Long-term interest rates (average annual)	0.5	0.2	0.4
USD/EUR exchange rate (average annual)	1.12	1.14	1.18
Nominal effective exchange rate	–1.2	3.9	2.7
Global (excl. EU) GDP growth, %	2.9	–3.8	4.7
EU GDP growth, %	1.5	–7.4	4.1
Growth of main export markets, %	1.4	–6.4	3.7
Global (excl. EU) import growth, %	–0.5	–10.3	6.3
Oil prices (Brent, USD per barrel)	64.1	42.6	44.6

Sources: European Commission, Ministry of Finance.

Table 10. Price indicators

	2019	2019	2020	2021
	Index	Change, %		
1. GDP deflator	124.6	2.8	0.9	1.4
2. Private consumption deflator	117.7	2.1	1.0	1.4
3. HICP (in 2015 = 100)	109.5	2.2	1.0	1.4
4. General government consumption expenditure deflator	144.0	9.9	7.5	4.0
5. Gross fixed capital formation deflator	118.4	3.0	1.7	1.7
6. Export (goods and services) price deflator	110.6	0.9	–4.7	1.0
7. Import (goods and services) price deflator	107.0	–0.7	–6.3	0.8

Sources: Statistics Lithuania, Ministry of Finance.

Table 11. Labour market indicators

	ESA code	2019	2019	2020	2021
		Indicator value	Change, %		
1. Employment, persons, thou.		1,378.4	0.3	–1.9	0.7
2. Employment, hours worked, thou.		2,615,886	0.5	–	–
3. Unemployment rate, %		6.3	–	8.8	8.2
4. Labour productivity (gross value added per person employed), EUR thou.		31.4	4.1	0.4	2.1
5. Labour productivity, hours worked		–	–	–	–
6. Compensation of employees, EUR million	D.1	22,566.4	10.8	6.3	5.2
7. Compensation per employee, EUR		18,402.0	10.2	8.3	4.4

Sources: Eurostat, Statistics Lithuania, Ministry of Finance.

Table 12. Sectoral balances

	ESA code	2019	2020	2021
		% of GDP		
1. Net borrowing	B.9	5.7	10.1	9.3
o/w:				
- balance of goods and services		5.2	8.8	8.9
- balance of primary incomes and transfers		–1.2*	–0.9*	–1.7*
- capital account		1.7*	2.2*	2.1*
2. Net lending/net borrowing of the private sector	B.9	5.4	17.7	16.3
3. General government net lending / net borrowing	B.9	0.3	–7.6	–7.0
4. Statistical discrepancy		0	0	0

Sources: Bank of Lithuania, Ministry of Finance.

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

Table 13. General government indicators under policy scenario

	ESA code	2020	2021
		% of GDP	
Net lending (+) / net borrowing (–) (B.9) by subsector			
1. General government	S.13	–7.6	–7.0
2. Central government	S.1311	–7.7	–7.3
3. State government	S.1312	–	–
4. Local government	S.1313	–0.1	0.0
5. Social security funds	S.1314	0.2	0.3
6. Interest payment	D.41	0.5	0.5
7. Primary balance		–7.1	–6.5
8. One-off and other temporary measures		0.0	0.0
9. Real GDP growth (%)		–1.5	2.8
10. Potential GDP growth (%)		3.5	3.7
O/w:			
- labour		0.2	0.7
- capital		1.4	1.4
- total productivity		1.9	1.6
11. Output gap (% of potential GDP)		–0.8	–1.6
12. Cyclical component of the budget (% of potential GDP)		–0.3	–0.6
13. Cyclically adjusted balance (1 – 12) (% of potential GDP)		–7.3	–6.4
14. Cyclically adjusted primary balance (13 + 6) (% of potential GDP)		–6.8	–5.8
15. Structural balance (13 – 8) (% of potential GDP)		–7.3	–6.4

Source – Ministry of Finance.

