



REPUBLIC OF LITHUANIA

FISCAL TRANSPARENCY EVALUATION

May 2019

This Fiscal Transparency Evaluation paper on the Republic of Lithuania was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in March 2019.

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F I S C A L A F F A I R S D E P A R T M E N T

Republic of Lithuania

Fiscal Transparency Evaluation

Sagé de Clerck, Yugo Koshima, Vina Nguyen, Imran Aziz, and
Sami Yläoutinen

Technical Report | March 2019



I N T E R N A T I O N A L M O N E T A R Y F U N D

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GLOSSARY

BCG	Budgetary Central Government
BD	Budget Department
BoL	Bank of Lithuania
BPMD	Budget Policy Monitoring Department
CG	Central Government
COFOG	Classification of Functions of Government
EDP	Excessive Deficit Procedures
ESA	European System of Accounts
FAD	Fiscal Affairs Division
FPC	Financial Public Corporations
FPD	Ministry of Finance, Financial Policy Department
FSR	Fiscal Risk Report
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GG	General Government
IFRS	International Financial Reporting Standards
IPSASs	International Public Sector Accounting Standards
LG	Local Government
LTWBF	The Long-term Work Benefit Fund
MOE	Municipality-owned Enterprise
MoEc	Ministry of Economy
MoF	Ministry of Finance
MSSL	Ministry of Social Security and Labor
MTBF	Medium-term Budget Framework
MTO	Medium-Term Objective
NAO	National Audit Office
NFPC	Nonfinancial Public Corporation
OECD	The Organization for Economic Cooperation and Development
PC	Public Corporation
PPP	Public-Private Partnership
PSDF	The Compulsory Health Insurance Fund
SAMD	State Asset Management Department
SDDS+	Special Data Dissemination Standard Plus
SOE	State-owned Enterprise
SSIF	State Social Insurance Fund (SODRA in Lithuanian)
PIDA	Public Investment Development Agency (VIPA in Lithuanian)
GCCSOEs	Governance Coordination Center for State-owned Enterprises (VKC in Lithuanian)

LEVEL OF PRACTICE	RATING			
	Not Met	Basic	Good	Advanced

LEVEL OF IMPORTANCE	RATING		
	High	Medium	Low

PREFACE

At the request of the Minister of Finance, Mr. Vilius Šapoka, an IMF technical assistance mission visited Vilnius, Lithuania from November 28 to December 11, 2018. The mission carried out a Fiscal Transparency Evaluation based on the IMF's Fiscal Transparency Code. The mission comprised Sagé de Clerck (head) and Yugo Koshima of the IMF's Fiscal Affairs Department, Vina Nguyen of the IMF's European Department, and Imran Aziz and Sami Yläoutinen (both FAD experts).

At the Ministry of Finance the mission met with representatives of the: Budget Department; Financial Policy Department; Public Finance System Management Division; Reporting, Audit, Property Valuation and Insolvency Policy Department; State Asset Management Department; State Treasury Department; Financial Markets Policy Department; National Audit Office (including with the Budget Policy Monitoring Department who is the independent fiscal institution and the Financial Audit Department); and Statistics Lithuania.

The mission also met with senior officials from: the Bank of Lithuania (Economics and Financial Stability Service, and Prudential Supervision Department); the Ministry of Economy (Company Law and Business Environment Improvement Department and Lithuanian Geological Survey); the Ministry of Interior (International Cooperation Group, Economics and Finance Department, and Regional Policy Department); Ministry of Transport and Communication (Budget and Investment Department); Environmental Protection Agency; Monitoring and Forecasting Agency; and Vilnius City Municipality (Financial and Strategic Planning Department).

The evaluation is based on information available at the time of the visit in December 2018. The findings and recommendations of the report represent the views and advice of the IMF mission team and do not necessarily reflect those of the authorities. Unless otherwise specified, the data presented in text, figures and tables in the report are estimates made by the IMF mission team and not official estimates of the government of Lithuania.

The mission would like to thank the Lithuanian authorities and other officials for their excellent collaboration in the conduct of this evaluation and for the frank and open exchanges of views on all matters discussed. In particular, the mission wants to thank to Ms. Eglė Radzevičienė (Financial Policy Department of the Ministry of Finance) for her kind assistance to coordinate and support the work of the mission. The mission is also grateful to Mr. Patrick Ryan (FAD Research Assistant) for his support in compiling data and cross-country comparisons.

EXECUTIVE SUMMARY

This Fiscal Transparency Evaluation estimated Lithuania's public sector financial position to take a more comprehensive view of public finances in Lithuania. For 2017, it estimates consolidated public sector revenue and expenditures of 40 and 39 percent of GDP, public sector asset holdings and liabilities of 165 and 96 percent of GDP, and public sector net worth of 69 percent of GDP (Table 0.2). Inclusion of public corporations increases net lending from 0.5 percent of GDP reported for the general government sector to 1.2 percent of GDP, while it decreases financial net worth from negative 21 percent of GDP reported for the general government sector to negative 41 percent of GDP.

Lithuania meets good or advanced practice on 28 out of 36 principles of the Fiscal Transparency Code, basic practice on a further six principles, while two principles are not met (Table 0.1). Practices are stronger in the areas of fiscal reporting, and fiscal forecasting and budgeting, where Lithuania complies with the comprehensive reporting framework established by the European Union and with the requirements of the IMF's *Special Data Dissemination Standard (SDDS) Plus*. Practices are generally weaker on fiscal risk analysis and management, with most notably the lack of a comprehensive statement of fiscal risks.

While Lithuania's overall assessment is comparable to or better than other EU Member States that have undergone a Fiscal Transparency Evaluation (Austria, Finland, Ireland, and the UK), there is room for further improvement. The government operates in a challenging environment with an unusually large number of public sector entities and fiscal reports whose information is not always comparable or consistent. Quick improvements in transparency could be gained by consolidating some of these documents in user friendly and more relevant formats. Clearly linking various documents, showing the relations, enhancing comparability, and explaining the differences and changes from one version to the next could greatly facilitate more transparency. In other cases, information already produced by government for internal use could be disseminated more widely in formats that facilitate better analysis and decision-making.

Fiscal reporting meets good or advanced practice in almost all areas (Chapter I). The reports follow international and regional reporting standards and cover all entities comprising the general government and its subsectors. They include all appropriately classified revenue, expenditure, financial assets, and liabilities, as well as both cash-based and accrued-based information. In addition, the Ministry of Finance publishes both the projections and estimated outturns of tax expenditure. Reports are published frequently and in a timely manner. Fiscal statistics are prepared by the professionally independent Statistics Lithuania in accordance with the *European Statistics Code of Practices* and are periodically monitored by Eurostat. The integrity of the financial statements is ensured by the regular audits performed by the independent National Audit Office.

Some scope remains to enhance fiscal reporting practices. There is no fiscal report that provides a consolidated view of the public sector. While the financial performance of public nonfinancial corporations operating at the central government level are published, there are no consolidated reports of municipal public corporations. National financial statements include the net position of public corporations only as an equity investment. While fiscal statistics cover all financial assets and liabilities, these statistics do not include nonfinancial assets. Reconciliations and explanations of revisions as required by the Fiscal Transparency Code could be further improved.

Fiscal forecasting and budgeting practices meet good or advanced practice in most areas (Chapter II). Budget documentation includes three-year forecasts for the main macroeconomic variables, their components and underlying assumptions. Fiscal legislation provides a clear framework for budget preparation and execution. Adherence to the budget calendar is good. Fiscal policy objectives are set in accordance with the *Constitutional Law on the Implementation of the Fiscal Treaty*, which came into force in 2015. The law includes a structural balance rule with a debt anchor. So far, the fiscal outturns have been in line with the fiscal objectives. Macroeconomic and fiscal forecasts are evaluated by an independent fiscal institution, the National Audit Office of Lithuania.

However, there is scope to enhance fiscal forecasting and budgeting. While budget documentation includes information on the discretionary expenditure and revenue measures included in the budget, it does not provide a clear explanation of the differences between successive vintages of these estimates. Similarly, the macroeconomic forecasts could be further enhanced by a more comprehensive elaboration of the factors affecting the economic and fiscal outlook. The usefulness of output gap estimations could be improved if the information required by the BPMD on the indicators of the potential output are published together with both the March and September forecasts.

Fiscal risk analysis and management also meets good or advanced practice in many areas but are slightly weaker than the other pillars of the evaluation (Chapter III). Lithuania's public finances are exposed to sizable risks from a variety of sources. Information on these risks is published in several reports such as budget documents a regular assessment of long-term fiscal sustainability, contingencies and guarantees, and for the financial sector in reports by the Bank of Lithuania. Natural resources and the environment pose relatively small risks as evidenced from estimates published by the government. The framework for analyzing and reporting on risks to the government's liabilities is comprehensive, but less so on the asset side.

Yet, published information does not provide a complete picture of the fiscal risks to which the government is exposed. The most notable gap is the absence of a published summary report on specific fiscal risks or a consolidated fiscal risk statement. Information on the government's rights, obligations and other exposures related to some guarantees and PPP contracts is not published, and only limited information is available on the concessions at the

municipal level, which could also be a source of risk. The effectiveness of monitoring, oversight and analysis of risks associated with public corporations, both at state and municipal level, could also be improved.

The evaluation provides the following key recommendations to further enhance fiscal transparency in Lithuania. Specifically, it recommends that the government should:

- Consolidate the present array of fiscal reports into a smaller number of user-friendly reports that improve the consistency and comparability of information, as well as its transparency.
- Produce and publish Whole-of-Government Accounts, following a phased approach.
- Publish analytical and explanatory notes to government fiscal reports to explain differences in aggregate fiscal data across different reports and historical revisions.
- Publish more detailed explanations of the assumptions and methodologies underpinning macroeconomic forecasts.
- Publish a reconciliation of changes to key fiscal aggregates between successive fiscal forecasts and their main drivers, broken down into the effects of individual policy changes, macroeconomic determinants, and other factors.
- Disclose the size and nature of specific fiscal risks by publishing a comprehensive statement of fiscal risks.
- Strengthen the monitoring and oversight of all state and municipal level public corporations by producing and publishing a consolidated report on their stocks, flows, and inter-public sector transactions.

The remainder of this report provides a more detailed evaluation of Lithuania's fiscal transparency practices and recommended reform priorities. It is organized as follows:

- Chapter I evaluates the coverage, timeliness, quality, and integrity of fiscal reporting;
- Chapter II evaluates the comprehensiveness, orderliness, policy orientation, and credibility of fiscal forecasting and budgeting; and
- Chapter III evaluates arrangements for the disclosure and management of fiscal risks.

