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Analysis of the updated Draft Budgetary Plan of Lithuania

Accompanying the document

COMMISSION OPINION

on the updated Draft Budgetary Plan of Lithuania

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EXECUTIVE SUMMARY

- After real GDP growth of 4.3% in 2019, economic activity is set to contract by 1.5% in 2020 according to the updated Draft Budgetary Plan and by 1.8% according to the Commission ad hoc forecast. For 2021, the updated Draft Budgetary Plan projects GDP to expand by 2.8%, while the Commission projects real GDP to grow by 2.9%. Overall, the Commission and updated Plan's macro projections are broadly in line.

- In the updated Draft Budgetary Plan, the general government headline balance is expected to deteriorate sharply in 2020, from a marginal surplus of 0.3% in 2019 to a deficit of 7.6% of GDP, which is set to narrow slightly to 7.0% of GDP in 2021. According to the Commission forecast, Lithuania is projected to have a headline deficit of 7.6% of GDP in 2020 and 7.2% of GDP in 2021. For the time being, since the submission of the Recovery and Resilience Plan and its subsequent approval are only expected to take place later in 2021, the Commission forecast is limited to the inclusion of 13% pre-financing of Recovery and Resilience Facility grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Lithuania, the 13% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR million 289 or 0.6% of GDP in 2021.

- On 20 May 2020, the Commission prepared a report under Article 126(3) TFEU analysing whether Lithuania was compliant with the deficit criterion of the Treaty. Overall, the analysis suggested that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 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.

- The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic. Deficit-increasing measures adopted in 2020 to fight the pandemic and its socio-economic fallout amount to 5.9% of GDP. They comprise subsidies to short-time work schemes, funding for additional public investment projects and social security benefits. Public guarantees aimed to support firms amount to about 2.1% of GDP and do not entail an immediate budgetary impact as their up-take is low (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.

- Public debt stood at 35.9% of GDP at the end of 2019. According to the Commission ad hoc forecast and the updated Draft Budgetary Plan, a sharp increase of the general government deficit in 2020 and the considerable deficit in 2021 are set to push the general government debt-to-GDP ratio beyond 51% by the end of 2021.

- For 2021, the updated Draft Budgetary Plan comprises discretionary measures with a budgetary effect amounting to 3.9% of GDP, out of which some measures appear not to be temporary or matched by offsetting measures, amounting to 1.8% of GDP. These include increases in social security benefits (1.1% of GDP), including increases in old age pensions amounting to 0.7% of GDP, salaries, salaries in the public sector (0.6%) and tax-exempt amount of personal income (0.1% of GDP).
- 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 set out in the updated Draft Budgetary Plan of Lithuania do not appear to be temporary or matched by offsetting measures. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the updated 2021 Draft Budgetary Plan of Lithuania (hereafter called the updated Plan), which was submitted on 21 December 2020 in compliance with Regulation (EU) No 473/2013. Lithuania is subject to the preventive arm of the Stability and Growth Pact. The draft budget was adopted by the government on 16 December 2020. The Plan was submitted to the Commission on 21 December, while the parliament adopted the state budget and the budgets of the social funds on 22 and 23 December, respectively.[1]

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

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[2] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[3], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States.

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[1] Lithuania did not comply with the Commission request to submit the updated Draft Budgetary Plan one month before the draft budget law was planned to be adopted by the national parliament as the Statute of the Parliament requires to hold the second discussion on the budget by 18 December and then vote, while the Constitution stipulates that the budget should be approved by the end of the year.

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

[3] 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

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.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE UPDATED DRAFT BUDGETARY PLAN

In 2019, real GDP growth accelerated to 4.3%. According to the macroeconomic scenario, which serves as a basis for the updated Plan, real GDP is expected to decrease by 1.5% in 2020 and then increase by 2.8% in 2021. Compared to the first scenario presented in the 2020 Stability Programme for Lithuania[4], 2020 GDP growth forecast was revised up by 1.3 percentage points, and by 5.8 percentage points compared to the second scenario as the outcome in the first half of 2020 proved to be much better than previously expected. The updated Plan's macroeconomic scenario projects domestic demand as the main driver for the decline in real GDP in 2020. For 2021, GDP growth was revised down by 3.8 percentage points compared to the second scenario in the Stability Programme, given the better-than-expected performance in 2020.