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

General government (S13)	ESA code	2020	2021
		% of GDP	
1. Gross revenues under no-policy change scenario	TR	37.0	36.7
1.1. Taxes on production and imports	D.2	11.9	11.7
1.2. Current taxes on income and wealth, etc.	D.5	9.4	8.7
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	10.4	10.8
1.5. Property income	D.4	0.5	0.4
1.6. Other		4.7	5.2
Tax burden (D.2 + D.5 + D.61 + D.91 – D.995)		31.7	31.1
2. Gross expenditure under no-policy change scenario	TE	37.8	39.7
2.1. Compensation of employees	D.1	11.0	11.1
2.2. Intermediate consumption	P.2	5.1	5.4
2.3. Social benefits	D6M	14.9	15.4
o/w: unemployment benefits		0.6	0.6
2.4. Interest expenditure	D.41	0.5	0.5
2.5. Subsidies	D.3	0.2	0.1
2.6. Fixed capital formation	P.51	3.3	3.8
2.7. Capital transfers	D.9	0.3	0.1
2.8. Other		2.5	3.2

Source – Ministry of Finance.

Table 15. Discretionary revenue measures taken by general government

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
1.*	Increase of MMW from EUR 555 to EUR 607 starting from 1 January 2020	D.5	14.6	
2.*	Increase of MMW from EUR 607 to EUR 642 starting from 1 January 2021	D.5		9.1
3.*	Increase of NTA up to EUR 300 in 2019, expanding the NTA application limit to 2 AW, and increase of NTA up to EUR 400 from 1 July 2020 by applying it for revenue generated from 1 January 2020, NTA formula change from 1 January 2021	D.5	–142	–68
4.*	Increase of NTA for the disabled: for people with greater capability for work – up to EUR 600, people with lower capability for work – up to EUR 645	D.5	–15	
5.*	Introduction of a progressive (32 %) PIT rate	D.5	12.5	17
6.*	Increase of the wage coefficient applied in calculating refunds of secondments (non-taxable daily allowances) from 1.3 to 1.65 (x MMW)	D.5	34.6	–16
7.*	Funds allocated for the implementation of the National Collective Agreement (incl. increase in basic amount)	D.5	31.2	
8.*	Basic salary amount increase from EUR 176 to EUR 177 for State politicians, judges, State officials, civil servants and persons employed in public and municipal budget institutions	D.5		4.0
9.*	Introduction of the vehicle pollution tax	D.5	12.5	17.5
10.*	Additional corporate income tax of credit institutions	D.5	17.7	–26.2
11.*	PIT deferral for taxpayers affected by the COVID-19 pandemic **(COVID-19 related measure)**	D.5	**–130**	**–23.5**

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	**2021**
12.*	Deferral of the corporate income tax for taxpayers affected by the COVID-19 pandemic **(COVID-19 related measure)**	D.5	**–60**	**12.5**
13.*	Extension of PIT relief for studies	D.5		**–2**
14.*	PIT losses due to the employees in downtime and holding the certificates of incapacity for work due to the COVID-19 pandemic situation **(COVID-19 related measure)**	D.5	–60	
15.*	Increase of excise duty rates on tobacco products and liquid of electronic cigarettes from 1 March 2019	D.2	15.6	15.6
16.*	Increase of excise duty rates on ethyl alcohol and alcoholic beverages	D.2	18.8	3.3
17.*	Increase of excise duty rate on diesel fuels used in agriculture from 1 January 2020	D.2	1.1	
18.*	Decrease of fuel quotas on diesel fuels used in agriculture by about 5 %. Decreased quotas will be applied in issuing permits for 2021–2022 business year, i.e. from 1 July 2021	D.2		2.5
19.*	Increase of excise duty rate on diesel fuels	D.2	44.6	
20.*	Increase of excise duty rate on petrol	D.2	10.3	
21.*	Increase of excise duty rate on heated tobacco products from 1 March 2020	D.2	6.9	1.4
22.*	Introduction of the pollution tax on waste going to a landfill	D.2	2.0	
23.*	Decrease of the non-taxable amount of the immovable property tax for individuals down to EUR 150, 000	D.2	2.4	
24.*	Increase of the lower threshold of the immovable property tax applied to commercial property from 0.3 to 0.5 %	D.2		1.2
25.*	VAT deferrals to taxpayers affected by the COVID-19 pandemic **(COVID-19 related measure)**	D.2	**–150**	**–50**
26.*	Refusal of restrictions on compound and repayable overpaid VAT amount for the tax period concerned specified in Article 91(2) of the VAT law	D.2		–30
27.	Withdrawal of the import VAT relief for parcels of value of up to EUR 22 from 1 July 2021	D.2		**3**
28.	Increase of MMW from EUR 555 to EUR 607 starting from 1 January 2020	D.6	15.3	
29.	Increase of MMW from EUR 607 to EUR 642 starting from 1 January 2021	D.6		9.6
30.	Funds allocated for the implementation of the National Collective Agreement (incl. increase in basic amount)	D.6	32.7	
31.	Basic salary amount increase from EUR 176 to EUR 177 for State politicians, judges, State officials and civil servants as well as employees in public and municipal institutions	D.6		4.2
32.	SODRA contribution 'ceilings'	D.6	–11.3	–22.4
33.	Suspension of SODRA budget transfers to private pension funds due to changes in the pension accumulation scheme	D.6	181.5	23.2
34.	Increase of the wage coefficient applied in calculating refunds of secondments (non-taxable allowances) from 1.3 to 1.65 (x MMW)	D.6	31.7	
35.	Deferrals of social insurance contributions to taxpayers affected by the COVID-19 pandemic **(COVID-19 related measure)**	D.6	–35	**–6**
36.	Losses of social insurance contributions due to the employees in downtime and holding the certificates of incapacity for work due to the COVID-19 situation **(COVID-19 related measure)**	D.6	–71	
		Total:	**–188.3**	**–120.0**