Table 0.1. Lithuania: Summary Assessment Against the Fiscal Transparency Code

I. Fiscal Reporting	II. Fiscal Forecasting & Budgeting	III. Fiscal Risk Analysis & Management
Coverage of Institutions	Budget Unity	Macroeconomic Risks
Coverage of Stocks	Macroeconomic Forecasts	Specific Fiscal Risks
Coverage of Flows	Medium-term Budget Framework	Long-term Fiscal Sustainability
Coverage of Tax Expenditure	Investment Projects	Budgetary Contingencies
Frequency of In-Year Reporting	Fiscal Legislation	Asset and Liability Management
Timeliness of Annual Accounts	Timeliness of Budget Documentation	Guarantees
Classification	Fiscal Policy Objectives	Public-Private Partnerships
Internal Consistency	Performance Information	Financial Sector
Historical Revisions	Public Participation	Natural Resources
Statistical Integrity	Independent Evaluation	Environmental Risks
External Audit	Supplementary Budget	Subnational Governments
Comparability of Fiscal Data	Forecast Reconciliation	Public Corporations

Table 0.2. Lithuania: Public Sector Financial Overview, 2017
(Percent of GDP)

	General Government					Public Corporations			Public sector	
	Central gov't	Local gov't	SSIF	Consolidation	Consolidated	Nonfinancial	Central Bank	Other financial	Consolidation	Consolidated
Flows										
Revenue	21.6	7.9	12.6	-8.5	33.6	8.7	0.3	0.0	-2.6	40.0
Expenditure	21.7	7.7	12.1	-8.5	33.1	8.1	0.1	0.0	-2.6	38.7
Net lending/borrowing	-0.2	0.2	0.5	-	0.5	0.6	0.2	0.0	-	1.2
Stocks										
Assets	109.6	18.0	1.7	-9.1	120.3	28.6	44.5	0.2	-28.8	164.8
Nonfinancial	75.1	14.7	0.0	-	89.8	19.9	0.1	0.0	-	109.7
Financial	34.5	3.3	1.7	-9.1	30.5	8.7	44.4	0.2	-28.8	55.1
Liabilities	49.3	1.7	9.4	-9.1	51.4	28.6	44.5	0.2	-28.8	96.0
Liabilities, other than equity	45.7	1.7	9.4	-9.1	47.8	12.2	42.9	0.2	-10.7	92.4
Public service pension entitlements	3.6	0.0	0.0	0.0	3.6	-	-	-	-	3.6
Equity	0.0	0.0	0.0	0.0	0.0	16.4	1.6	0.0	-18.0	0.0
Net worth	60.3	16.3	-7.7	-	68.8	-	-	-	-	68.8
Net financial worth	-14.8	1.6	-7.7	-	-20.9	-3.5	1.6	0.0	-	-40.9
Memorandum items										
<i>Net financial worth excl. public service pension entitlements</i>	-11.2	1.6	-7.7	-	-17.3	-3.5	1.6	0.0	-	-37.3
<i>Social security pension entitlements</i>	-	-	182.6	-	182.6	-	-	-	-	182.6

Source: Eurostat, Statistics Lithuania, State Treasury, and staff estimates.

Note: Data on social security and public service pension entitlements are for 2015.

I. FISCAL REPORTING

1. Fiscal reports should provide a comprehensive, relevant, timely and reliable overview of the government's financial positions and performance. This chapter assesses the quality of fiscal reporting in Lithuania against the principles set out in the Fiscal Transparency Code. In doing so, it assesses four dimensions of the code:

- The coverage of institutions, stocks, and flows;
- The frequency and timeliness;
- The quality of fiscal reporting; and
- The integrity of fiscal reports.

2. Fiscal reports, which include in-year budget execution reports, fiscal statistics, and annual financial statements, should:

- Cover all institutional units in the public sector classified according to international standards;
- Record all assets, liabilities, revenue, expenditure, financing, and other economic flows;
- Be published in a frequent and timely manner;
- Reconcile the different balances calculated and have comparable data across reports; and
- Be prepared by an independent agency, in the case of statistics, and scrutinized by an independent audit institution in the case of financial statements.

3. While the Lithuanian authorities publish a large volume of fiscal reports, they are somewhat fragmented and not easily comparable. After the implementation of accrual accounting in 2010, the government's financial statements significantly expanded the coverage of institutions, flows, and stocks. As discussed below, the "national financial statements" now: (i) consolidate at least all State and municipal budget organizations and social security funds; (ii) present a complete balance sheet which includes both nonfinancial and financial assets and liabilities and net worth; (iii) and record transactions on an accrual basis. However, as shown in Table 1.1, there are many fiscal reports, which differ in terms of coverage of institutions, flows and stocks, and the basis of accounting. There is no single report providing a comprehensive, consolidated view of the public sector.

4. Fiscal reporting follows international and regional reporting standards. Fiscal statistics for the general government sector strictly follow the *European System of Accounts (ESA) 2010* framework, and Government Finance Statistics (GFS) data are produced following the guidelines of the *Government Finance Statistics Manual (GFSM), 2014*. The government's financial statements are based on the national accounting standards. These standards broadly follow International Public Sector Accounting Standards (IPSASs), adjusted for country specific issues. Differences and inconsistencies between the data reported in various reports increase the challenges of interpreting these data and analyzing fiscal trends.

5. Lithuania's main summary fiscal reports comprise:

- **Annual National Financial Statements and State Consolidated Financial Statements** are produced by the State Asset Management Department (SAMD) of the Ministry of Finance (MoF) and audited by the National Audit Office (NAO). The accrual-based statements comprise a balance sheet, a statement of financial performance, a statement of changes in net assets, and explanatory notes and annexes. In addition, they also present a cash-flow statement. The national financial statements comprise financial statements of all State and municipal budget organizations and social security funds, while the state consolidated financial statements consolidate all State budget organizations;
- **Annual State Budget Implementation Reports** are produced by the State Treasury and audited by the NAO and presenting the revenue and expenditure of the State budget on an economic and administrative classification;
- **Quarterly Accounts for General Government** are produced by Statistics Lithuania in accordance with *ESA 2010* and including financial assets and liabilities and accrued revenue, expenditure, and financing. The same data are also disseminated as part of the Special Data Dissemination Standard Plus (SDDS+) reporting requirements;
- **An Annual State-Owned Enterprise (SOE) Report** is produced by the Governance Coordination Center for State-owned entities (GCCSOE) under the Ministry of Economy (MoEc) and presenting the aggregate financial performance of state-owned enterprises, which combine 84 public corporations and some extrabudgetary general government units, together with information on public service obligations and analysis of key sectors and individual enterprises. A half-yearly report with similar contents is also produced;
- **Monthly Fiscal Data of Central Government and Social Security Funds** are produced by the MoF's Financial Policy Department (FPD) and including monthly cash-basis revenue and expenditure and financing of the State budget, social security funds, and central government extrabudgetary units. The same data is also disseminated as part of the SDDS+ reporting requirements;
- **An Annual Public Debt Report** is produced by the State Treasury and presenting data and analysis of State budget borrowing, the debt portfolio, on-lending and guarantees, in comparison with the borrowing plans and limits; and
- **An Annual Budget Revenue Review** is produced by the FPD and presenting analysis of State and municipal budget revenue together with outturn data on tax expenditure.

Table 1.1. Lithuania: List of Fiscal Reports

Report	Source	Sectors	Coverage		Accounting		Publication	
			Flows	Stocks	Basis	Classification	Frequency	Timeliness
In-Year Reports								
Fiscal Data of Central Gov't and SSIF	FPD	CG, SSIF	Rev, Exp		Part accrual (non-consolidated)	National	Monthly	1 month
Central Gov't Accounts	FPD	CG	Rev, Exp, Fin		Cash	GFSM 2014	Monthly	1 month
State Budget Revenue Implementation	Treasury	BCG	Rev		Cash	National	Monthly	15 days
Central Gov't Debt	Statistics Lithuania	CG		Debt	Part accrual	ESA 2010	Monthly	1 month
Lithuanian Gov't Borrowing Statistics	Treasury	BCG		Debt	Cash	National	Monthly	20 days
State Budget Expenditure Performance	Treasury	BCG	Exp		Cash	National	Quarterly	45 days
Fiscal Data of Local Gov't	FPD	LG	Rev, Exp		Part accrual (non-consolidated)	National	Quarterly	3 months
Municipal Budget Revenue	BD	LG	Rev		Cash	National	Quarterly	15 days
Preliminary Data on Municipal Budget Rev.	FPD	LG	Rev		Cash	National	Quarterly	25 days
General Gov't Accounts	FPD	GG	Rev, Exp, Fin		Part accrual	GFSM 2014	Quarterly	3 months
Quarterly Accounts for General Government	Statistics Lithuania	GG	Rev, Exp, Fin	Financial assets, Liabilities	Part accrual	ESA 2010	Quarterly	4 months
Municipality Debt and Guarantees	BD	LG		Debt, Guarantees	Cash	National	Quarterly	1 month
Municipality Payable	FPD	LG		Payable	Cash	National	Quarterly	4 months
General Gov't Debt	Statistics Lithuania	GG		Debt	Part accrual	Part accrual	ESA 2010	115 days
Interim State Budget Implementation Report	Treasury	BCG	Rev, Exp		Cash	National	Semi-annual	45 days
Interim SOE Report	GCCSOE	Part PCs	Rev, Exp	Assets, Liabilities	Accrual	National	Semi-annual	Aug 15th
Year-End Reports								
State Budget Implementation Report	Treasury	BCG	Rev, Exp, Fin	Guarantees	Cash	National	Annual	Oct 1st
State Consolidated Financial Statements	SAMD	CG	Rev, Exp, Fin	Assets, Liabilities	Accrual	National	Annual	Oct 1st
National Financial Statements	SAMD	GG	Rev, Exp, Fin	Assets, Liabilities	Accrual	National	Annual	Oct 1st
EDP Notification	Statistic Lithuania s	GG	Reconciliation 1/	Debt	Part accrual	ESA 2010	Annual	April and October
General Gov't Deficits and Debt	Statistics Lithuania	GG	Deficits	Debt	Part accrual	ESA 2010	Annual	April and October
SOE Report	GCCSOE	Part PCs	Rev, Exp	Assets, Liabilities	Accrual	National	Annual	Aug 15th
Liabilities of Public Corporations	Statistics Lithuania	Part PCs		Liabilities	Part accrual	ESA 2010	Annual	12 months
General Government Guarantees	Statistics Lithuania	GG		Guarantees	Part accrual	ESA 2010	Annual	12 months
General Gov't Non-Performing Loans	Statistics Lithuania	GG		Non-performing loans	Part accrual	ESA 2010	Annual	12 months
General Gov't Participations in Capital	Statistics Lithuania	GG		Equity inv't	Part accrual	ESA 2010	Annual	12 months
Budget Revenue Review	FPD	BCG, LG	Rev		Cash	National	Quarterly	3 months
State Capital Investment Report	BD	BCG	Exp		Cash	National	Annual	May 1st
Public Debt Report	Treasury	BCG		Debt, Loans, Guarantees	Cash	National	Annual	9 months

Note: BCG: Budgetary Central Government; LG: Local Government; GG: General Government; PC: Public Corporation; Rev: Revenue; Exp: Expenditure; Fin: Financing; BD: Budget Department; SAMD: State Asset Management Department.
1/ Reconciliation between (i) working balances in government accounts and net lending/borrowing and (ii) deficit and debt.

1.1. Coverage of Fiscal Reports

1.1.1. Coverage of Institutions (Good)

6. In 2017, Lithuania's public sector comprises 4,050 institutional units. These can be broken down into the following subsectors:

- **Central government**, which comprises 651 central budgetary organizations and 59 extrabudgetary central government units. The central budgetary organizations include 14 ministries, the Office of the President, the State legislature (Seimas), the Judiciary, the non-ministerial committees and offices, and various cost centers under these entities (including cultural facilities, vocational schools, and social welfare centers). The extrabudgetary central government units include 18 public health care institutions, 26 universities and colleges, five funds,¹ and 10 other non-commercial entities,² all of which have individual budgets not fully included in the State budget;
- **Local government**, which comprises 60 municipalities, subdivided into around 3,000 service delivery units such as schools, clinics, and cultural facilities;
- **Social security funds**, which comprise four funds—the State Social Insurance Fund (SSIF), the Compulsory Health Insurance Fund (PSDF), the Long-Term Work Benefit Fund (LTWBF), and the Guarantee Fund—subdivided into 19 regional branches;
- **Public nonfinancial corporations**, which comprise 379 commercially-oriented entities controlled by the government units, of which 84 are controlled by the central government through the GCCSOE and 295 are controlled mainly by the municipalities;
- **Public financial corporations**, which comprise the Bank of Lithuania (BoL) and four other financial intermediaries controlled by the central government or another public corporation.³

7. Lithuania's public sector expenditure is estimated to account for around 39 percent of GDP in 2017. Table 1.2 summarizes the distribution of public sector revenue and expenditure across the different subsectors and shows that:

- **General government** expenditure accounts for 33 percent of GDP on a consolidated basis, of which approximately a half flows through the central government, one-third is spent by the social security funds, and the remainder by the local governments;
- **Public corporations** expenditure accounts for 8 percent of GDP, more than 98 percent of which is spent by public nonfinancial corporations.

¹ These include the Reserve (Stabilization) Fund, the Fund for Decommissioning of Ignalina Nuclear Power Plant, the License Warehouse Compensation Fund, the Account for Plants, and the Agricultural Loan Guarantee Fund.

² These include the Turto Bankas, the Lithuanian National Radio and Television, the Ignalina Nuclear Power Plant, the Deposit and Investment Insurance Fund, the Lithuanian Oil Products Agency, the GIS-Centras, the Agriculture Information and Rural Business Center, the Agricultural Credit Guarantee Fund, the Investment and Business Guarantee Agency, and the Regitra.

³ These include the Public Investment Development Agency (PIDA), the Mortgage Insurance Company, and two energy market entities.

Table 1.2. Lithuania: Public Sector Institutions and Finances, 2017
(Percent of GDP, unless otherwise stated)

	Number of entities	Revenue	Expenditure	Net lending	Intra-PS Expenditure	End-Point Expenditure	Percent of total
Public Sector	4,050	40.0	38.7	1.2	0.0	38.7	100.0
General Government	3,666	33.6	33.1	0.5	0.3	32.8	84.7
Central Government	710	21.6	21.7	-0.2	7.3	14.5	37.4
Budgetary Central Gov't	651	19.5	19.9	-0.4	7.8	12.0	31.1
Extrabudgetary Units	59	2.6	2.4	0.2	0.0	2.4	6.3
Local Government	2,937	7.9	7.7	0.2	0.0	7.7	19.9
Social Security Funds	19	12.6	12.1	0.5	1.5	10.6	27.4
Nonfinancial public corporations	379	8.7	8.1	0.6	2.3	5.8	15.0
Financial public corporations	5	0.3	0.1	0.2	0.0	0.1	0.3
Central Bank	1	0.3	0.1	0.2	0.0	0.1	0.3
Others	4	0.0	0.0	0.0	0.0	0.0	0.0

Source: Statistics Lithuania, State Treasury, financial statements of public corporations, and staff estimates.

Note: Inter-PS expenditure include subsidies, capital transfers, property income, and other revenue and expenditure received from and paid to other units in the public sector. End-point expenditure is calculated as expenditure minus inter-PS expenditure.

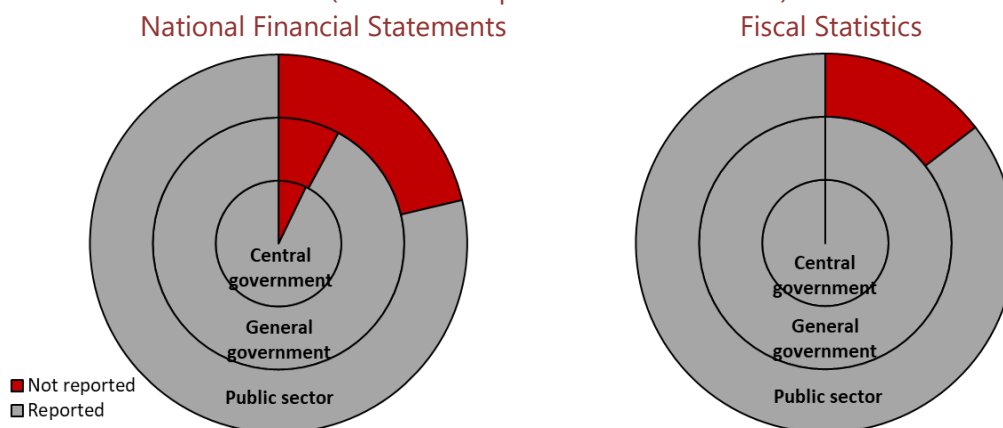
8. Fiscal statistics in Lithuania consolidate all general government entities and report on each subsector according to international standards. Statistics Lithuania is responsible for determining the institutional composition of the public sector, the general government and its subsectors. A reclassification assessment in accordance with the *ESA 2010* framework is undertaken once a year. Statistics Lithuania publishes quarterly financial and nonfinancial accounts of the general government and its subsectors, which are prepared in accordance with the *ESA 2010* framework.

9. There is no single financial statement that consolidates all public sector entities in accordance with international standards. The existence of a large number of public corporations poses a challenge in expanding the institutional coverage. The GCCSOE publishes a report on the overall financial performance of 84 public nonfinancial corporations as well as four public financial corporations, but the financial performance of remaining 295 public nonfinancial corporations at a municipality level is not reported in any fiscal report. The national financial statements produced by the State Asset Management Department of MoF (SAMD) comprise financial statements of all State and municipal budget organizations and social security funds. However, it includes the value of public corporations only as an equity investment, rather than being consolidated on a line by line basis. Therefore, only the net operations and positions of these units are covered in the national financial statements of the general government. Fiscal statistics include the liabilities of public corporations (excluding the BoL), which are, however, based on a survey of the largest entities and exclude about half of the liabilities shown in Table 0.2.⁴ Figure 1.1 shows the size of fiscal reports' departures from the full public-sector

⁴ Excluded liabilities items include deferred income arising from budget transfers for capital projects.

coverage. The national financial statements do not include around 8 percent of the total central and general government expenditure (shown in red in Figure 1.1).⁵

Figure 1.1. Public Sector Expenditure and Coverage in Fiscal Reports, 2017
(Percent of expenditure of each level)



Source: Statistics Lithuania, State Treasury, financial statements of public corporations, and staff estimates.
Note: “Not reported” refers to expenditure of units not consolidated in fiscal reports. For this figure, the provisions for decommissioning of the Ignalina Nuclear Power Plant (EUR 2,631 million in 2017) are excluded from the expenditure of the national financial statements.

10. Public sector net lending was 1.2 percent of GDP in 2017, which is higher than the general government net lending (0.5 percent of GDP in 2017). Net lending of nonfinancial and financial public corporations was 0.6 and 0.2 percent of GDP in 2017, deriving mainly from the operating profits made by the BoL and the two state-owned energy groups (“Lietuvos Energijos” and “EPSO-G”). In 2017, the public corporation sector made up 20 percent of public sector expenditure. More than one quarter of the sector’s spending is incurred by the public nonfinancial corporations that are controlled mainly by the municipalities and not included in any fiscal report.⁶

1.1.2. Coverage of Stocks (Advanced)

11. The national financial statements produced by the SAMD include a complete balance sheet of the general government which includes the value of both the government’s financial and nonfinancial assets and liabilities and its net worth. The public sector balance sheet presented in Table 0.2 is primarily sourced from the national financial statements and supplemented by fiscal statistics and the financial statements of individual public corporations.

⁵ This is because the value of some extrabudgetary central government units is included only as an equity investment.

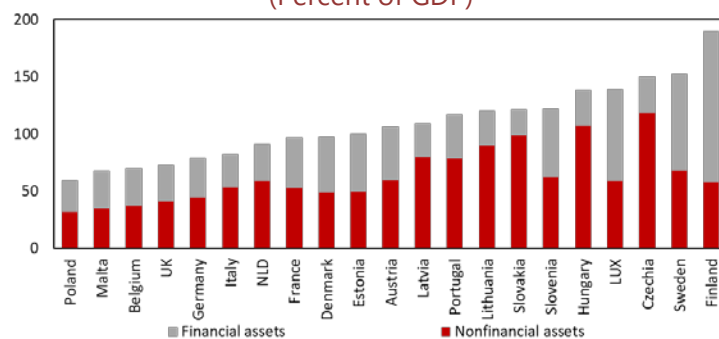
⁶ In this report, data on public corporations are based on the financial statements of individual entities. Out of 384 entities, the financial statements for 2017 of 330 entities are published on their websites; and for 23 entities, only the 2016 or 2015 statements are available. No financial information is available for 31 entities, but these are reportedly relatively small.

It provides a detailed breakdown of public sector assets and liabilities, amounting to:

- 110 percent of GDP in **nonfinancial assets**, including 46 percent of GDP of land and natural resources⁷ owned by the general government, 43 percent of GDP of produced assets of the general government, and 20 percent of GDP of nonfinancial assets of public corporations;
- 55 percent of GDP in **financial assets** on a consolidated basis, including 40 percent of GDP of the BoL's financial assets (excluding Lithuanian government securities) and 11 percent of GDP of the general government is currency and deposits, or other receivables (excluding government deposits with the BoL);
- 96 percent of GDP in **liabilities** on a consolidated basis, including 33 percent of GDP of government debt securities (excluding those held by the BoL), 45 percent of GDP of the BoL's and other public corporations' liabilities (excluding those owed to the general government or other public corporations), and 4 percent of GDP of accrued-to-date pension obligations for general government employees. In addition, 183 percent of GDP of accrued-to-date implicit social security pension obligations are recorded as memorandum items.⁸

12. Lithuania's public sector net worth compares positively to a sample of other countries for which similar estimates are available. In 2017, the consolidated public sector assets are estimated to be 165 percent of GDP, of which 110 percent represents nonfinancial assets, somewhat higher than the average of EU Member States for which data are available (Figure 1.2). In contrast, public sector liabilities (excluding those of the central bank) are lower in Lithuania (64 percent of GDP) than in other EU countries (Figure 1.3). Lithuania's public sector net worth (69 percent of GDP) is larger than the average of 24 other countries that have published the net worth figures in fiscal transparency evaluation reports (Figure 1.4). However, the Lithuania's public sector balance sheet has much lower net financial worth (-41 percent of GDP in 2017), mainly because a level of general government financial assets (31 percent of GDP) is lower than the EU average (43 percent of GDP) in 2017.

Figure 1.2. General Government Assets in Selected European Countries, 2017
(Percent of GDP)

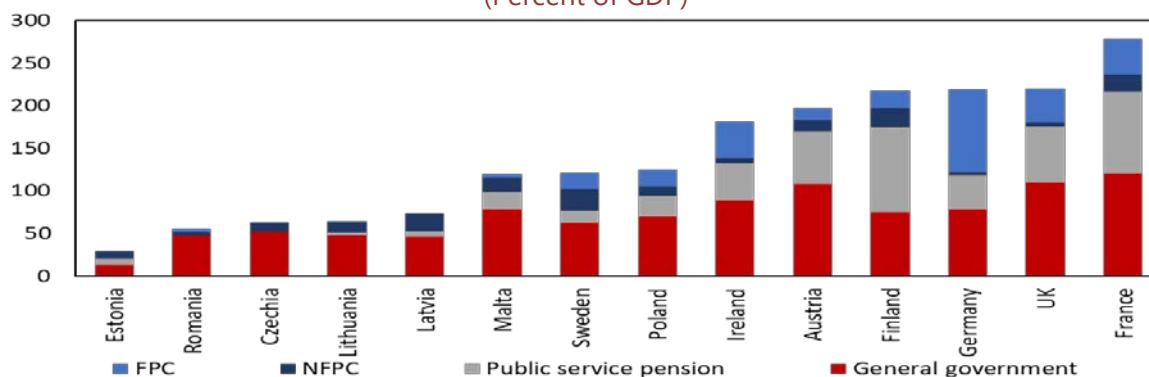


Source: Eurostat and staff estimates. Note: Data on nonfinancial assets are for 2015.

⁷ In the national financial statements, the values of forests and mineral resources (11 percent of GDP) are estimated based on discounted present values of timber sales and mineral tax revenue.

⁸ In October 2018, around 8 percent of the total current employees of the SSIF (SODRA) are general government employees (source: Statistical Data Portal of SODRA and staff estimates).

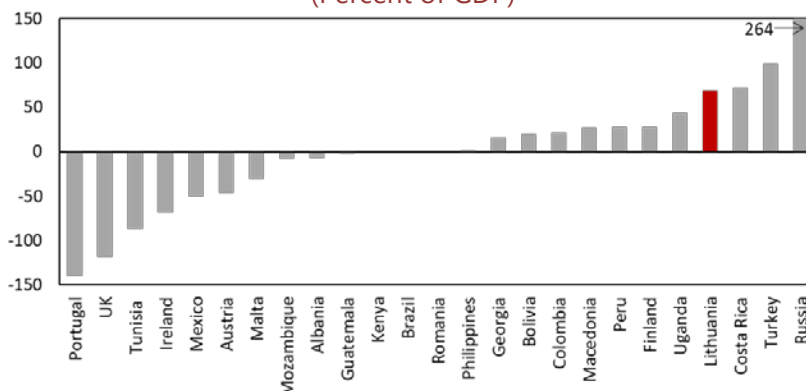
Figure 1.3. Public Sector Gross Liabilities in Selected European Countries, 2017
(Percent of GDP)



Source: Eurostat, statistics offices of respective countries, and staff estimates.

Note: Data on public service pension obligations and public corporation liabilities are for 2015.

Figure 1.4. Public Sector Net Worth in Selected Countries
(Percent of GDP)



Source: Fiscal transparency evaluation reports and staff estimates.

Latest available data: 2017 (Lithuania), 2016 (Macedonia, Malta, Mexico), 2015 (Austria, Colombia, Georgia, Uganda, U.K.), 2014 (Brazil, Guatemala), 2013 (Albania, Finland, Kenya, Peru, Tunisia, Turkey), 2012 (Mozambique, Philippines, Portugal, Romania), 2011 (Bolivia, Costa Rica, Ireland).

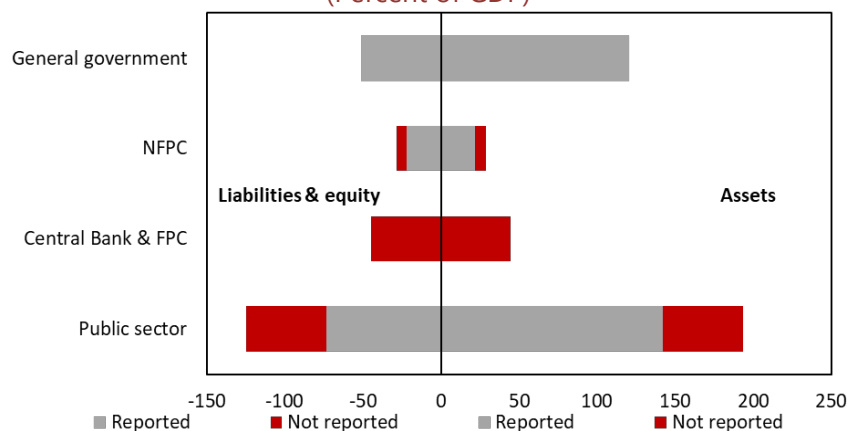
13. The national financial statements⁹ include the valuation of land based on the acquisition costs or nationwide land surveys. Several land plots are recorded by a nominal token value. However, 78 percent of land areas owned by the State comprise forests, lakes, rivers, and conservatory parks, which are exclusive State property and cannot be transferred to anybody.¹⁰ Their value may therefore not be reliably measurable.

⁹ The public sector net worth recorded in the 2017 national financial statements (61 percent of GDP) is lower than the mission's estimate by 8 percent of GDP. This can be partly explained by the *provisions* included in the liabilities of the national financial statements. In accordance with the IPSAS, the national financial statements include *provisions* to recognize probable outflows of resources to settle future obligations. An example is a provision for decommissioning costs of the Ignalina Nuclear Power Plant, which is 6 percent of GDP in 2017.

¹⁰ Annual Report of Land Fund for 2017.

14. While the national financial statements have an advanced stock coverage, fiscal statistics do not include nonfinancial assets. Fiscal statistics cover all financial assets and liabilities of the general government that are recognized under the ESA 2010 framework. Public service and social security pension obligations are also published in the separate supplementary table, in accordance with the EU requirements. However, fiscal statistics do not include data on nonfinancial assets.¹¹ Figure 1.5 compares the coverage of stocks of respective sectors in fiscal reports.

Figure 1.5. Coverage of Public Sector Balance Sheet in Fiscal Reports, 2017
(Percent of GDP)



Source: Statistics Lithuania, State Treasury, financial statements of public corporations, and staff estimates.

1.1.3. Coverage of Flows (Good)

15. Fiscal reports cover cash flows, accrued revenue, expenditure, and financing, but do not present other economic flows distinctly. Lithuania's national financial statements include the statement of financial performance presenting accrued revenue and expenditure and the cash-flow statement stating cash flows arising from financing activities. Fiscal statistics are based on the *ESA 2010* framework and include accrual-based reporting of revenue, expenditure, and financing. However, data on other economic flows or their breakdown into holding gains and other changes in the volume of assets are not presented in any fiscal report. The national financial statements determine the balance sheet values by capturing both transactions and other economic flows, but do not show their clear breakdowns.¹²

¹¹ The national accounts publish nonfinancial produced assets of the general government but only two to three years after the end of the year. Latest data published as of this mission were for 2015. Furthermore, the general government nonfinancial produced assets reported by the national accounts are higher than those reported by the national financial statements. This is mainly because the national accounts include several infrastructures under the economic ownership of public corporations (e.g., roads and railroads) in the general government.

¹² For example, other economic flows associated with Keliu Prieziura mentioned below seem to be shown as part of "reclassification" of infrastructures in the explanatory notes, but this item seems to mix both transactions and other economic flows defined in Government Finance Statistics Manual, 2014.

16. Lithuania has potentially large other economic flows associated with the restructuring of public corporations. For example, when 11 regional road maintenance companies were merged into one public corporation (“Keliu Priežiūra”) in 2017, the ownership of roads with a value equivalent to 5 percent of GDP was transferred from the companies to the central government in exchange for reduction of the government’s equity investments. Under the *ESA 2010* framework, this in-kind transaction represents other economic flows of the general government’s financial assets and equity,¹³ which would be significantly larger than the EU average (0.4 percent of GDP in 2017) if reported.

1.1.4 Coverage of Tax Expenditure (Good)

17. The MoF publishes both the estimates and outturns of tax expenditure. The budget documentation includes the estimates of revenue losses arising from tax expenditure for the next year. Within three months after the end of a financial year, the Budget Revenue Review report publishes the outturns of revenue losses arising from tax expenditure for the previous year. These reports capture a broad range of tax exemptions, tax allowances, tax credits and tax relief through rate reductions, but some items are presented only at an aggregate level without breakdown.¹⁴ Tax expenditure are not legally defined, and the methodological notes are not included in the budget documentation or the Budget Revenue Review. There is no published reconciliation between the estimates and outturns, but there have been sizable forecast errors.¹⁵

18. There is no clear budgetary objective for, or control on, the size of tax expenditure. The actual tax expenditure in 2017 amounted to 3.0 percent of GDP, which is in the mid-range by EU standards (Figure 1.6). However, the reports on tax expenditure have had somewhat limited impact on the decision-making, in the absence of the budgetary objectives specific to tax expenditure. The reports also do not include estimates of whether tax expenditure achieved their intended economic impact—including such information would help increase the usefulness of the reports.¹⁶

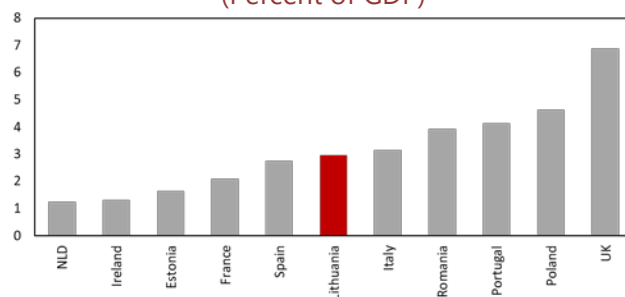
¹³ Other economic flows are composed of holding gains and losses, which account for changes in value of assets and liabilities from price changes and revaluation, and other changes in the volumes of assets, which among others, account for appearance and disappearance of assets (for example, discovery of natural resources) and effects of reclassification of institutions.

¹⁴ For example, in the Budget Revenue Review 2017, one fourth of the total tax expenditure were shown as “the application of non-taxable income”, which seems to combine various benefits associated with income taxes.

¹⁵ For 2015, 2016, and 2017, the estimates and outturns of tax expenditure were respectively: EUR 770 million vs. 941 million; EUR 891 million vs. 1061 million; and EUR 1021 million vs. 1252 million.

¹⁶ National Audit Office report in 2013 (VA-P-60-3-7) recommended publication of more detailed information on tax expenditure.

Figure 1.6. Annual Revenue Loss from Tax Expenditure in Selected European Countries
(Percent of GDP)



Source: Various official reports of respective countries, Budget Revenue Review 2017, and staff estimates. Latest available data: 2018 (Italy), 2017 (Lithuania, France, Netherland, Portugal, Romania, Spain, UK), 2016 (Estonia, Ireland), 2014 (Poland).

1.2. Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year Fiscal Reporting (Advanced)

19. Monthly fiscal data for the central government and social security funds are published within a month after the end of each month. The FPD publishes monthly fiscal data of central government and social security funds, including cash-basis revenue, expenditure, and financing of the State budget, central government extrabudgetary units, and social security funds, within one month after the end of a month. However, data for municipalities and hence the general government are available only on a quarterly basis.

1.2.2 Timeliness of Annual Financial Statements (Good)

20. The audited annual government financial statements are published within nine months after the end of each financial year. The Law on the Public Sector Accounting requires that three main government financial statements (the national financial statements, the State consolidated financial statements, and the State budget implementation reports) be audited by October 1, submitted to the Seimas by October 10, and published by the MoF within 10 days after the Government approval.¹⁷ These deadlines have been complied with in recent years (Table 1.3). Bringing forward the deadline of the audit conclusion could enhance the usefulness of the audited reports for the budget decision-making.

Table 1.3. Lithuania: Dates of Publication

	2013	2014	2015	2016	2017
NFS & SCFS	13 October	18 October	17 October	16 October	20 October
SBIR	15 March	24 March	18 March	24 March	22 March

Source: MoF. Note: NFS: national financial statements; SCFS: State consolidated financial statements; SBIR: State budget implementation reports.

¹⁷ Articles 30(3), 32(7), and 33(5) of the Law on the Public Sector Accounting. The unaudited, cash-based State budget implementation reports are published earlier, around mid-March.

1.3. Quality of Fiscal Reports

1.3.1. Classification (Advanced)

21. Fiscal statistics use an economic and functional classification consistent with international standards. Quarterly general government accounts published by Statistics Lithuania report revenue, expenditure, financing, and financial assets and liabilities on an economic classification that complies with the *ESA 2010* framework. Statistics Lithuania also publishes annual general government expenditure on a functional classification that complies with the Classification of Functions of Government (COFOG) as integrated into the *ESA 2010* framework. These functions are broken down to the second level.

22. The budget execution reports use administrative, economic, functional, and program classifications, consistent with international standards, where applicable. The annual State budget implementation report publishes (i) cash-based revenue and expenditure using an economic classification that can be bridged to the classifications of the *GFSM 2014*; and (ii) expenditure by functional classification consistent with the COFOG and administrative classifications. The management reports attached to the State budget implementation reports also include expenditure by program classifications.

1.3.2. Internal Consistency (Basic)

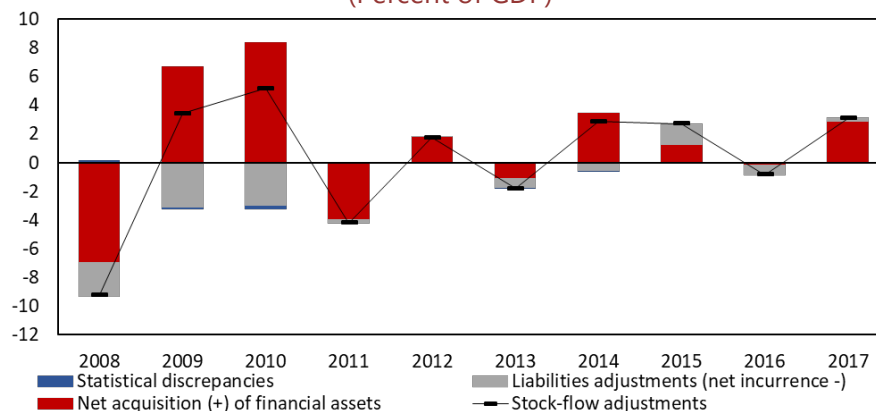
23. Fiscal reports include only one of three reconciliations required by the Fiscal Transparency Code. Statistics Lithuania publishes a reconciliation of annual net financing with changes in the stock of general government debt twice a year as part of the Excessive Deficit Procedures (EDP) notifications. However, there is no fiscal report that reconciles the budget balances with its financing (i.e., below-the-line) transactions, or the debt issuance and repayments with the debt stock, as explained below:

- The quarterly State budget performance report or the half-yearly or annual State budget implementation reports include revenue and expenditure only and do not include financing transactions. The national financial statements include cashflows arising from financing transactions, but do not reconcile them with budget balances. The monthly central government accounts present financing transactions at an aggregate level only, which do not enable a detailed reconciliation or indicate whether there were any discrepancies;
- The annual public debt report or any other fiscal reports do not include a reconciliation of the issuance, redemption, and stock of government securities (both domestic and foreign), which account for 94 percent of general government gross debt in 2017. These data are scattered across different tables and reports, and not reconciled. Security-by-security reconciliation data are readily available at the State Treasury, but not published.

24. Lithuania's stock-flow adjustments have been large in recent years, although discrepancies have been minimal (Figure 1.7). On average between 2013 and 2016, Lithuania's stock-flow adjustments were 0.7 percent of GDP, which were larger than the EU average during

the same period (-0.3 percent of GDP). The high level of stock-flow adjustments is due partly to the debt issuance cycle where a large amount of government securities is often issued towards the end of a financial year to meet the refinancing needs in the early next year. Discrepancies identified by stock-flow adjustments were limited to EUR 8 million on average between 2013 and 2017.

Figure 1.7. Stock-Flow Adjustments of General Government
(Percent of GDP)



Source: EDP notifications and staff estimates.

1.3.3 Historical Revisions (Basic)

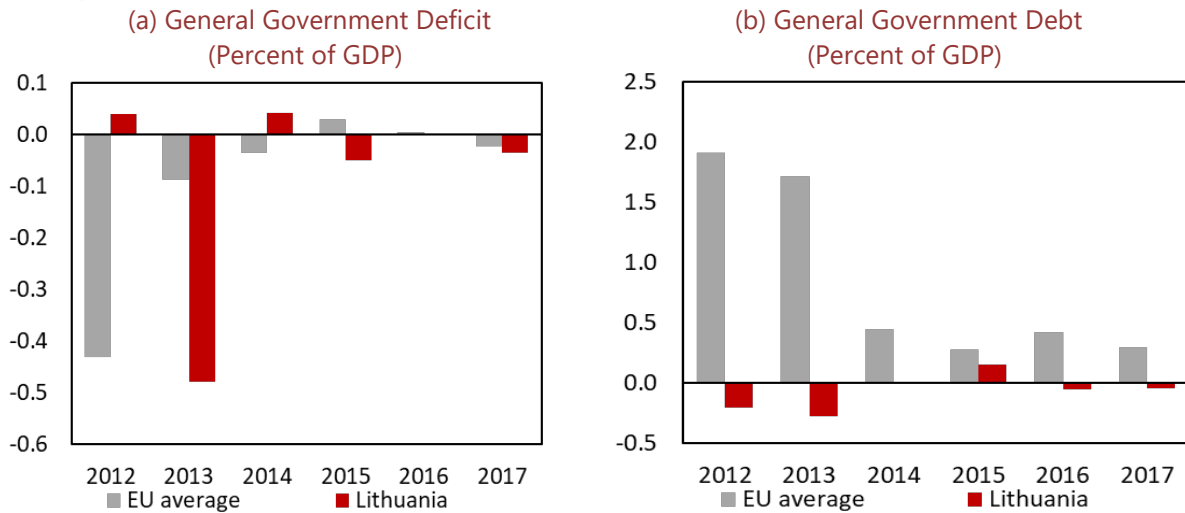
25. Revisions to historical fiscal statistics are reported, but without an explanation for each major revision. Statistics Lithuania makes historical revisions to annual fiscal statistics data twice a year as part of EDP notifications. Although a press release is accompanying each EDP notification, it includes only an overview of the latest deficit and debt figures but without an explanation of revisions.¹⁸ When the deficit for 2013 was brought down by 0.5 percent of GDP in the October 2014 EDP notification, the press release mentioned the reclassification of institutions as the main reason, but did not discuss which institutions were reclassified.¹⁹ Statistics Lithuania's website publishes the lists of general government entities as of January 1 every year, but it is not possible to know how the classifications have changed over time, unless the users compare the lists of more than 3,000 institutional units by themselves.

26. Lithuania's revisions to the general government deficit have been comparable to the EU average in recent years. Between EDP notifications in April 2013 and April 2018, the deficit for 2012 to 2017 was brought down by 0.1 percent of GDP on average, which is at the same level as the EU average (Figure 1.8(a)). Revisions to the debt were limited to -0.1 percent of GDP during the same period, smaller than the EU average (0.8 percent of GDP) (Figure 1.8(b)).

¹⁸ Statistics Lithuania published an explanatory note on historical revisions to national accounts when the *ESA 95* was replaced with the *ESA 2010* framework. However, this was one-off publication.

¹⁹ Information Notice of Statistics Lithuania dated Oct 21, 2014.

Figure 1.8. Historical Revisions between April 2013 and April 2018 EDP Notifications



Source: EDP notifications, Eurostat news releases, and staff estimates.

1.4. Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Advanced)

27. Fiscal statistics are compiled by the professionally independent Statistics Lithuania.²⁰

This entity is a “government institution,” which is an arm’s length body under the MoF, and its head (Director General) is appointed by the Prime Minister on the recommendation of the Minister of Finance. The Law on the Official Statistics stipulates that the performance of the Director General’s powers cannot be influenced by any State or municipal institution or political party or any other person. The Director General is solely responsible for deciding statistical methods, standards, and procedures and developing, improving, and disseminating statistical data, for those statistics specified in the Official Statistics Program, including government finance statistics. These provisions legally ensure that Statistics Lithuania has a high level of professional independence.

28. Fiscal statistics are disseminated in accordance with international standards. Fiscal statistics are disseminated in accordance with the SDDS+. The Statistics Lithuania’s website includes a “government finance statistics” page,²¹ which includes the contents of the national summary data page required under the SDDS+.

29. Eurostat provides periodic monitoring and advice in respect of fiscal statistics.

Statistics Lithuania is bound by the European Statistics Code of Practices and must observe the EU regulations on community statistics. In accordance with EU regulations, Eurostat regularly

²⁰ This paragraph is based on various articles of the Law on the Official Statistics and the Law on the Government of Lithuania.

²¹ [Official Statistics Portal \(General Government Finance\)](#).

carries out an EDP dialogue visit to Lithuania to review the implementation of the *ESA 2010* framework.²²

1.4.2 External Audit (Good)

30. The annual government financial statements are audited by the independent NAO in accordance with international standards.²³ The NAO is directly accountable to the Seimas. Its head (the Auditor General) is appointed by the Seimas on the recommendation of the President of Republic. He or she can be dismissed only in very limited circumstances. While the NAO is empowered to determine independently which audits to carry out, it regularly audits the national financial statements, the State consolidated financial statements, and the State budget implementation reports. The audit conclusion expresses an opinion as to whether they provide for “a true and fair view” of the government financial positions. The NAO’s audit is carried out in accordance with the International Standards of Supreme Audit Institutions and the International Standards on Auditing.

31. Although the government financial statements have been subject to major audit qualifications, the number and size of qualifications have been declining. The first national financial statements were produced for 2012. Since then, the national financial statements and the State consolidated financial statements have been constantly subject to the NAO’s qualified opinions (Table 1.4). The size of qualifications has been large. For the 2017 national financial statements, the NAO identified EUR 22 billion of balance sheet items that include some recording issues.²⁴ The qualifications that persist refer to the recording of land ownerships and the classification of tax revenue, but these issues are expected to be resolved by the land authority in the 2018 financial statements. The government has made progress in resolving the issues raised in qualifications. The government’s cash-based State budget implementation reports have received no audit qualifications since 2016.

Table 1.4. Audit Opinions on Government Financial Statements

	2012	2013	2014	2015	2016	2017
NFS & SCFS	Qualified	Qualified	Qualified	Qualified	Qualified	Qualified
SBIR	Qualified	Qualified	Qualified	Qualified	Unqualified	Unqualified

Source: NAO audit conclusions.

Note: NFS: national financial statements; SCFS: State consolidated financial statements; SBIR: State budget implementation reports.

²² The 2018 EDP dialogue visit reviewed institutional responsibilities for GFS, EDP reporting, data sources, as well as the implementation of the *ESA 2010* methodology, specifically the delimitation of general government. Furthermore, it discussed the recording of specific government transactions and the application of accrual principles.

²³ This paragraph is based on Articles 133 and 134 of the Constitution and various articles of the Law on the State Audit and the Law on the Public Sector Accounting.

²⁴ Section 1.1 of the Audit Report on the National Financial Statements for 2017.