The Commission forecasts a similar dynamics for GDP in 2020 and 2021. As in the scenario underlying the updated Plan, the Commission projects domestic demand to drag GDP down in 2020, with positive net exports somewhat mitigating the slump. After a deeper decline in investment in 2020, the Commission assumes more pronounced investment growth in 2021. The outlook for unemployment and inflation is broadly similar.

For 2020 and 2021, according to the updated Plan, the output gap as recalculated by the Commission following the commonly agreed methodology is -1.5% and -2.5%, respectively. The Commission ad hoc forecast envisages a somewhat larger negative output gap for 2020, which can be explained by a more cautious real GDP projection.

The macroeconomic forecast underpinning the budget was endorsed by the Budget Policy Monitoring Department (BPMD), which is embedded in the National Audit Office of Lithuania. In its opinion of 21 December 2020[5], the BPMD highlighted elevated internal and external risks to the forecast scenario.

Overall, the macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic and its economic consequences.

[4] Due to high uncertainty caused by the global COVID-19 pandemic outbreak, two economic development scenarios for 2020-2021 were presented in the 2020 Stability Programme of Lithuania, containing different assumptions on the development of the epidemiological situation and economic performance of Lithuania's export markets.

[5] Available at http://www.ifi.lt/isvada.aspx?id=10432

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	4.3	-7.3	-1.5	-1.8	6.6	2.8	2.9
Private consumption (% change)	3.4	-3.7	-3.4	-3.5	3.1	3.0	3.0
Gross fixed capital formation (% change)	6.2	-5.1	-5.2	-6.3	4.1	4.7	6.6
Exports of goods and services (% change)	9.5	-15.0	-2.2	-2.5	13.7	6.4	6.6
Imports of goods and services (% change)	6.3	-10.3	-6.3	-4.8	9.0	6.7	7.7
Contributions to real GDP growth:							
- Final domestic demand	3.4	-3.2	-2.2	-3.4	3.0	3.2	3.1
- Change in inventories	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	2.5	-4.2	2.8	1.6	3.6	0.3	-0.2
Output gap[1]	3.9	-6.3	-1.5	-1.7	-3.5	-2.5	-2.5
Employment (% change)	0.5	-4.5	-1.9	-2.1	2.3	0.7	0.4
Unemployment rate (%)	6.3	10.5	8.8	8.8	8.1	8.2	8.0
Labour productivity (% change)	3.9	-2.9	0.4	0.3	4.2	2.1	2.5
HICP inflation (%)	2.2	1.0	1.0	1.1	2.0	1.4	1.5
GDP deflator (% change)	2.8	-0.2	0.9	1.5	2.0	1.4	1.8
Comp. of employees (per head, % change)	10.2	-0.6	8.3	4.7	3.3	4.4	3.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.2	0.0	10.1	7.6	0.0	9.3	6.0

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); updated Draft Budgetary Plan for 2021 (DBP); Commission ad hoc forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020, the Council addressed recommendations to Lithuania in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Lithuania to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Lithuania should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

Comparison with the Draft Budgetary Plan submitted by the caretaker government

According to the updated Plan, the general government deficit in 2020 is projected to be approximately 1.2 percentage points of GDP lower compared to the Plan submitted earlier by the caretaker government. The updated Plan contains 0.5 percentage points of GDP higher revenue projections due to better than previously expected tax collection and lower spending (0.6 percentage points of GDP) as some planned investment and other expenditure were cancelled or delayed.

For 2021, the general government deficit is projected to be two percentage points higher compared to the initial Plan. The updated Plan contains additional funds to fight the economic consequences of the COVID-19 pandemic and funds needed for vaccination, as well as a higher increase in pensions than envisaged in the initial Draft Budgetary Plan. The updated Plan does not take into consideration any revenues or expenses linked to the Recovery and Resilience Facility contrary to the Plan submitted by the caretaker government.

Comparison with the 2020 Stability Programme

As indicated in the updated Plan, the general government deficit for 2020 is projected to be 3.8 percentage points lower compared with the one indicated in the second scenario of the Stability Programme.[6] The difference stems from different assumptions on the government spending, i.e. the take-up of some of the planned measures to cushion the economic fallout due to the COVID-19 pandemic and public investment are set to be smaller than envisaged in spring. Overall, to compare the projections of the Stability Programme and the updated Plan, the difference in the projected revenue-to-GDP ratio (-0.4 percentage points) is lower compared to a difference in the spending level (-4.2 percentage points), leading to a smaller general government deficit than anticipated in spring.

For 2021, the updated Draft Budgetary Plan envisages the general government deficit of 7.0% of GDP. Compared to the Stability Programme, the general government deficit projections for 2021 are 3.1 percentage points higher, mainly due to expenditure measures adopted by the government.

Comparison with the Commission forecast

For 2020 and 2021, the Commission forecast of the general government deficit is broadly in line with the one of the updated Plan, though the Commission projections of revenue and expenditure for 2021 are more cautious taking into account high degree of uncertainty and historical data on budget implementation.

For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes, in the budgetary projection for 2021, the 13% pre-financing of the Recovery and Resilience Facility grants, and treats them as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Lithuania, the 13% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 289 million or 0.6% of GDP in 2021.

[6] As mentioned previously, the 2020 Stability Programme comprises two macro-fiscal scenarios; however, the second scenario contained all the necessary elements and, therefore, was used for analysis of the 2020 Stability Programme and, consequently, the updated Draft Budgetary Plan for 2021.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**34.9**	**34.9**	**37.0**	***36.6***	**36.1**	**34.9**	***36.5***	**35.4**	**1.6**
of which:									
- Taxes on production and	11.5	11.5	12.0	*11.8*	11.7	11.9	*11.6*	11.4	0.1
- Current taxes on income,	8.7	8.7	8.7	*8.9*	8.8	8.0	*8.5*	8.4	-0.2
- Capital taxes	0.0	0.0	0.0	*0.0*	0.0	0.0	*0.0*	0.0	0.0
- Social contributions	10.0	10.0	10.7	*10.7*	10.6	10.3	*10.8*	10.6	0.8
- Other (residual)	4.7	4.7	5.6	*5.2*	5.0	4.7	*5.6*	5.1	0.9
Expenditure	**34.6**	**34.6**	**48.4**	**44.2**	**43.7**	**38.8**	**43.5**	**42.7**	**8.9**
of which:									
- Primary expenditure	33.8	33.8	47.7	43.7	43.2	38.3	43.0	42.2	9.2
of which:									
Compensation of employees	10.2	10.2	12.1	11.8	11.6	11.0	11.7	11.4	1.5
Intermediate consumption	4.4	4.4	6.5	5.5	5.4	5.1	5.8	5.7	1.4
Social payments	13.9	13.9	18.4	17.0	17.0	15.9	17.0	16.9	3.1
Subsidies	0.4	0.4	3.2	2.3	2.4	0.4	1.1	1.3	0.7
Gross fixed capital formation	3.1	3.1	4.6	4.2	3.9	3.3	3.8	3.6	0.7
Other (residual)	1.8	1.8	2.9	2.9	2.9	2.6	3.6	3.4	1.8
- Interest expenditure	0.9	0.9	0.7	0.5	0.5	0.5	0.5	0.4	-0.4
General government balance (GGB)	**0.3**	**0.3**	**-11.4**	**-7.6**	**-7.6**	**-3.9**	**-7.0**	**-7.2**	**-7.3**
Primary balance	**1.1**	**1.1**	**-10.6**	**-7.1**	**-7.1**	**-3.4**	**-6.5**	**-6.8**	**-7.6**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**0.3**	**0.3**	**-11.4**	**-7.6**	**-7.6**	**-3.9**	**-7.0**	**-7.2**	**-7.3**
Output gap[1]	3.9	3.8	-6.3	-1.5	-1.7	-3.5	-2.5	-2.5	-6.3
Cyclically-adjusted balance[1]	-1.3	-1.2	-8.9	-7.0	-7.0	-2.5	-6.0	-6.2	-4.7
Structural balance (SB)[2]	**-1.3**	**-1.2**	**-8.9**	**-7.0**	**-7.0**	**-2.5**	**-6.0**	**-6.2**	**-4.7**
Structural primary balance[2]	-0.4	-0.4	-8.2	-6.5	-6.5	-2.0	-5.5	-5.8	-5.1

Notes*:*

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); updated Draft Budgetary Plan for 2021 (DBP); Commissionad hoc forecast (COM); Commission calculations

In structural terms, the updated Draft Budgetary Plan envisages a (recalculated) structural balance[7] of -7.0% of GDP in 2020, which is set to improve to -6.0 of GDP in 2021. This is in line with the Commission ad hoc forecast.

However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a

[7] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

more representative assessment of the underlying fiscal support to economic activity. As indicated in the updated Plan, there are a few important risks to the medium term fiscal outlook. These include a deterioration of the epidemiological situation.

3.2. Debt developments

In 2019, the debt-to-GDP ratio stood at 35.9% of GDP. The updated Plan indicates that the government debt-to-GDP ratio is set to increase to 47.5% at the end of 2020 and to 51.9% in 2021, which is somewhat higher than the 50.2% envisaged in the Plan submitted by the caretaker government. It should be noted that in both years, the debt level is also affected by accumulated pre-financing necessary to redeem large bond issuances in 2021 and 2022.

Table 3. Debt developments

(% of GDP)	t	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**35.9**	**50.6**	**47.5**	**47.5**	**52.7**	**51.9**	**51.3**
Change in the ratio	2.2	14.7	11.6	11.6	2.1	4.4	3.9
Contributions[2]:							
1. Primary balance	**-1.1**	**10.6**	**7.1**	**7.1**	**3.4**	**6.5**	**6.8**
2. "Snow-ball" effect	**-1.4**	**3.7**	**0.7**	**0.6**	**-3.5**	**-1.4**	**-1.7**
Of which:							
Interest expenditure	0.9	0.7	0.5	0.5	0.5	0.5	0.4
Real growth effect	-1.4	2.8	0.5	0.6	-3.1	-1.3	-1.3
Inflation effect	-0.9	0.0	-0.3	-0.6	-0.9	-0.7	-0.8
3. Stock-flow adjustment	**4.8**	**0.4**	**3.8**	**3.8**	**2.2**	**-0.6**	**-1.2**
Of which:							
Cash/accruals difference		0.0	0.0		0.0	0.0	
Net accumulation of financial		0.0	0.0		0.0	0.0	
of which privatisation		0.0	0.0		0.0	0.0	
Valuation effect & residual		0.0	0.0		0.0	0.0	

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); updated Draft Budgetary Plan for 2021 (DBP); Commissionad ad hoc forecast (COM); Commission calculations

For 2020 and 2021, the updated Plan, envisages a 3.1 and 0.8 percentage points lower debt rate respectively than in the second scenario of the Stability Programme. For 2020, the difference in the debt ratio is the result of a lower deficit projection combined with stronger real GDP growth which is partially offset by a higher stock flow adjustment. For 2021, the debt is driven by a higher deficit, while the stock-flow adjustment is set to have a debt-reducing effect.

The 2020 debt-to-GDP ratio as projected by the Commission is in line with the updated Plan. However, for 2021, the Commission forecast incorporates the pre-financing of Recovery and Resilience Facility grants which has a debt-reducing effect, leading to a slightly lower debt level.

