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COMMISSION OPINION

of 20.1.2021

on the updated Draft Budgetary Plan of Lithuania

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(Only the Lithuanian text is authentic)

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GENERAL CONSIDERATIONS

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

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

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027.[7] On 18 December 2020, the Council and

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[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

the Parliament reached a provisional agreement on the establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING LITHUANIA

5. On 15 October 2020, Lithuania's caretaker government submitted a Draft Budgetary Plan on the basis of unchanged policies. On 18 November 2020, the Commission issued an opinion on this Draft Budgetary Plan submitted by the caretaker government and invited the Lithuanian authorities to submit an updated Draft Budgetary Plan as soon as a new government took office. Following a general election on 15 October 2020, the new government took office on 11 December 2020.

6. On 21 December 2020, Lithuania submitted an updated Draft Budgetary Plan for 2021. The submission date of the updated Draft Budgetary Plan results from the interplay between the timing of the recent elections and the applicable national timeline and legal requirements for the approval of the budget and did not allow the Commission sufficient time to adopt its opinion before the budget law was adopted by the Parliament on 22 December, which is not in line with Section A.2 of the Code of Conduct of the Two Pack. On the basis of the updated Draft Budgetary Plan submitted by Lithuania, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

7. On 20 July 2020, the Council recommended Lithuania[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Lithuania to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Lithuania's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

8. According to the Commission ad hoc forecast[9], the Lithuanian economy is expected to contract by 1.8% in 2020 and to grow by 2.9% in 2021. The macroeconomic scenario underlying the updated Draft Budgetary Plan projects a decline in real GDP of 1.5% in 2020 and a recovery of 2.8% in 2021. Both sets of forecasts project

[8] Council Recommendation of 20 July 2020 on the National Reform Programme of Lithuania and delivering a Council opinion on the 2020 Stability Programme of Lithuania, OJ C 282, 26.8.2020, p. 95.

[9] The Commission Autumn forecast 2020 was based on the no-policy change plan of the caretaker government. To take into account the budgetary measures included in the Draft Budgetary Plan of Lithuania, the European Commission made an ad-hoc forecast.

domestic demand to be the main reason behind the GDP decline, although this is somewhat offset by net exports. According to both the updated Draft Budgetary Plan's macroeconomic scenario and the Commission ad hoc forecast, the unemployment rate is forecast to reach almost 9% in 2020, before gradually declining to approximately 8% in 2021.

Lithuania complies with the requirement of Regulation EU No 473/2013 since the draft budget is based on independently-endorsed macroeconomic forecasts.

9. In the updated Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020, reaching a deficit of 7.6% of GDP, which is set to narrow to 7.0% of GDP in 2021. According to the Commission ad hoc forecast, Lithuania is projected to have a headline deficit of 7.6% in 2020 and of 7.2% of GDP in 2021.

For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place later in 2021, the Commission ad hoc forecast assumes in the budgetary projections for 2021 the 13% pre-financing of Recovery and Resilience Facility grants[10] and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.[11] In the case of Lithuania, the 13% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 289 million.

The updated Draft Budgetary Plan projects that government debt-to-GDP ratio will increase from 47.5% at the end of 2020 to 51.9% in 2021, similar to the Commission's projection of 51.3%.

10. For 2020, the updated Draft Budgetary Plan contains discretionary fiscal measures totalling 6.8% of GDP, of which 5.9% of GDP are measures adopted by the government to mitigate the impact of the COVID-19 pandemic. According to the updated Draft Budgetary Plan, the discretionary revenue-decreasing measures amount to 0.4% of GDP, while discretionary expenditure measures total 6.4% of GDP. The expenditure measures to mitigate the COVID-19 consequences include short-time work schemes (1.5% of GDP), other subsidies to companies (0.7% of GDP), additional funds for public investment (1.1% of GDP), additional social security benefits (1.4% of GDP) and series of other smaller measures. The updated Draft Budgetary Plan also includes additional state guarantees amounting up to 2.1% of GDP for businesses affected by the pandemic. At the time of the submission of the updated Draft Budgetary Plan, the take-up of the guarantees was estimated by the government at 0.2% of GDP. Overall, the measures taken by Lithuania in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

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10 In line with the provisional agreement on the regulation establishing a Recovery and Resilience Facility (https://data.consilium.europa.eu/doc/document/ST-14310-2020-INIT/en/pdf)

11 The treatment of the Recovery and Resilience Facility (RRF) in the Commission's ad hoc forecast approach is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of the Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

11. For 2021, the updated Draft Budgetary Plan incorporates discretionary fiscal measures amounting to 3.9% of GDP, of which 0.2% of GDP are discretionary revenue-decreasing measures, while discretionary expenditure measures amount to 3.7% of GDP. On the revenue side, the largest measure is an increase in the tax-exempt amount of personal income (0.1% of GDP). The discretionary expenditure measures can be broadly classified into social security benefits (1.6% of GDP), including increases in old-age pensions amounting to 0.7% of GDP; subsidies to companies (1.1% of GDP), of which subsidies for short-time work schemes amount to 0.6% of GDP; a rise in public sector wages (0.6% of GDP) and other (0.4% of GDP). At the same time, some of those measures set out in the updated Draft Budgetary Plan, while supporting economic activity against the background of considerable uncertainty, appear not to be temporary or matched by offsetting measures. According to the Commission forecast, these measures are estimated to total 1.8% of GDP and mainly consist of increases in social security benefits (1.1% of GDP), including old-age pensions amounting to 0.7% of GDP, salaries in the public sector (0.6% of GDP) and increases in the tax-exempt amount of personal income (0.1% of GDP).

12. The Commission is of the opinion that the updated Draft Budgetary Plan of Lithuania is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the updated Draft Budgetary Plan of Lithuania are supporting economic activity against the background of considerable uncertainty. However, some measures do not appear to be temporary or matched by offsetting measures. Lithuania is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

    It is anticipated that Lithuania will submit its Recovery and Resilience Plan later in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 20.1.2021

For the Commission
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Member of the Commission