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COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Lithuania

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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 presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING LITHUANIA

3. On 15 October 2019, Lithuania submitted the Draft Budgetary Plan for 2020. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Lithuania is subject to the preventive arm of the Stability Growth Pact and should preserve a sound fiscal position, which ensures compliance with its medium-term budgetary objective of -1.0% of GDP, taking into account the allowance linked to the implementation of the structural reforms for which a temporary deviation is granted.
5. According to the Commission 2019 autumn forecast, the Lithuanian economy is expected to grow by 3.8% in 2019 and 2.4% in 2020, the main driver being domestic demand. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan, which project similar growth as the Commission forecast, are plausible in 2019 and 2020. Lithuania complies with the requirement of Regulation (EU) No 473/2013 that the draft budget is based on independently endorsed macroeconomic forecasts.
6. The Draft Budgetary Plan expects a headline budget surplus of 0.1% of GDP in 2019 and 0.2% in 2020. The Commission 2019 autumn forecast projects balanced budgets in 2019 and 2020. The structural balance¹ of the Draft Budgetary Plan is estimated to stand at -1.5% of GDP in 2019. The recalculated structural deficit is expected to decline to 0.8% of GDP in 2020. The Commission 2019 autumn forecast projects a somewhat higher structural deficit for 2019 and 2020 due to lower projections of the nominal balance.
7. According to both the Draft Budgetary Plan and the Commission 2019 autumn forecast, the fiscal stance in 2020 is projected to be contractionary based on the change in the (recalculated) structural balance. With respect to the Recommendation² of 9 July 2019 addressed by the Council to Lithuania to improve tax compliance and

¹ Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

² Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Lithuania and delivering a Council opinion on the 2019 Stability Programme of Lithuania, OJ C 301, 5.9.2019, p. 91.

broaden the tax base to sources less detrimental to growth as well as to address income inequality, poverty and social exclusion, including by improving the design of the tax and benefit system, the Draft Budgetary Plan indicates the introduction of a tax on vehicle-emitted pollution and broadening the real estate tax base. It also considers an increase in the personal income tax rate from 27% to 32% for top earners. In total, for 2020, the Draft Budgetary Plan includes discretionary revenue measures and expenditure measures with a cumulative positive budgetary impact of around 0.3% of GDP. Apart from those above-mentioned taxation changes, the Draft Budgetary Plan also envisages additional tax revenues stemming from improved tax administration (approximately 0.4% of GDP) and other smaller adjustments. Termination of transfers from the State Social Insurance Fund to private pension funds (0.4% of GDP) are set to support the revenue side as well. Overall, according to the Draft Budgetary Plan, discretionary revenue measures are projected to have a deficit-reducing impact of 1.2% of GDP in 2020. On the expenditure side, discretionary measures are projected to amount to 0.9% of GDP, with increases in social benefits and other types of social support reaching 0.6% of GDP in 2020.

8. In 2019, for Lithuania to comply with the preventive arm, it should respect its medium-term budgetary objective, taking into account the allowance linked to the implementation of structural reforms for which a temporary deviation is granted. According to the information provided in the Draft Budgetary Plan, Lithuania's recalculated structural balance is expected to meet its medium-term budgetary objective, taking into account the allowance linked to the implementation of the structural reforms. Based on the Commission 2019 autumn forecast, the structural balance is expected to be only marginally below the medium-term budgetary objective in 2019, taking into account the allowance linked to the implementation of structural reforms. Thus, the current assessment indicates a risk of some deviation in 2019.

At the same time, for Lithuania to comply with the preventive arm, the nominal growth rate of government expenditure, net of discretionary revenue measures and one-offs, should not exceed 7.6%, corresponding to a maximum deterioration of the structural balance by 0.9% of GDP. The expenditure benchmark would currently point to a risk of a significant deviation in 2019. If the structural balance is no longer projected to be close to the medium-term budgetary objective, the future assessment of compliance with the requirements of the preventive arm would consider a possible deviation from that requirement.

For 2020, according to both the Draft Budgetary Plan and the Commission 2019 autumn forecast, the structural balance is projected to be above the medium term objective, and therefore comply with the preventive arm.

9. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Lithuania is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2020 budget.

The Commission is also of the opinion that Lithuania has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 9 July 2019 in the context of the European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2020 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission