002088/EU XXVI. GP
Eingelangt am 22/11/17

Eurogroup

Brussels, 22 November 2017
(OR. en)

EG 32/17

EUROGROUP 34
ECOFIN 983
UEM 315

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	22 November 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2017) 8020 final
Subject:	COMMISSION OPINION of 22.11.2017 on the Draft Budgetary Plan of Lithuania
Enclosed:	C(2017) 8020 final

Delegations will find attached document C(2017) 8020 final.

Brussels, 22.11.2017
C(2017) 8020 final

COMMISSION OPINION

of 22.11.2017

on the Draft Budgetary Plan of Lithuania

{SWD(2017) 520 final}

www.parlament.gv.at

COMMISSION OPINION

of 22.11.2017

on the Draft Budgetary Plan of Lithuania

GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) 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 the basis of the Draft Budgetary Plan for 2018 submitted on 16 October 2017 by Lithuania, 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 Pact and should preserve a sound fiscal position which ensures compliance with its medium term budgetary objective (MTO) of -1.0% of GDP, taking into account the allowances linked to the implementation of the systemic pension reform and the structural reforms for which a temporary deviation is granted.

5. The macroeconomic scenario underlying the Draft Budgetary Plan appears plausible for both 2017 and 2018. The real GDP is expected to grow to 3.6% in 2017 and moderating to 2.9% in 2018. Domestic demand is set to continue to support growth in 2017 and 2018 on the back of a robust increase of nominal wages. However, increased inflation and contracting employment due to a lack of qualified workers are likely to weigh on domestic demand growth in 2018. Compared to the scenario underlying the Stability Programme, the growth forecast for 2017 has been revised upwards by 0.9 percentage point. The revision reflects a substantially stronger-than-expected GDP growth during the first half of 2017 resulting from the surge in exports and robust private sector investment, which were supported by solid growth in private consumption. For 2018, the forecast has been revised upwards by 0.3 percentage point as the 2017 growth momentum is expected to spill over into 2018. The Draft Budgetary Plan's macroeconomic projections are slightly below those of the Commission 2017 autumn forecast, which projects real GDP growth of 3.8% and 2.9% for 2017 and 2018, respectively. The somewhat stronger Commission's outlook for 2017 is related to the solid performance of the latest economic indicators, which were not yet included in the macroeconomic scenario underlying the Draft Budgetary Plan. The growth rates of private consumption as well as wages, the tax bases for personal income tax and social contributions, are broadly in line in both scenarios, while the main difference is explained by the different forecasts of exports.

6. Lithuania complies with the requirement of Regulation (EU) No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic

www.parlament.gv.at

forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been endorsed by the National Audit Office of Lithuania, which carries out the function of a budget policy monitoring institution via its Budget Policy Monitoring Department.

7. The Draft Budgetary Plan projects a general government surplus of 0.1% of GDP for 2017 compared to a deficit of 0.4% in the Stability Programme. This improvement is due to lower-than-expected deposit insurance pay-outs and better-than-expected revenues of the social insurance funds and local governments. For 2018, the Draft Budgetary Plan targets a general government surplus of 0.6% of GDP, which is 0.2% of GDP higher than in the Stability Programme. The increase in the planned budget surplus compared to the Stability Programme aims to respect the national fiscal discipline rules. The government introduced some tax adjustments and decreased administrative expenditures to meet the tighter fiscal target. The Draft Budgetary Plan projects the general government debt at 41.5% of GDP in 2017 and 37.6% of GDP for 2018. The debt decrease of 0.9% of GDP in 2017 compared to the Stability Programme is explained by the improvement in the general government balance, as well as by the impact of higher real GDP growth and higher inflation on the debt ratio. According to the Draft Budgetary Plan, interest expenditure in Lithuania is expected to fall by 0.1% of GDP in 2017 to 1.2% and is projected to decrease further in 2018 to 0.9% of GDP, well below the 2.0% recorded back in 2012 at the peak of the euro area sovereign debt crisis. Those estimates are in line with the Commission 2017 autumn forecast, including a 0.3% of GDP drop in interest payments in 2018, which is mostly due to the repayment of high interest loans taken during the last crisis. Against the background of falling interest expenditure, the projected unchanged structural balance[1] in 2017 and 2018 (-0.9% of GDP in both years) is accompanied by a deterioration in the structural primary balance (from 0.2% to 0.0%, respectively).

8. The Draft Budgetary Plan for 2018 includes discretionary revenue and expenditure measures with a net positive budgetary impact of around 0.1% of GDP in 2018. The costs of additional social spending and public salary increases are assumed to be covered by the expected revenues from a set of tax compliance measures and from increase in excise duties. The measures included in the Draft Budgetary Plan have been incorporated in the Commission 2017 autumn forecast, but the Commission has more conservative estimates of revenues from improved tax compliance.

9. The Commission 2017 autumn forecast forecasts the same general government surplus for 2017 as the Draft Budgetary Plan of 0.1% of GDP. The improvement over Commission 2017 spring forecast is supported by the trend of robust tax revenue collection helped by a higher-than-expected increase in wages and consumption, while spending discipline is projected to be maintained. For 2018 it predicts a general government surplus of 0.2% of GDP, which is 0.4 percentage point lower than targeted by the Draft Budgetary Plan. The difference is explained by the Commission's more conservative estimates of the expected extra revenues from increased tax compliance. The Commission's projection of general government debt for 2017 are similar to those of the Draft Budgetary Plan, while for 2018 the debt projections differ due to a divergence in the expected general government surpluses. According to the Commission 2017 autumn forecast, risks to the public finance forecast are tilted to the upside due to prospects of more robust growth in the tax

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

www.parlament.gv.at

base that may materialise only if the government maintains discipline in expenditure growth.

10. In 2017, Lithuania benefits from a temporary deviation of 0.1% of GDP from the required adjustment path towards the MTO linked to the pension reform clause and from a temporary deviation of 0.4% linked to the structural reform clause. Lithuania started 2017 from an initial position above its MTO. According to the information provided in the Draft Budgetary Plan, with the recalculated structural balance of -0.9% and -0.5% of GDP in 2017 and 2018, respectively, Lithuania is expected to remain above its medium-term objective also in 2017 and 2018, which is in line with the Commission 2017 autumn forecast. Therefore, the assessment of the (recalculated) Draft Budgetary Plan points to compliance with the provisions of the SGP in 2017 and 2018, which is also confirmed by the Commission 2017 autumn forecast.

11. With regard to the structural part of the fiscal recommendations contained in the Council Recommendation[2] of 11 July 2017, the Draft Budgetary Plan envisages a number of fiscal structural reform measures in the context of the 2017 European Semester aimed at improving tax compliance, broadening the tax base to sources that are less detrimental to growth and addressing the medium term fiscal sustainability challenge related to pensions. In particular Lithuania plans to advance the use of a new smart tax administration information system, to broaden tax base and to set a minimum threshold of pension social insurance contributions. The Draft Budgetary Plan contains a plan that affects the tax burden on labour, as it envisages further adjustments to the tax-exempt amount of personal income tax. In 2018, the size of planned increases in revenues and expenditure are expected to coincide, as additional revenues from an improvement in tax compliance and tax base adjustments are expected to cover the planned increase in social payments.

12. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Lithuania, which is currently under the preventive arm, is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2018 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 11 July 2017 in the context of the 2017 European Semester and invites the authorities to make further progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

Done at Brussels, 22.11.2017

For the Commission
Pierre MOSCOVICI
Member of the Commission

[2] OJ C 261, 9.8.2017.

www.parlament.gv.at