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Analysis of the Draft Budgetary Plan of Lithuania

Accompanying the document

COMMISSION OPINION

on the 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% according to the Draft Budgetary Plan and by 2.2% according to the Commission autumn forecast. The difference in the Plan's and Commission forecasts stems from two main reasons: the Commission factored in revisions of statistical data and recent increase in the COVID-19 infection rates. For 2021, the Draft Budgetary Plan projects GDP to expand by 3.3%, while the Commission projects real GDP to grow by 3.0%.
- In the Draft Budgetary Plan, which was prepared under a no policy change assumption, 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. For 2021, the Draft Budgetary Plan includes in its revenue projections grants from the Recovery and Resilience Facility (RRF) of 1.5% of GDP with a corresponding expenditure of 1.5% of GDP. According to the Commission forecast, Lithuania is projected to have a headline deficit of 8.4% of GDP in 2020 and 6.0% of GDP in 2021. For the time being, since the submission of the Recovery and Resilience Plan and subsequent approval are only expected to take place in 2021, the Commission forecast includes only 10% 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 10% pre-financing of Recovery and Resilience Facility grants is equivalent to 0.5% of GDP in 2021.
- On 20 May 2020, the Commission has 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 6.7% of GDP. They comprise subsidies to short-time work schemes, funding for additional investment projects and benefits. Public guarantees aimed to support firms, amount to about 1.1% of GDP and do not entail an immediate budgetary impact. 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 autumn forecast and the 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 50% by the end of 2021.

- For 2021, the Draft Budgetary Plan comprises discretionary measures with a budgetary effect amounting to 1.9% of GDP, out of which some measures appear not to be temporary or matched by offsetting measures, amounting to 1.5% of GDP. These include increases in wages in the public sector, old-age pensions and other benefits.
- 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 set out in the 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 2021 Draft Budgetary Plan of Lithuania (hereafter called the Plan), which was prepared under no policy change assumption by the caretaker government and submitted on 15 October 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 outgoing government on 14 October.

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[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], 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 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. The 2021 Draft Budgetary Plan of Lithuania takes into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

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.

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

[2] 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

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

In 2019, real GDP growth accelerated to 4.3%. According to the macroeconomic scenario, which serves as a basis for the Draft Budgetary Plan, real GDP is expected to decrease by 1.5% in 2020 and then bounce back by 3.3% in 2021. Compared to the first scenario presented in the 2020 Stability Programme for Lithuania[3], 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 Plan's macroeconomic scenario projects domestic demand as the main reason for a decline in 2020. The harmonised Index of Consumer Prices inflation is forecast to stand at 0.9% in 2020 and 1.8% in 2021, lower than in 2019 (2.2%), mainly due to lower prices of oil and other energy goods.

The Commission forecasts a somewhat more pronounced real GDP decline in 2020 (-2.2%), and slightly lower growth in 2021 (3.0%). The difference in the Plan's and Commission forecasts stems from several reasons: the Commission factored in revisions of statistical data and recent increase in the COVID-19 infection rates and assumed a change in the UK and EU trading relations. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

As in the scenario underlying the Draft Budgetary Plan, the Commission projects domestic demand to drag GDP down in 2020, with positive net exports somewhat mitigating the slump. According to the Commission forecast, private consumption is to decline by 0.5 percentage points of GDP and investment by 2.5 percentage points of GDP more than the macro scenario of the Plan. After a deeper decline in investment in 2020, the Commission assumes more dynamic investment growth in 2021. At the same time, for 2021, the Commission autumn forecast points to a slightly slower export growth and, consequently, a larger negative contribution of net exports to GDP growth. The outlook for unemployment is broadly similar.

For 2020 and 2021, according to the Draft Budgetary Plan, the output gap as recalculated by the Commission following the commonly agreed methodology is -1.2% and -1.8%, respectively. The Commission 2020 autumn forecast envisages somewhat larger negative output gaps for 2020 and 2021, which can be explained by a more cautious real GDP growth projection in both years.

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 23 September 2020[4], 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.

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

[4] Available at https://www.vkontrole.lt/bp/opinions.aspx

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	-2.2	6.6	3.3	3.0
Private consumption (% change)	3.4	-3.7	-3.0	-3.5	3.1	2.9	3.2
Gross fixed capital formation (% change)	6.2	-5.1	-6.0	-8.5	4.1	3.8	9.6
Exports of goods and services (% change)	9.5	-15.0	-7.2	-4.9	13.7	7.9	6.8
Imports of goods and services (% change)	6.3	-10.3	-8.4	-6.8	9.0	9.4	9.1
Contributions to real GDP growth:							
- Final domestic demand	3.4	-3.2	-2.0	-3.3	3.0	3.6	4.0
- Change in inventories	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	2.5	-4.2	0.5	1.2	3.6	-0.3	-1.0
Output gap[1]	4.0	-6.3	-1.2	-1.8	-3.5	-1.8	-2.5
Employment (% change)	0.5	-4.5	-1.9	-2.8	2.3	1.3	0.3
Unemployment rate (%)	6.3	10.5	8.8	8.9	8.1	7.9	8.0
Labour productivity (% change)	3.9	-2.9	0.4	0.6	4.2	1.9	2.6
HICP inflation (%)	2.2	1.0	0.9	1.3	2.0	1.8	1.5
GDP deflator (% change)	2.8	-0.2	0.9	1.5	2.0	1.8	2.4
Comp. of employees (per head, % change)	10.2	-0.6	6.8	3.0	3.3	3.5	3.3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	5.2	0.0	9.3	6.7	0.0	7.9	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); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn 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

According to the Draft Budgetary Plan, in 2020, general government deficit is projected to be 2.6 percentage points lower compared with the one indicated in the second scenario of the Stability Programme.[5] The difference stems from various factors having opposite effects. The smaller than previously projected real GDP

[5] 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, 2021 Draft Budgetary Plan.

contraction and, consequently, a milder decline in general government revenues are set to have a deficit decreasing effect. At the same time, while the take-up of some measures was low, the government, after the submission of the Stability Programme, adopted various additional measures to mitigate the consequences of the COVID-19 pandemic. Overall, to compare the projections of the Stability Programme and the Draft Budgetary Plan, the difference in the projected revenue-to-GDP ratio (0.7 percentage points) is lower compared to a difference in the spending level (3.2 percentage points), leading to a smaller general government deficit than anticipated in spring.

For 2020, the Commission forecasts the general government deficit to be 0.4 percentage points lower than in the Draft Budgetary Plan, mainly because a slightly lower investment spending is expected.

In 2021, the Draft Budgetary Plan envisages the general government deficit of 5.0% of GDP, which is expected to narrow to 2.7% in 2022 and 1.6% in 2023. Compared to the Stability Programme, the general government deficit projections for 2021 are worse by almost one percentage point, mainly due to policy measures adopted by the government in October 2020.

The Draft Budgetary Plan includes in its revenue projections grants of 1.5% of GDP under the Recovery and Resilience Facility in 2021 with a corresponding expenditure of 1.5% of GDP.[6]

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 10% 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.. For this reason, the Commission forecasts lower revenue-to-GDP ratio. In the case of Lithuania, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 262 million or 0.5% of GDP in 2021.[7] 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.

In structural terms, the Draft Budgetary Plan envisages a (recalculated) structural balance[8] of -8.3% of GDP in 2020, which is set to improve to -4.3 of GDP in 2021. This is broadly in line with the Commission 2020 autumn forecast, with the main difference coming from different projections of the nominal balance.

However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent

[6] The statistical treatment of the financial support provided by the Recovery and Resilience Facility is subject to ongoing discussions between Eurostat and the Member States.

[7] The amount of pre-financing is 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.

[8] 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.

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

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**	***36.3***	**35.7**	**34.9**	***37.8***	**35.7**	**2.9**
of which:									
- Taxes on production and	11.5	11.5	12.0	*11.6*	11.6	11.9	*11.6*	11.4	0.1
- Current taxes on income,	8.7	8.7	8.7	*8.8*	8.7	8.0	*8.4*	8.3	-0.3
- 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	*10.6*	10.4	10.3	*10.6*	10.5	0.6
- Other (residual)	4.7	4.7	5.6	*5.3*	5.0	4.7	*7.2*	5.4	2.5
Expenditure	**34.6**	**34.6**	**48.4**	**45.2**	**44.1**	**38.8**	**42.7**	**41.7**	**8.1**
of which:									
- Primary expenditure	33.8	33.8	47.7	44.6	43.5	38.3	42.2	41.2	8.4
of which:									
Compensation of employees	10.2	10.2	12.1	11.8	11.7	11.0	11.5	11.3	1.3
Intermediate consumption	4.4	4.4	6.5	5.5	5.4	5.1	6.5	6.4	2.1
Social payments	13.9	13.9	18.4	17.2	17.0	15.9	16.2	15.9	2.3
Subsidies	0.4	0.4	3.2	2.3	2.3	0.4	0.5	0.7	0.1
Gross fixed capital formation	3.1	3.1	4.6	4.4	3.9	3.3	3.8	3.5	0.7
Other (residual)	1.8	1.8	2.9	3.4	3.1	2.6	3.7	3.2	1.9
- Interest expenditure	0.9	0.9	0.7	0.6	0.6	0.5	0.5	0.5	-0.4
General government balance (GGB)	**0.3**	**0.3**	**-11.4**	**-8.8**	**-8.4**	**-3.9**	**-5.0**	**-6.0**	**-5.3**
Primary balance	**1.1**	**1.1**	**-10.6**	**-8.2**	**-7.8**	**-3.4**	**-4.5**	**-5.5**	**-5.6**
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**	**-8.8**	**-8.4**	**-3.9**	**-5.0**	**-6.0**	**-5.3**
Output gap[1]	4.0	4.0	-6.3	-1.2	-1.8	-3.5	-1.8	-2.5	-5.9
Cyclically-adjusted balance[1]	-1.3	-1.3	-8.9	-8.3	-7.7	-2.5	-4.3	-5.0	-2.9
Structural balance (SB)[2]	**-1.3**	**-1.3**	**-8.9**	**-8.3**	**-7.7**	**-2.5**	**-4.3**	**-5.0**	**-2.9**
Structural primary balance[2]	-0.4	-0.5	-8.2	-7.7	-7.1	-2.0	-3.8	-4.5	-3.2

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); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

3.2. Debt developments

In 2019, the debt-to-GDP ratio stood at 35.9% of GDP. Due to smaller than planned general government revenues and a substantial increase in spending to mitigate the consequences of the COVID-19 pandemic, Lithuania's debt has increased considerably in 2020. The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase further from 47.7% at the end of 2020 to 50.2% in 2021, similar to Commission's projection of 50.7%. However, in both years, the debt level is also affected by accumulated pre-financing necessary to redeem large bond issuances in 2021 and 2022.

For 2020 and 2021, the Draft Budgetary Plan, envisages approximately 3 and 2.5 percentage points lower debt rate than in the second scenario of the Stability Programme, respectively. For 2020, the difference in debt-to-GDP levels is due to a lower deficit projection and stronger real GDP growth having a larger debt-reducing effect which is partially offset by higher projected stock flow adjustment. As stock-flow adjustment in 2021 is forecast to stand close to 0% of GDP, which is much lower than indicated in the Stability Programme, consequently, the Draft Budgetary Plan projects the debt-to-GDP ratio to be lower than previously envisaged.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**35.9**	**50.6**	**47.7**	**47.2**	**52.7**	**50.2**	**50.7**
Change in the ratio	2.2	14.7	11.8	11.3	2.1	2.6	3.5
Contributions[2]:							
1. Primary balance	**-1.1**	**10.6**	**8.2**	**7.8**	**3.4**	**4.5**	**5.5**
2. "Snow-ball" effect	**-1.4**	**3.7**	**0.8**	**0.8**	**-3.5**	**-1.8**	**-1.9**
Of which:							
Interest expenditure	0.9	0.7	0.6	0.6	0.5	0.5	0.5
Real growth effect	-1.4	2.8	0.5	0.8	-3.1	-1.5	-1.3
Inflation effect	-0.9	0.0	-0.3	-0.6	-0.9	-0.8	-1.1
3. Stock-flow adjustment	**4.8**	**0.4**	**2.8**	**2.6**	**2.2**	**0.0**	**-0.1**
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); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

Despite differences in the forecast of general government primary balances and deflators, overall, the debt projections in the Draft Budgetary Plan and the Commission 2020 autumn forecast are broadly in line for 2020 and 2021.

Risks related to the debt projections are contained as public guarantees are forecast to stand at 2% of GDP in 2020 and 2.7% of GDP in 2021. However, the take-up of additional guarantees provided to support business during the COVID-19 pandemic is low, i.e. 0.1% of GDP according to the Draft Budgetary Plan.

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary 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 Draft Budgetary Plan contains revenue and expenditure measures totalling to 7.4% of GDP, of which 6.7% of GDP (or EUR 3.26 billion) are measures adopted by the government to mitigate the impact of the COVID-19 pandemic. Other measures amounting to 0.7% of GDP include, for example, increases in wages in the public sector and benefits.