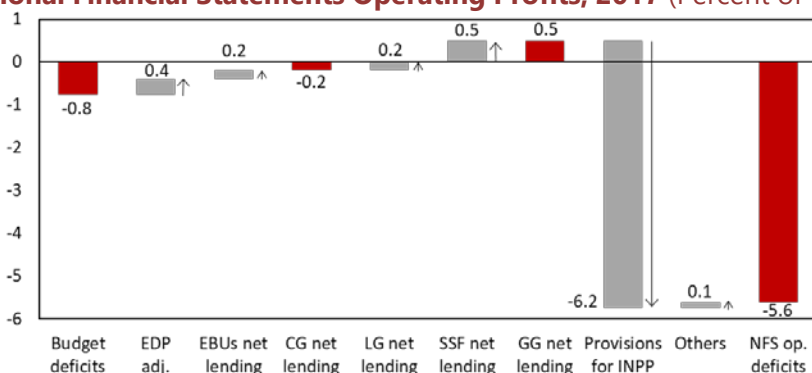
1.4.3 Comparability of Fiscal Data (Good)

32. The State budget implementation reports present outturn data in comparison with the original and revised budgets. The quarterly state budget performance reports also compare program expenditure with the original and revised budgets.

33. Reconciliation is published only between the balances of the budgets and fiscal statistics. The EDP notifications include reconciliation of budget balances, which are mentioned in the budget implementation reports, with net lending/borrowing of each subsector of the general government, which is included in fiscal statistics. However, there is no published reconciliation of gross revenue and expenditure figures between the budgets and fiscal statistics. Furthermore, no reconciliation is made between fiscal statistics and the accrual-based financial statements, including the national financial statements.

34. There are large differences in aggregate fiscal data published in various reports. As shown in Figure 1.9, the difference between the budget deficit and general government net lending was only 1.3 percent of GDP for 2017. However, the difference between general government net lending and the deficits of the national financial statements is 6.1 percent of GDP for 2017. This is mainly arising from the provisioning for decommission costs of a nuclear power plant. Furthermore, for 2017, there is a difference of 2.5 percent of GDP between the central government expenditure reported by fiscal statistics and the State budget expenditure reported by the State budget implementation reports.

Figure 1.9. Reconciliation of Budget Balances with General Government Net Lending and National Financial Statements Operating Profits, 2017 (Percent of GDP)



Source: EDP notifications, the national financial statements and staff estimates.

1.5 Conclusion and Recommendations

35. Lithuania's fiscal reporting meets good or advanced practices in most areas. The assessment against the Code, summarized in Table 1.5, shows that fiscal reports cover all general government entities and largest public corporations and include data on both nonfinancial and financial assets and liabilities, and net worth. Data on cash-based and accrued revenue, expenditure, and financing in accordance with the *ESA 2010* framework is covered. These reports are published in a relatively timely manner. Fiscal statistics are prepared by the professionally

independent Statistics Lithuania subject to the European Statistics Code of Practices and the periodic monitoring of Eurostat. The independent NAO audits the government financial statements in accordance with international standards and the size of audit qualifications has been declining in recent years.

36. However, there remains some important scope to enhance fiscal reporting practices. There is no fiscal report that provides a consolidated view of the public corporation sector, whose expenditure amounted to 8.2 percent of GDP in 2017. No fiscal reports include public nonfinancial corporations at a municipal level, their assets account for 6.8 percent of GDP and they are the main recipients of budget transfers. While the accrual-based government financial statements have a complete balance sheet with rich explanatory notes, their impact on the fiscal policy decisions is somewhat reduced due to the absence of reconciliation with fiscal statistics and budget accounts.

37. Based on the above assessment, the evaluation highlights the following priorities for improving the transparency of fiscal reporting:

- **Recommendation 1.1: Consider gradually moving towards the production and publication of Whole-of-Government Accounts, following a phased approach.** These improvements could typically follow the following stages:
 - Produce fiscal statistics of the general government nonfinancial assets and other economic flows and the assets, liabilities, revenue, and expenditure of all public corporations;
 - Produce aggregate balance sheets and income statements of all public corporations as an annex to the national financial statements;
 - Expand the State consolidated financial statements to all assets, liabilities, revenue, and expenditure of public corporations at the State level;
 - Expand the national financial statements to all assets, liabilities, revenue, and expenditure of all public corporations;
 - Produce fiscal statistics for the public sector, including all public sector entities.
- **Recommendation 1.2: Publish analytical and explanatory notes to government fiscal reports, to explain difference in aggregate fiscal data across different reports and historical revisions.** The following steps could be taken:
 - Include in the press release of Statistics Lithuania for each EDP notification an explanation of each major historical revision;
 - Publish a reconciliation table of debt issuance, redemptions, and stock and a cash-flow statement of the State budget, including gross financing transactions;
 - Publish a reconciliation table of gross revenue and expenditure of budgets and fiscal statistics;

- Publish a reconciliation table of main fiscal aggregate between the budget implementation reports, fiscal statistics, and the national financial statements; and
- Include in the national financial statements an analytical and explanatory chapter that contains the reconciliation tables noted above.

Table 1.5. Lithuania: Summary Evaluation: Fiscal Reporting

	Principle	Assessment	Importance	Recs
1.1.1	Coverage of Institutions	Good: Fiscal reports consolidate all general government entities, but not the broader public sector.	High: There are 384 public corporations with expenditure of 8.2 percent of GDP. Those at a municipal level are not captured in any fiscal reports and have assets of 6.8 percent of GDP.	1.1
1.1.2	Coverage of Stocks	Advanced: The national financial statements cover all assets and liabilities of the consolidated units, allowing the calculation of public sector net worth.	High: The stock coverage of fiscal statistics does not include general government nonfinancial assets.	1.1
1.1.3	Coverage of Flows	Good: Fiscal reports cover cash flows, accrued revenue, expenditure, and financing, but not other economic flows.	High: Other economic flows associated with PCs were 5 percent of GDP in 2017.	1.1
1.1.4	Coverage of Tax Expenditure	Good: Both the estimates and outturns of revenue losses from tax expenditure are published, but there is no budgetary objective for, or control of them.	Medium: The size of tax expenditure is comparable to the EU average.	
1.2.1	Frequency of In-Year Reporting	Advanced: In-year reports are published monthly within a month.	Medium: Monthly fiscal data cover only the central government and social security funds.	
1.2.2	Timeliness of Annual Financial Statements	Good: Audited government financial statements are published within 9 months of the end of the financial year.	Medium: The current deadline of audited financial statements (October 1st) may limit its relevance for budget decisions.	
1.3.1	Classification	Advanced: Fiscal reports include administrative, economic, functional, and program classifications in accordance with international standards, where applicable.	Low: The existing classifications make clear the use of public resources by each program for budget decision-making.	
1.3.2	Internal Consistency	Basic: Fiscal reports include a reconciliation of net financing and the change in the debt stock only.	Low: Discrepancies in stock-flow adjustments have been low.	1.2
1.3.3	Historical Revisions	Basic: Revisions to historical statistics are reported, without explanation of each major revision.	Medium: Historical revisions to deficits are sizable due partly to the reclassification of institutional units.	1.2
1.4.1	Statistical Integrity	Advanced: Statistics Lithuania is professionally independent and observes international standards.	Low: Statistics Lithuania is subject to Eurostat governance rules.	
1.4.2	External Audit	Good: The national financial statements are audited by an independent NAO and subject to a “true and fair view” opinion.	Medium: Audit qualifications have been persistent, but their size has reduced over time.	
1.4.3	Comparability of Fiscal Data	Good: Budgets and outturns are comparable, but budget outturn is reconciled only with fiscal statistics, and not with various other fiscal reports.	High: Difference between major aggregations of fiscal statistics, budget execution reports, and national financial statements are significant.	1.2

II. FISCAL FORECASTING AND BUDGETING

38. Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances. This chapter assesses the quality of Lithuania's fiscal forecasting and budgeting practices against the standards set by the four dimensions of the IMF's fiscal transparency code:

- The comprehensiveness of the budget and associated documentation;
- The orderliness and timeliness of the budget process;
- The policy orientation of budget documentation; and
- The credibility of the economic and fiscal forecasts, and budget proposals.

2.1. Comprehensiveness of Budget Documentation

2.1.1. Budget Unity (Basic)

39. The budget documentation includes projections of all gross revenue, expenditure, and financing of the central government and social security funds, except for those of several extrabudgetary central government units. The draft budget law presents all gross revenue and expenditure of State budgetary organizations as well as gross revenue and expenditure of the Reserve Fund and the Ignalina Nuclear Power Plant. The budgets of four social security funds and four extrabudgetary central government units²⁵ are also presented together with the budget documentation. The borrowing plan attached to the budget documentation includes gross financing of the State budget. The budget documentation shows the total revenue and expenditure of the central government, which, however, nets off transactions between the State budget and extrabudgetary central government units (also see Section 1.1.1 for a description of the coverage of the public sector). The draft budget law captures only transfers from the State budget to these extrabudgetary units. The gross revenue and expenditure of the remaining 53 extrabudgetary central government units are therefore not covered in the budget law.²⁶ However, the annex of the budget law contains data on the general government revenue, expenditure and balance. These data are broken down by subsector of the general government.

²⁵ These include the Fund for Decommissioning of Ignalina Nuclear Power Station, the License Warehouse Compensation Fund, the Account for Plants, and the Agricultural Loan Guarantee Fund.

²⁶ These include 18 public health care institutions, 26 universities and colleges, the Turto Bankas, the Lithuanian National Radio and Television, the Deposit and Investment Insurance Fund, the Lithuanian Oil Products Agency, the GIS-Centras, the Agriculture Information and Rural Business Center, the Agricultural Credit Guarantee Fund, the Investment and Business Guarantee Agency, and the Regitra.

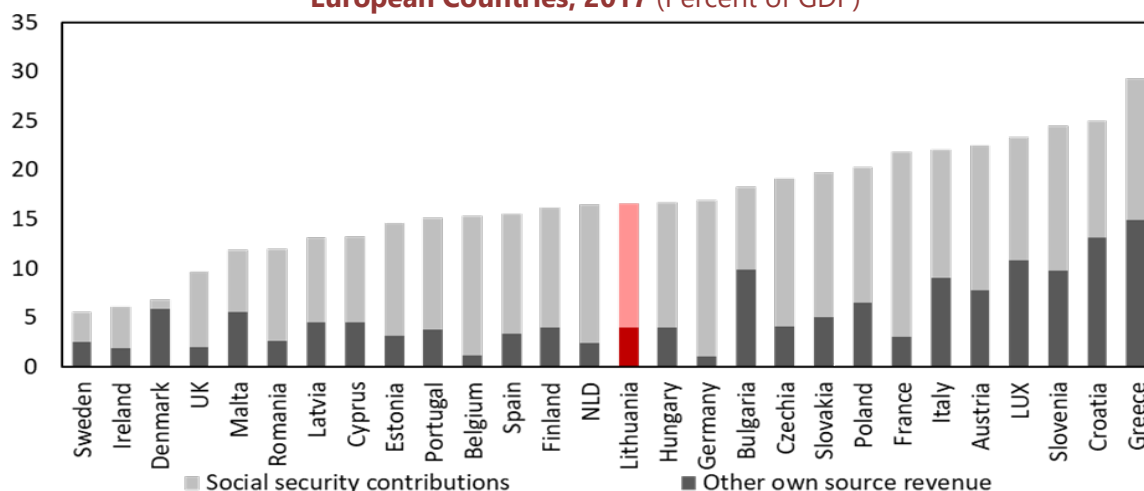
Table 2.1. Lithuania: Fiscal Forecasting and Budget Documents

Document	Agency	Coverage			Accounting		Publication Date
		Institutions	Flows	Stocks	Basis	Classification	
Medium Term Economic Scenario	MoF	-	-	-	-	-	March, September
Stability Program	MoF	GG and subsectors	Rev, Exp	Debt	Accrual	EU	April
Annual Budget and Annexes	MoF	CG	Rev, Exp	Debt	Cash, Accrual	Nat, EU	September
Draft Budget Plan	MoF	GG and subsectors	Rev, Exp	Debt	Accrual	EU	October

Source: IMF staff.