Risks related to the debt projections are contained as granted public guarantees are forecast to stand at 1% of GDP in 2020 and 2.7% of GDP in 2021. Overall, in 2020, the take-up of guarantees additionally adopted to support business during the COVID-19 pandemic (approximately 2% of GDP) has been low, i.e. 0.2% of GDP according to the updated Draft Budgetary Plan.

4. MEASURES UNDERPINNING THE UPDATED DRAFT BUDGETARY PLAN

The updated Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

For 2020, the updated Draft Budgetary Plan contains revenue and expenditure 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. Other measures include, for example, increases in wages in the public sector and social security benefits.

Since the beginning of the pandemic, the Lithuanian government allowed businesses to defer payments of taxes and social security contributions. Recovery of tax arrears and the imposition of interest on outstanding tax payments were also suspended for some time. According to the official website on business support in Lithuania[8], at the beginning of December 2020, the amount of deferred payments was slightly below EUR 900 million or 1.7% of GDP. The updated Plan assumes that some amounts will not be recovered, for example, EUR 150 million (or 0.3% of GDP) in VAT receipts. The list of discretionary revenue measures also incorporates such measures as revenue losses of personal income tax and social security contributions due to announced downtime by companies, in total EUR 131 million or 0.3% of GDP. The Commission considers that such losses constitute second round effects and does not classify them as discretionary revenue measures.

On the expenditure side, measures to mitigate the COVID-19 consequences can be classified into four categories – short-time work schemes and other subsidies, additional funds for investment, additional social security benefits and other COVID-19 related expenditure. According to the updated Draft Budgetary Plan, in 2020,

[8] https://koronastop.lrv.lt/lt/pagalba-verslui

funds allocated for short-time work schemes amount to EUR 722 million or 1.5% of GDP, with the largest amount dedicated to support jobs for companies following their exit from the scheme for reduced working time. This latter element was added after the submission of the Stability Programme. Funding for the initial measure – subsidies during the downtime – has been substantially reduced compared to the information provided in the Stability Programme due to lower take-up than initially envisaged. Other subsidies to support business liquidity, including of small and medium enterpises, are set to amount to EUR 347 million or 0.7% of GDP.

In 2020, additional funds to increase public investment amount to EUR 526 million or 1.1% of GDP. Most of these funds are set to finance various construction projects. These estimates are almost EUR 300 million lower compared to the initial DBP as the actual implementation of the projects was revised before submission of the updated DBP.

The Stability Programme also contained benefits for the self-employed and special compensation for persons who due to the COVID-19 pandemic had to stay home in order to take care of dependent persons. The actual take-up of these benefits was also lower than planned. In addition, other benefits were adopted – lump sum payments to recipients of pensions and other benefits (EUR 182 million or 0.4% of GDP) and a one-time payment for children to specific families (EUR 77 million or 0.2% of GDP).

The initial Governments' 'Plan for Economic Stimulus and Mitigation of Consequences of COVID-19 Transmission'[9] contained two large measures, each amounting to EUR 500 million (2% of GDP in total), meant to provide guarantees and in this way to support business liquidity. According to the updated Draft Budgetary Plan, for 2020, the total amount of additional guarantees is allowed to reach up to EUR 1026 million (2.1% of GDP). One of the two guarantee measures amounting to EUR 500 million was transformed into a special fund and is planned to remain operational in 2021 as well. In 2020, the up-take of those additional guarantees was low (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. The government decided to fund the prolongation of support measures in 2021 as well.

