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COMMISSION OPINION

of 18.11.2020

on the 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] This proposal includes the establishment

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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.

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 submitted the Draft Budgetary Plan for 2021. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

   The Draft Budgetary Plan was submitted by the caretaker government on the basis of unchanged policies.

6. 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.

7. According to the Commission 2020 autumn forecast, the Lithuanian economy is expected to contract by 2.2% in 2020 and to grow by 3.0% in 2021. The macroeconomic scenario underlying the Draft Budgetary Plan projects a decline in real GDP of 1.5% in 2020 and a recovery of 3.3% in 2021. The Commission prepared the macroeconomic forecast based on more recent statistical data than the projections underpinning the Draft Budgetary Plan. Both sets of forecasts project domestic demand to be the main reason behind the GDP decline, although this is somewhat offset by net exports; the Commission shows a comparatively more negative trade outlook in 2021. According to both the Draft Budgetary Plan's macroeconomic scenario and the Commission autumn 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.

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[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.

8. In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply in 2020, reaching a deficit of 8.8% of GDP, which is set to narrow to 5.0% of GDP in 2021. In 2022 and 2023, it is projected to diminish further to 2.7% and 1.6%, respectively. According to the Commission 2020 autumn forecast, Lithuania is projected to have a headline deficit of 8.4% of GDP in 2020 as spending on investment is expected to be slightly lower compared to the Draft Budgetary Plan.

In 2021, the Commission forecasts a general government deficit of 6.0% of GDP. The Draft Budgetary Plan includes in its revenue projections for 2021 grants of 1.5% of GDP under the Recovery and Resilience Facility with a corresponding expenditure of the same amount. 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 projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Lithuania, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 262 million.[9] On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes expenditure related to the Recovery and Resilience Facility of 1.5% of GDP that is sufficiently detailed and credibly announced.[10]

The Draft Budgetary Plan projects that government debt-to-GDP ratio will increase from 47.7% at the end of 2020 to 50.2% in 2021, similar to the Commission's projection of 50.7%.

9. For 2020, the Draft Budgetary Plan contains revenue and expenditure measures totalling 7.4% of GDP, of which 6.8% of GDP are measures adopted by the government to mitigate the impact of the COVID-19 pandemic. According to the Draft Budgetary Plan, the expenditure measures to mitigate the COVID-19 consequences amount to 5.9% of GDP. These measures include short-time work schemes (1.1% of GDP), additional funds for investment (1.7% of GDP), additional benefits (1.6% of GDP) and other. Additional benefits also comprise one-time payments to pensioners and other recipients of benefits and certain families with children, which amount to 0.5% of GDP. The Draft Budgetary Plan also includes smaller amounts of additional guarantees (1.1% of GDP) compared to the information provided in the Stability Programme (approximately 2% of GDP). The take-up of the guarantees as by the end of August 2020 is estimated at 0.1% 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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[9] Indicative number based on the Council Presidency compromise proposal for the RRF Regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[10] The treatment of the Recovery and Resilience Facility (RRF) in the Commission’s 2020 autumn 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/ip36_en.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.

10. For 2021, the Draft Budgetary Plan incorporates discretionary revenue and expenditure measures amounting to 1.9% of GDP. On the revenue side, the largest measure is an increase in the tax-free allowance (0.1% of GDP). The discretionary expenditure measures mostly comprise increases in salaries in the public sector (0.4% of GDP) and benefits (0.7% of GDP), including adjustments to old-age pensions that account for 0.5% of GDP. At the same time, some measures set out in the 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 1.5% of GDP and include the above-mentioned increases in tax-free allowance, salaries in the public sector and various benefits.

    Full implementation of one large measure linked to the additional guarantees (approximately 0.8% of GDP), which was adopted in March 2020 as a part of the government's package to mitigate the negative consequences of the COVID-19 pandemic, is delayed to 2021.

11. The Commission is of the opinion that the 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 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.

    As soon as a new government takes office and, as a rule, at least one month before the draft budget law is planned to be adopted by the national parliament, the authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan.

    It is anticipated that Lithuania will submit its Recovery and Resilience Plan 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, 18.11.2020

For the Commission
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Member of the Commission