40. The own source revenue that is not presented in the budget documentation is minimal. The own source revenue corresponds to all revenue other than taxes, grants from international organizations and other general government units and interest. Presenting these data in budget documentation on a gross basis allows a clear disclosure of the full extent of government activities and ensures that decision-makers have a complete picture of the scale and extend of each activity. In Lithuania, the size of own source revenue (17 percent of GDP in 2017) is at the same level as the EU average (Figure 2.1). The own source revenue of central government and social security funds that is not presented in the budget documentation is limited to 0.3 percent of GDP, mainly arising from levies of deposit insurance schemes.

Figure 2.1. Own Source Revenue of Central Government and Social Security Funds in European Countries, 2017 (Percent of GDP)



Source: Council Directive reports of respective countries and staff estimates.

2.1.2. Macroeconomic Forecasts (Good)

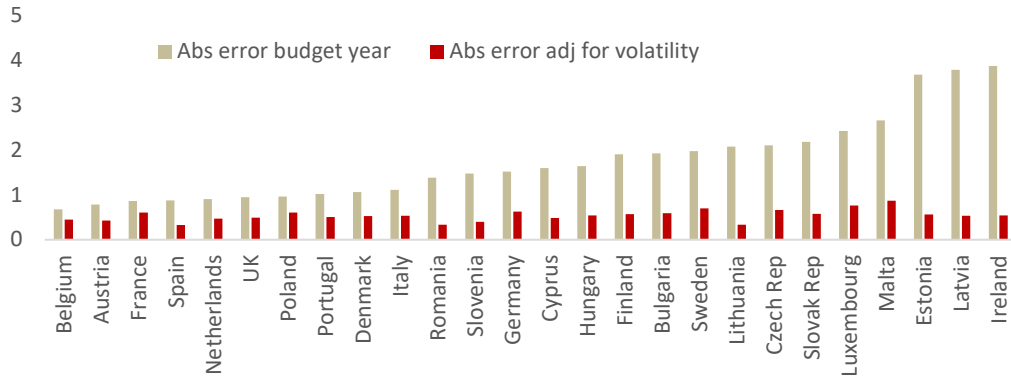
41. The budget documentation includes three-year forecasts for the main macroeconomic variables, their components and underlying assumptions. Two Medium-Term Economic Development Scenario forecasts are published on MoF website in March and in September each year. The first forecast is included in the Lithuanian Stability Program and published in April, whereas the second one forms the basis for the preparation of the annual budget law. The BoL, MoEc, and Ministry of Social Security and Labor are involved in the review of the draft economic forecast produced by MoF. In addition, the forecast is reviewed, validated, and endorsed by the NAO, which carries out the function of an independent fiscal institution via its Budget Policy Monitoring Department (BPMD). The forecast tables include outcomes for the previous year, and forecasts for the current year, the budget year and two following years.

42. The forecast is disclosed in its most comprehensive form in the Stability Program. However, the discussion included in the Medium-Term Economic Development Scenario on the key assumptions underpinning the forecasts is less detailed. A discussion, for example, of the different components of GDP—such as private and public investment, consumption and net exports—and the interaction between projections of macroeconomic and fiscal variables could be enhanced. Moreover, all the information required by the BPMD on the indicators of the potential output are not published together with the Economic Development Scenario (see Section 2.4.1 on independent evaluation).

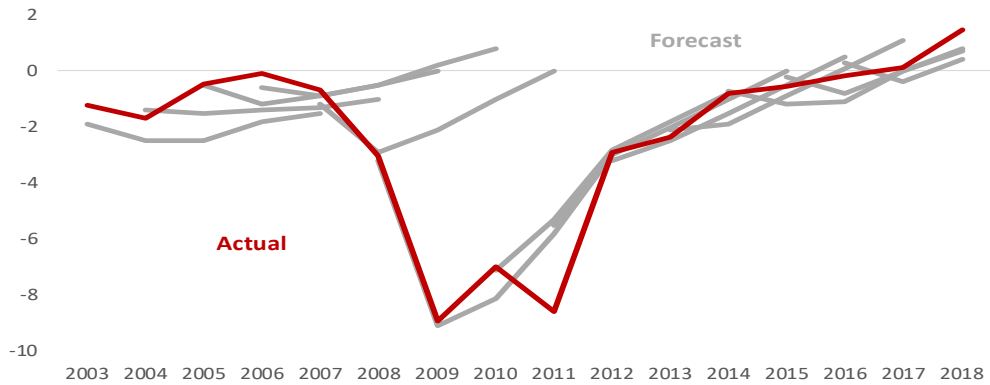
43. Over the past decade, medium-term real GDP forecast errors have been significant on average but declining in recent years. The mean absolute error of Lithuania's real GDP forecast for the budget year was 2.1 percent over the period 2007–17, higher than the EU average. This in part reflects the relatively high volatility of the Lithuanian small and open economy, particularly during the global financial crisis which affected significantly Lithuania's economic and fiscal developments. The absolute forecast error adjusted for volatility is one of the smallest (Figure 2.2, (a)). Real GDP forecast errors have been considerably smaller in recent years (Figure 2.2, (b)). Furthermore, the real GDP forecasts do not appear to be biased. For inflation, the forecast errors have been larger (Figure 2.2, (c)). The inflation outturns have been smaller than predicted in most years in the sample period.

Figure 2.2. Medium-Term Macroeconomic Forecast Error for Real GDP Growth

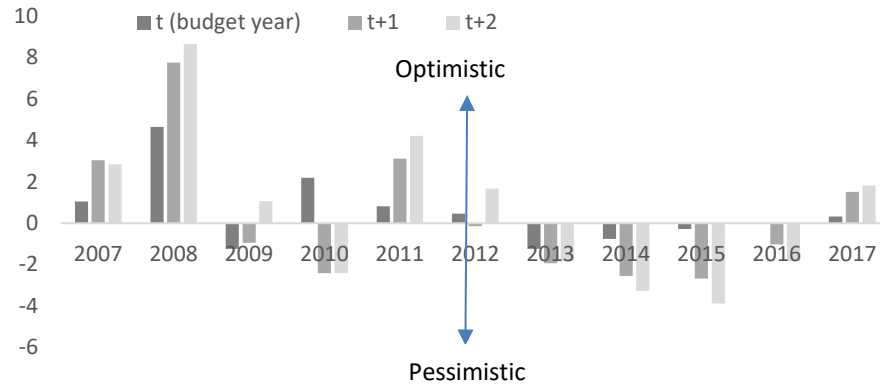
a. Real GDP Forecast Accuracy – Absolute Error for Budget Year
(2004–17, Percent)



b. Real GDP Forecast Bias – Average Forecast Error (2007–2017, Percent)



c. Inflation Forecast Bias – Average Forecast Error
(2007–17, Percent)



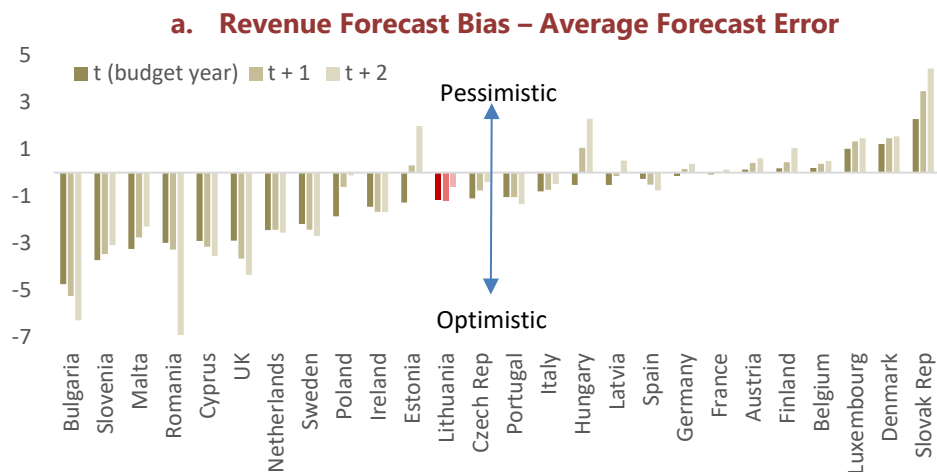
Source: Stability Program, IMF staff estimates. Note: Volatility adjustment is average absolute forecast error divided by standard deviation of growth over the period.

2.1.3. Medium-Term Budget Framework (Advanced)

44. Lithuania’s Medium-Term Budget Framework (MTBF), based on three-year fiscal projections and expenditure plans, has been in place in its current form since 2013. The medium-term expenditure ceilings at an aggregate level are formulated and published in the Stability Program. Following the subsequent budget negotiations with the line ministries, the expenditure ceilings for ministries are set. The annexes for the annual budget include the outturns of the two preceding years and medium-term projections of revenue, expenditure and financing by economic category and by program.

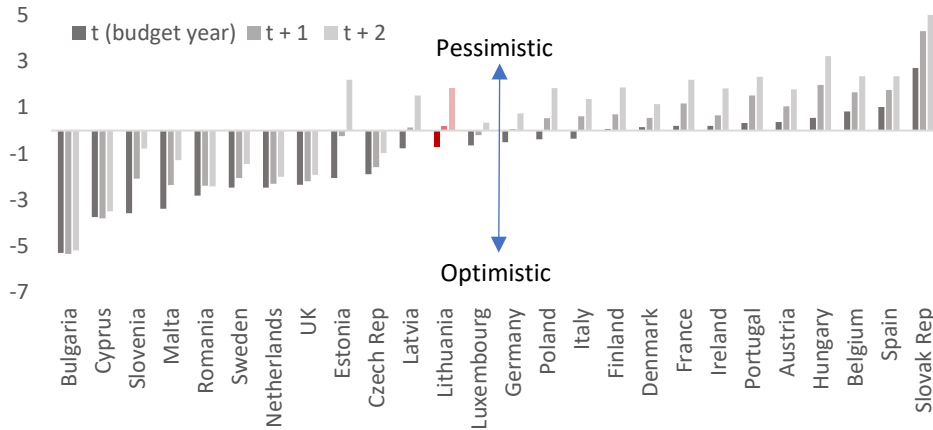
45. Fiscal outturns have deviated from the medium-term plans over the past decade (Figure 2.3, (a-d)). The budget deficit has exceeded the planned deficit by 2.5 percent of GDP on average for the third year.²⁷ This has resulted partly from optimistic revenue projections indicating that on average the revenue outturns have been smaller than projected. In addition, the medium-term spending has, on average, exceeded the plans. However, it should be noted that these results are heavily influenced by the effects of the global financial crisis. Indeed, during the most recent years, the fiscal outturns have been more in line with the plans (Figure 2.3, (d)).