[9] https://finmin.lrv.lt/uploads/finmin/documents/files/Priemoni%C5%B3%20planas%20d%C4%97l%20COVID-19.pdf

Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the updated Draft Budgetary Plan

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact			
				Levels, % of GDP		change from previous year in % of GDP - positive sign for deficit-increasing measures)	
				2020	2021	2020	2021
1	Cancelation of transfers from the State Social Insurance Fund to the private pension funds	Revenue	Adopted	-0.4	0.0	-0.4	0.0
2	Increases in excise duties on various types of fuel	Revenue	Adopted	-0.1	0.0	-0.1	0.0
3	Increases in excise duties on alcohol and tobacco products	Revenue	Adopted	-0.1	0.0	-0.1	0.0
4	Losses in VAT receipts due to possibility to defer taxes	Revenue	Adopted	0.3	0.1	0.3	-0.2
5	Losses in personal income tax receipts due to possibility to defer taxes	Revenue	Adopted	0.3	0.0	0.3	-0.3
6	An increase in the tax-exempt amount of personal income	Revenue	Adopted	0.3	0.1	0.3	0.1
7	Losses in corporate income tax receipts due to possibility to defer taxes	Revenue	Adopted	0.1	0.0	0.1	-0.1
8	Subsidies for short-time work schemes	Expenditure	Adopted	1.5	0.6	1.5	-1.0
9	Increased funding for additional investments	Expenditure	Adopted	1.1	0.1	1.1	-1.0
10	Increases in wages in the public sector	Expenditure	Adopted	0.8	0.6	0.8	0.6
11	Various subsidies to businesses, including SMEs and agriculture companies	Expenditure	Adopted	0.7	0.6	0.7	-0.1

12	Additional one-time benefits to pensioners and receivers of other benefits and additional support to job seekers	Expenditure	Adopted	0.7	0.1	0.7	-0.5
13	Special sickness benefits for persons taking care of dependants and the self-employed	Expenditure	Adopted	0.5	0.4	0.5	-0.1
14	Increases in old-age pensions	Expenditure	Adopted		0.7		0.7
15	Increases in universal child benefit	Expenditure	Adopted	0.3	0.1	0.3	0.1
16	Additional spending on medical equipment	Expenditure	Adopted	0.3	0.3	0.3	0.0
17	Increases in insurance payments for persons insured by the state	Expenditure	Adopted	0.2	0.1	0.2	0.1
			Total	**6.5**	**3.8**	**6.5**	**-1.8**

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
1	Individual guarantees in 2020	Adopted		0.1	0.0
2	Portfolio guarantees for loans and leasing transactions	Adopted		1.0	0.2
3	Guarantees to ensure obligations of tour operators	Adopted		0.0	0.0
4	Individual guarantees in 2021	Adopted		0.0	n/a
5	Guarantees linked to loans and non-equity securities (in 2020 and 2021)	Adopted		1.0	n/a
			Total	**2.1**	**0.2**

***** Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

4.2. Measures in 2021

For 2021, the updated Plan lists discretionary revenue and expenditure measures amounting to 3.9% of GDP. For 2021, some of the discretionary measures appear not to be temporary or matched by offsetting measures and they amount to 1.8% of GDP. On the revenue side, the largest (and also not temporary) measure is an increase in the tax-exempt amount of personal income (0.1% of GDP). This and less significant deficit increasing measures are somewhat offset by increases in excise duties on various types of fuel, alcohol and tobacco products. A few measures, such as increases in tax revenues due to adjustments to the minimum wages and public salaries, are considered as second round effects by the Commission and, consequently, not treated as discretionary revenue measures.

The discretionary expenditure measures amount to 3.7% of GDP and can be broadly clasified into increases in social security benefits (1.6% of GDP), including increases in old-age pensions (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, increases in wages in the public sector (0.6% of GDP), and other (0.4% of GDP).

Overall, based on the information presented in the updated Plan and taking into account the Commission ad hoc autumn forecast, 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 planned by Lithuania in 2021 do not appear to be temporary or matched by offsetting measures.

At the same time, it would be useful 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 updated Plan by the Council and the information to the European Parliament.

5. ANNEX – MANDATORY VARIABLES NOT INCLUDED IN THE UPDATED DRAFT BUDGETARY PLAN

The updated Draft Budgetary Plan does not include several mandatory variables for the basic assumptions including spending on health, education and employment.

Not included mandatory variables do not impede the Commission's ability to assess the updated Draft Budgetary Plan based on the updated Plan's assumptions.