Source – Ministry of Finance.
* Discretionary revenue measures of the central government subsector (S.1311).
** Adoption stage of all the measures specified in the table is "approved", and accounting basis – accrual.
Note. Figures in bold presented in the table imply the estimates of new, as compared with the initial DBP, measures or changed estimates of measures specified in the initial DBP.

Table 16. Discretionary expenditure measures taken by general government negatively affecting the balance

No.	Economic classification of the measure	ESA code	Budgetary impact			
			2020		2021	
			MEUR	% of GDP	MEUR	% of GDP
1.	Compensation of employees	D.1	392	0.81	297	0.59
2.	Intermediate consumption	P.2	207	0.43	176	0.35
3.	Social benefits	D.6M	1,032	2.13	792	1.57
4.	Subsidies	D.3	1,040	2.15	500	0.99
5.	Capital formation	P.51	422	0.87	2	0.00
6.	Other		22	0.05	126	0.25
		Total:	**3,115**	**6.43**	**1,893**	**3.74**

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
1.*	Increase of MMW up to EUR 555 in 2019, in 2020 – up to EUR 607, in 2021 – up to EUR 642	D.1	–7.4	–5.1
2.	Increase of MMW up to EUR 555 in 2019, in 2020 – up to EUR 607, in 2021 – up to EUR 642 (local government)	D.1	–12.2	–7.8
3.*	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2020 – EUR 176, in 2021 – EUR 177)	D.1	–39.5	–16.8
4.	Increase of a basic salary rate for calculation of wages for persons employed in budgetary institutions (in 2020 – EUR 176, in 2021 – EUR 177) (local government)	D.1	–12.6	–4.8
5.*	Increase of wages for persons employed in the education sector	D.1	–93.8	–69.6
6.*	Increase of wages for public health care professionals (in 2020 increase of wages for employees working in institutions subordinate to the Ministry of Health under employment contracts)	D.1	–2.0	
7.*	Increase of wages for lecturers, research staff and researchers	D.1	–4.6	**–14.4**
8.*	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions	D.1	–13.1	–6.9
9.	Implementation of the provisions of the Law on Remuneration of Persons Employed in Public and Municipal Institutions (local government)	D.1	–15.9	–9.1
10.*	Increase of wages for residents	D.1	–0.5	
11.*	Increase of wages for statutory officials (employed in the interior service, prisons, customs offices, State Security Department and prosecutors, excl. the Ministry of National Defence)	D.1	–15.7	–1.6
12.*	Increase of wages for mediators from 1 January 2020	D.1	–0.4	
13.*	Increase of the wage fund of public institutions and financing of additional positions	D.1	–13.7	**–14.6**
14.	Increase of the wage fund of public institutions and financing of additional positions (local government)	D.1	–5.1	**–5.4**
15.*	Increase of wages for medical staff from 1 April 2020	D.1	–90.0	–86.5
16.*	Increase of wages for school staff	D.1		–18.0
17.*	Police capability building	D.1		–8.3
18.*	Increase of wages for educational aid specialists and other employees of the education system	D.1		**–15.8**
19.*	Expenditure for custody of people with serious disabilities, support for integration of people with disabilities and wages of social workers	D.1		**–10.0**
20.*	Reconstruction, repairs of national or secondary roads **(COVID-19 related measure)**	D.1 P.2 P.51	–150.0	
21.*	Unfreeze of funds of the programmes for road maintenance and	D.1	–160.0	