At the beginning of the pandemic, the Lithuanian government allowed businesses to defer payments of taxes and social security contributions. Recovery of tax arears and calculation of interest for outstanding tax payments were also suspended. According to the official website on business support in Lithuania[9], by mid-October, the amount of deferred payments was slightly above EUR 800 million or 1.7% of GDP. The Draft Budgetary plan assumes that some amounts will never be recovered, for example, EUR 108 million (or 0.2% of GDP) in VAT receipts. The list of discretionary revenue measures 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 occurred due to the second round effects and does not treat them as discretionary revenue measures.

On the expenditure side, measures to mitigate the COVID-19 consequences can be classified into three broad categories – short-time work schemes, additional funds for investment and additional social benefits. According to the Draft Budgetary Plan, in 2020, funds allocated for short-time work schemes amount to EUR 537 million or 1.1% of GDP, with the largest amount dedicated to support jobs after companies cancel (partial) downtime. 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 the initially envisaged.

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

In 2020, additional funds to increase public investment amount to EUR 816 million or 1.7% of GDP. Most of these funds are set to finance various construction projects. More than half of this amount was allocated by the government after the submission of the Stability Programme. Based on the available information on the take-up of some measures, the Commission projects smaller investment.

The Stability Programme also contained benefits for the self-employed and special compensation for persons who due to the COVID-19 pandemics have 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 one-time payment for children to specific families (EUR 72 million or 0.1% of GDP).

The initial Governments' 'Plan for Economic Stimulus and Mitigation of Consequences of COVID-19 Transmission'[10] contained two large measures, each amounting to EUR 500 million, meant to provide guarantees and in this way to support business liquidity. According the Draft Budgetary Plan, for 2020, instead of EUR 1 billion in guarantees as planned before, EUR 520 million (1.1% of GDP) of state guarantees are envisaged. The second measure was transformed into a fund which was established this year and is set to start providing guarantees in 2021.

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.

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

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year - positive sign for deficit-increasing measures)		
					2020	2021
	Cancelation of transfers from the State Social Insurance Fund to the private pension funds	Revenue	Adopted		-0.4	0.0
	Increases in excise duties on various types of fuel	Revenue	Adopted		-0.1	0.0
	Increases in excise duties on alcohol and tobacco	Revenue	Adopted		-0.1	0.0

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

	products					
	Losses in VAT receipts due to possibility to defer taxes	Revenue	Adopted		0.2	-0.2
	An increase in tax-free allowance	Revenue	Adopted		0.3	0.1
	Increased funding for additional investments	Expenditure	Adopted		1.7	-1.5
	Subsidies for short-time work schemes	Expenditure	Adopted		1.1	-1.0
	Various subsidies to businesses, including SMEs and agriculture companies	Expenditure	Adopted		0.8	-0.8
	Additional one-time benefits to pensioners and receivers of other benefits and additional support to job seekers	Expenditure	Adopted		0.7	-0.5
	Special sickness benefits for persons taking care of dependants and the self-employed	Expenditure	Adopted		0.6	-0.6
	Increases in wages in the public sector	Expenditure	Adopted		0.6	0.4
	Increases in old-age pensions	Expenditure	Adopted			0.4
	Increases in universal child benefit	Expenditure	Adopted		0.3	0.1
	Additional spending on medical equipment	Expenditure	Adopted		0.3	-0.3
	Increases in insurance payments for persons insured by the state	Expenditure	Adopted		0.2	0.1
				Total	**6.2**	**-3.8**

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	0.1
3	Guarantees to ensure obligations of tour operators	Adopted	0.0	0.0

	Individual guarantees in 2021	Adopted		0.0	n/a
	Guarantees linked to loans and non-equity securities (in 2021)	Adopted		0.8	n/a
			Total	**1.9**	**0.1**

***** 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 Draft Budgetary Plan lists discretionary revenue and expenditure measures amounting to 1.9% of GDP, out of which some measures appear not to be temporary or matched by offsetting measures, amounting to 1.5% of GDP. On the revenue side, the largest measure is an increase in the tax-free allowance (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 mostly comprise increases in salaries in the public sector (0.4% of GDP) and benefits (0.7% of GDP). Adjustments to old-age pensions account for 0.4% of GDP and were not in line with legislation, which did not allow pension increases during a recession. Therefore, the outgoing government approved a change in a relevant law. It should be noted that the current pension indexation system was adopted as a part of new Social Model in 2017. The same year, Lithuania asked and was granted by the Council a temporary allowance linked to this structural reform (0.4% of GDP in 2017 and 2018, and 0.5% of GDP in 2019).

Overall, while acknowledging the no-policy-change nature of its projections, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, 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 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 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.

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

The 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 Draft Budgetary Plan based on the plan’s assumptions.