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
	climate change **(COVID-19 related measure)**	P.2 P.51		
22.*	Additional expenditure for public institutions involved in emergency management, incl. bonuses for staff, and additional expenditure for NGOs operating in social area and supplying basic social services **(COVID-19–related measure)**	D.1 P.2	**–44.3**	
23.*	DNA plan **(COVID-19 relatedmeasure)**	D.1 P.2 P. 51 Other	**–50.9**	**–54.5**
24.*	Acquisition of personal protective equipment, reagents, medical and other equipment **(COVID-19 related measure)**	P.2	**–127.3**	
25.*	Acquisition of the vaccine against COVID-19 virus **(COVID-19 related measure)**	P.2		**–65.0**
26.*	Expenditure for service suppliers and laboratories for carrying out tests **(COVID-19 related measure)**	P.2		**–80.0**
27.*	Preparation for feasible accident in Astravets Nuclear Power Plant	P.2		–6.0
28.	Preparation for feasible accident in Astravets Nuclear Power Plant (local government)	P.2		–2.6
29.*	Merge of Šiauliai University to Vilnius University	P.2		–2.3
30.*	Supply of protective equipment for officials	P.2		**–3.2**
31.*	Maintenance of cultural heritage	P.2		**–2.0**
32.*	Increase of social assistance benefits and target compensations by implementing new provisions of the laws (in 2020 social assistance pension base (amount of minimum consumption needs from 54 % to 56 %), and increase of premium ceilings for small pensions)	D.6M	–10.9	–6.0
33.*	Increase of pensions for officials due to increase of the basic pension and its indexation	D.6M	–1.8	
34.*	Increase of the child benefit up to EUR 60 in 2020, up to EUR 70 in 2021	D.6M	–149.2	–63.0
35.*	Indexation of basic amounts of social benefits	D.6M	–20.0	–27.5
36.*	Contributions for persons insured from public funds	D.6M	–87.9	–50.2
37.*	Insurance from public funds for nurses of the people with disabilities with a need for a special permanent care	D.6M	–4.0	
38.*	Free meals for pre-primary school students (from 1 January 2020) and primary school students (from 1 September 2020)	D.6M	–4.0	–10.4
39.*	Ensuring the payment of sickness benefits for people looking after children, elderly people and people with disabilities, when the infection containment regime is imposed in education schools or social care and employment centres, also for people suffering from serious chronic diseases **(COVID–19 related measure)**	D.6M	–140.0	**–120.0**
40.*	Temporary payment of job-search allowances for the unemployed who have not participated in active labour market policy measures **(COVID–19 related measure)**	D.6M	–137.8	**–62.5**
41.*	Payment of fixed rate sickness benefits, equal to 1 amount of the minimum consumption need per month, for self-employed persons who paid social insurance contributions before obtaining the right to receive the sickness benefit and due to emergency situation cannot carry out their activities **(COVID–19 related measure)**	D.6M	**–122.5**	**–90.0**
42.*	One-off payments of EUR 200 for beneficiaries of social insurance pensions and social assistance benefits **(COVID–19 related measure)**	D.6M	–182.0	
43.*	In granting cash social allowances for low income earners, temporarily disposable assets are not assessed and state-supported income (SSI) rate is increased from 1 SSI to 1.1 SSI for setting the right to the social benefit. Shortened waiting period for social housing and a minimum basic amount of compensation of a part of rentals for housing **(COVID–19 related measure)**	D.6M	–32.0	

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
44.*	Lump-sum payment for families with children (adopted children), and for children deprived of parental care, and additional benefit for children from poor families **(COVID–19 related measure)**	D.6M	**–77.0**	
45.*	Incentive payments to Pillar II pension funds	D.6M	–36.0	–23.0
46.*	Indexation of state social insurance pensions	D.6M		**–187.1**
47.	Indexation of state social insurance pensions (social security funds)	D.6M		**–145.9**
48.*	Indexation of state pensions	D.6M		–1.6
49.*	Increase of social scholarships	D.6M		–4.6
50.*	Subsidies for wages during downtime **(COVID–19 related measure)**	D.3	**–175.0**	**–210.0**
51.*	After the expiry of the downtime and/or quarantine the State support for employers to retain employment after the downtime or to recruit the unemployed belonging to the target groups **(COVID–19 related measure)**	D.3	**–547.3**	**–90.0**
52.*	Promotion measures of employers (vocational training in form of apprenticeships, vocational training, creation of jobs for persons with 45-55 % of work capacity) and measures for self-employed who will change their carried activities **(COVID–19 related measure)**	D.3	**–20.8**	
53.*	Implementation of the concept of reducing the burden of lease commitments on business. It is planned to defray 50 % of lease payments for enterprises the activities of which is limited or suspended during quarantine. Reimbursement of market charges **(COVID–19 related measure)**	D.3	**–46.0**	
54.*	Subsidies for small enterprises **(COVID–19 related measure)**	D.3	–100.0	
55.*	Interest reimbursement for small and medium-sized enterprises **(COVID–19 related measure)**	D.3	**–12.0**	**–16.9**
56.*	Preservation of liquidity of the agricultural sector, better access of financial services for economic entities whose activities are related to agriculture, food business and rural development, and reduction of borrowing costs, i.e. creating conditions for reimbursement of interest and margin to economic entities which are no longer able to pretend for interest reimbursement **(COVID–19 related measure)**	D.3	**–90.0**	
57.*	Temporary State support to milk producers, keepers of bovine or porcine animals and vegetable producers; payments to enterprises involved in processing of agricultural products in diary, beef and veal, poultry and eggs sectors and incurred losses due to the COVID-19 pandemic) **(COVID–19 related measure)**	D.3	**–50.4**	
58.*	One-off payments of EUR 200 or regular payments for small farmers whose agricultural holdings or economic size of the farm is less than 4 economic sizes of holdings, depending on whether they work under labour contract **(COVID–19 related measure)**	D.6M	**–10.0**	
59.*	Provision of subsidies to small or medium-sized enterprises affected by the COVID-19 pandemic following the State support scheme coordinated with the European Commission **(COVID–19 related measure)**	D.3		**–150.0**
60.*	Support to business **(COVID–19 related measure)**	D.3		**–33.1**
61.*	Promotion of the tourism and cultural sector **(COVID–19 related measure)**	P.2 D.3	**–22.6**	
62.*	Reimbursement of expenditure incurred by JS Toksika in carrying out removal works of dangerous structures, waste management of the preparation of fires areas, waste sorting and emergency treatment services due to emergency declared in Alytus municipality and territories of Alytus municipality, when a fire broke out in the tyre recycling enterprise JSC Ekilogistika in Alytus.	D.3	–2.0	
63.*	Additional funds to investment projects included into the Public Investment Programme for more rapid implementation; to other planned investment projects and not included into the Public investment Programme; to launch the implementation of various new	P.51	–165.0	

No.	Description of the measure **	ESA code	Budgetary impact, EUR million	
			2020	2021
	investment projects and to acquire other unplanned intangible and tangible fixed assets and to finance the measures and programmes implemented by appropriation managers **(COVID–19 related measure)**			
64.*	Implementation of financial instruments aimed to preserve liquidity of business operators of the Republic of Lithuania (administration costs of financial instruments of JSC Investment and Business Guarantees) **(COVID–19 related measure)**	Other	–6.0	
65.*	Unused funds of the Cultural Support Fund in 2020 related to shifted events **(COVID–19 related measure)**	Other		**–2.5**
66.*	Reimbursement of possible additional expenditure of institutions due to the COVID-19 containment measures **(COVID–19 related measure)**	Other		**–76.0**
67.*	Financing of free Bachelor level studies	Other	**–4.0**	**–12.0**
68.*	Expenditure for organisation and execution of the mayor's elections	Other		**–0.5**

Source – Ministry of Finance.
* Discretionary revenue measures of the central government subsector (S.1311).
** Adoption stage of all the measures specified in the table is "approved".
Note. Figures in bold presented in the table imply the estimates of new, as compared with the initial DBP, measures or changed estimates of measures specified in the initial DBP.

Table 17. Amounts excluded from the expenditure benchmark

	ESA code	2019		2020	2021
		MEUR	% of GDP	% of GDP	
1. Expenditure on the EU programmes fully matched by the EU funds revenue		735.7	1.5	**1.9**	**2.4**
1a. Gross fixed capital formation expenditure financed from the EU assistance	P.51	420.3	0.9	1.1	**1.2**
2. Cyclical unemployment benefit expenditure		**–56.2**	–0.1	**0.1**	**0.1**
3. Discretionary revenue measures		**64.2**	0.1	**–0.4**	**–0.2**
4. Revenue increase mandated by law		0.0	0.0	0.0	0.0

Source – Ministry of Finance.
Note. Figures in bold presented in the table imply the estimates of new, as compared with the initial DBP, measures or changed estimates of measures specified in the initial DBP.

Table 18. A list of medium-term fiscal risks

Risk	Risk source	Degree of a risk	Probability of risk occurrence
COVID-19 pandemic development	Under deteriorating COVID-19 pandemic situation, the need may occur to apply the COVID-19 plan measures and therefore, general government expenditure would increase or revenue would decrease	high	high
Activities of the State-owned enterprises	Improving or deteriorating performance may increase or decrease the amounts of dividends paid to the State budget	medium	medium
Deposit and investment insurance	In the event of bankruptcy of credit institutions, central government expenses would increase due to fulfilment of obligations to depositors	low	low
Statistical corrections of data on national defence expenditure	Significant differences between forecast of acquisition costs of military equipment, weapons and supplies and actual data estimated in general government financial accounting on accrual basis (acc. to ESA) may increase or decrease general government expenditure	high	high
Political cycle	2020 is a year of elections of the Seimas – a higher pressure to assume long-term commitments may increase expenditure	high	high
Environment in global financial markets	Developments in global financial markets may increase the Government borrowing costs	medium	low
Natural disasters	Torrential rain, fires, epidemics may increase general government expenditure	medium	medium
Demographic changes	Changing age structure of the society, better or worse than expected migration balance may affect the general government balance either positively or negatively	medium	medium

Source – Ministry of Finance.

Table 19. COVID-19 plan guarantee measures

No.	Measure	Description of the measure	Amount of possible guarantees		Actual implementation	
			MEUR	% of GDP	MEUR	% of GDP
Measures planned for 2020						
1.	Individual guarantees	Guarantees are issued on loans and financial lease (leasing) transactions to economic entities affected by the COVID-19 pandemic, which from 16 March 2020 faced liquidity problems though on 31 December 2019 they were not considered to be an enterprise/farm in difficulty whose activities are related to agriculture, production and processing of agricultural products, forestry, rural development, aquaculture and fishery.	50.0	0.1	6.3 (by 8 December 2020)	0.01
2.	Portfolio guarantees on loans and financial lease (leasing) transactions	Guarantees are issued on loans and financial lease (leasing) transactions to small and medium sized and large enterprises which faced difficulties in 2020 due to the COVID-19 outbreak though they were not in difficulty on 31 December 2019.	460.6	0.95	83.4 (by 31 October 2020)	0.17
3.	Guarantees for ensuring the performance of obligations of travel agents	Guarantees are issued to ensure the performance of obligations of travel agents holding a valid travel agent's certificate allowing to be engaged in domestic and outbound tourism.	15.0	0.03	2.2 (by 14 December 2020)	0.005
4.	Guarantees on loans and non-equity securities	Guarantees are issued on loans and non-equity securities used to implement the objectives promoting the economy affected by emergency and to increase business financial liquidity.	500.0	1.03	0.0 (by 14 December 2020)	0.0
		Total:	1,025.6	2.11	91.9	0.18
Measures planned for 2021						
1.	Individual guarantees	Guarantees are issued on loans and financial lease (leasing) transactions to economic entities affected by COVID-19, which from 16 March 2020 faced liquidity problems though on 31 December 2019 they were not considered to be an enterprise/farm in difficulty whose activities are related to agriculture, production and processing of agricultural products, forestry, rural development, aquaculture and fishery.	20.0	0.04	-	-
2.	Guarantees on loans and non-equity securities	Guarantees are issued on loans and non-equity securities used to implement the objectives promoting the economy affected by emergency and to increase business financial liquidity.	500.0	1.03	-	-
		Total:	520.0	1.07	-	-

Source – Ministry of Finance, INVEGA, Agricultural Credit Guarantee Fund.

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

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