Figure 2.3. Average Medium-Term General Government Fiscal Forecast Error, 2004–17
(Percent of GDP)

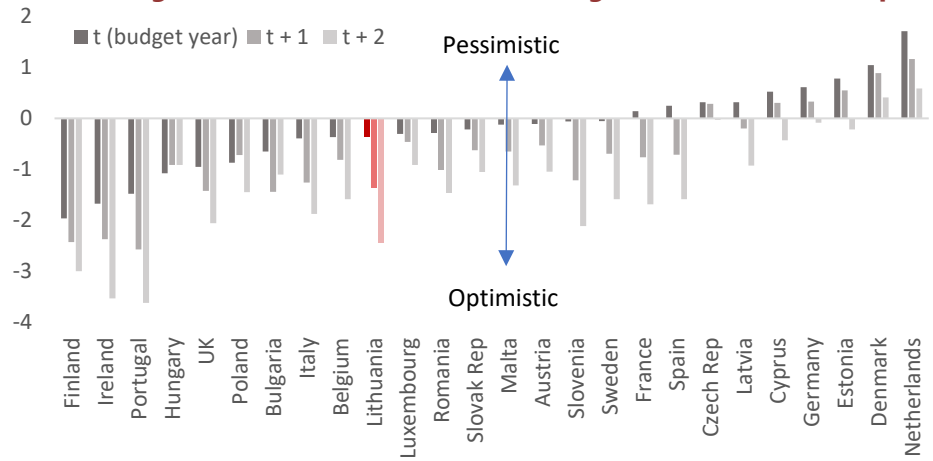


²⁷ This average is in part influence by the financial crisis.

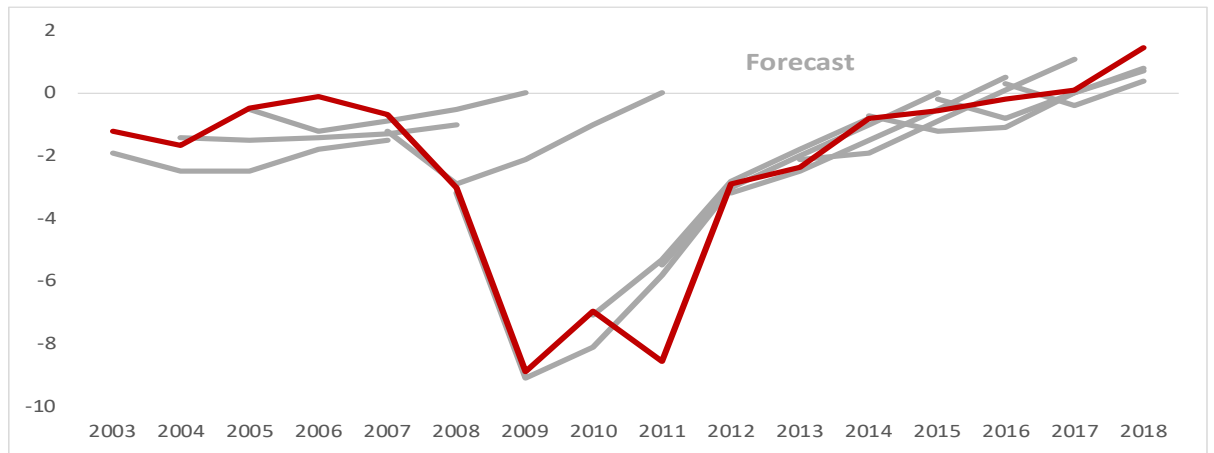
b. Expenditure Forecast Bias – Average Forecast Error



c. Budget Balance Forecast Bias – Average Forecast Error Compared



d. Budget Balance Forecast Bias – Average Forecast Error over Time



Source: Stability Program, IMF staff estimates.

2.1.4. Investment Projects (Good)

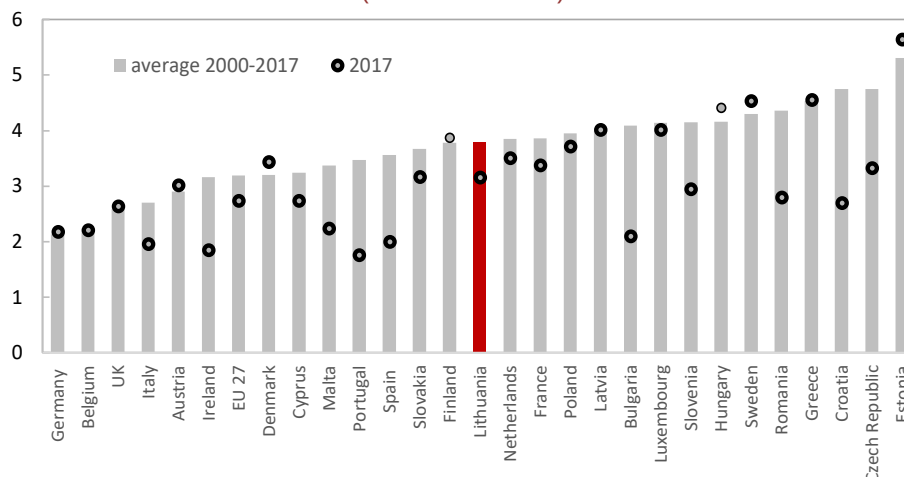
46. The budget documentation includes a total value of the Government’s obligations under multi-annual investment projects. For the investment funded by the EU, which accounts around 60 percent of the total investment, the investment budget is also disclosed separately.²⁸

47. The Government subjects all major investment projects to a cost-benefit analysis. According to a Government decree, all investment projects of the value higher than EUR 360 000 (for the EU funded investments, the threshold is EUR 300 000) are required to go through a cost-benefit analysis since 2018. However, this analysis is published for EU-funded investments only.

48. The Law on Public Procurement requires investments to be contracted via an open and competitive tender. The Law, however, includes several exemptions.²⁹ According to the authorities, a significant portion of the investment is contracted according to the provisions in the law. However, the mission was not able to verify the proportion contracted in this manner.

49. Public investment in Lithuania has been, on average, slightly above the EU average for the past ten years (Figure 2.4). In 2017, general government investment amounted to 3.2 percent of GDP. The average size of investments over the sample period has been slightly higher at 3.8 percent of GDP compared to the EU average of 3.2 percent.

Figure 2.4. General Government Investment, 2000–17
(Percent of GDP)



Source: Eurostat

²⁸ [European Structural and Investment Funds Country Data.](#)

²⁹ As stated in Article 10 of the Law, these include for example, the contracts related to a state secrets, procurement or rental of land, existing buildings or other immovable property, and employment contracts.

2.2. Orderliness

2.2.1. Fiscal Legislation (Advanced)

50. Fiscal legislation provides a clear framework for the budget preparation and execution.³⁰ The Constitution provides a foundation for the timetable for the budget preparation and lays out the powers and responsibilities of the executive and legislature in the budget process. According to the Constitution, the Parliament can increase expenditure only if additional funding can be identified.³¹ The Law on the Budget Structure includes a more detailed description of principles related to the budget process, including the content requirements for the main budget documentation and provisions for the budget execution.

2.2.2. Timeliness of Budget Documents (Good)

51. The Constitution requires that the government submit the draft budget for the next year to the Parliament not later than 75 days before the end of the budget year and this should be approved before the start of the next budget year.³² The draft budget is then considered by various committees and approved by the Parliament before the start of the new budget year. The Law on Legislative Framework states that the laws determining taxes or any changes to the tax system of the country must be adopted not later than 6 months before they come into force. The Law on the Budget Structure also includes more detailed provisions on the timetable of the budget process.

52. The timetable has been well respected. During the past years, the budget submissions and final approval has respected the timetable established by the legislation (Table 2.2).

Table 2.2. Lithuania: Dates of Budget Submission and Approval, 2014–18

	Required by	2014 Budget	2015 Budget	2016 Budget	2017 Budget	2018 Budget
Submission to Parliament	75 days before the start of budget year (Oct 18)	Oct 2	Oct 3	Sept 30	Oct 12	Oct 14
Final approval by Parliament	Before the start of budget year (Jan 1)	Dec 12	Dec 11	Dec 10	Dec 22	Dec 12

Source: MoF

³⁰ The relevant legislation includes Constitution of Lithuania (Chapter XI), Constitutional Law on the implementation of Fiscal Treaty, Law on the Budget Structure, and Statutes of the Parliament.

³¹ In other words, the Parliament can reduce individual spending lines to finance other expenditure or it can increase spending provided it proposes revenue-increasing measures to finance additional spending.

³² In Lithuania fiscal years equals calendar year.

2.3. Policy Orientation

2.3.1. Fiscal Policy Objectives (Advanced)

53. The fiscal objectives are set in accordance with the Constitutional Law on the Implementation of the Fiscal Treaty, which came into force in 2015. The main policy objectives are complex, but can be summarized as follows:³³

- **Two anchors:** debt (below 60 percent of GDP) and a (structural) balance target in the form of the Medium-Term Objective (MTO).
- **Operational Target.** Each year, except in exceptional circumstances (i.e., an event outside the control of the authorities, or a severe economic downturn) at least one of the following conditions must be met:
 - The structural balance of the general government is in surplus;
 - If not in surplus (and below the MTO), it should be improving except when the output gap is negative;
 - When the output gap is negative, the structural deficit can deteriorate, but not exceed the MTO;
 - If the structural balance is worse than the MTO, the targeted improvement, consistent with the EU framework, should be met.
- **Expenditure growth limit.** If the average general government balance in the previous five expired years is negative, aggregate growth of the appropriations of the largest budgets attributable to the general government (except for the EU financial assistance) is not higher than 0.5 percent of the average multi-annual potential GDP growth at current prices. Furthermore, the Law specifies five 'escape clauses' under which this expenditure rule would not apply.³⁴
- **Rules for other parts of the general government.** Each budget attributable to the general government,³⁵ except for the SSIF budget, State budget and budgets smaller than 0.3 percent of the GDP, must at least have a structural balance. The structural deficit of the SSIF budget may grow only if there is a negative output gap. Budgets smaller than 0.3 percent of the GDP must be balanced in nominal terms. The rule applicable to small municipality budgets and the SSIF (SODRA) budget entered into force on January 1, 2016.

³³ For a discussion of Lithuanian fiscal objectives, see Selected Issues Paper, IMF Country Report No. 18/186, June 2018. See also Section 3.2.2 which discusses government borrowing limits and debt targets.

³⁴ The mission cautioned that care should be exercised in invoking these escape clauses. In 2018 the escape clause was seemingly not invoked on the latest available estimate/projection of the structural balance.

³⁵ These include Compulsory Health Insurance Fund's budget and three budgets of the biggest municipalities: Vilnius city municipality, Kaunas city municipality, Klaipeda city municipality.

The rule applicable to big municipality budgets and the PSDF budget entered into force on January 1, 2018.

54. As required by the Constitutional Law on the Implementation of the Fiscal Treaty, the Government regularly reports to the Parliament on compliance with the MTO and operational targets. Since their introduction, fiscal developments have been in line with the targets.³⁶

2.3.2. Performance Information (Advanced)

55. Lithuania introduced performance budgeting in 2001 and it has undertaken several stages of development over the years. The Strategic Action Plans of ministries include targets for the outcomes to be achieved for each appropriation manager and each programme the specific appropriation manager executes. The appropriation managers' Activity Reports include an explanation of the performance against the targets. The authorities are currently planning a reform which would reduce the number of performance indicators, (currently these amount to several thousands), and further improve the link between strategic plans and policy programs.

2.3.3. Public participation (Basic)

56. The budget and its six annexes include a substantial amount of detailed information, but steps have been taken to provide more accessible budget information to citizens. A citizens' budget was published in 2018 for the first time and includes the main fiscal projections as well as information related to the Government's key priority areas. It also includes some information on the impact of some of the policy measures for families but lacks detailed information on the implications of the budget on the lives of typical citizens or different demographic groups.

57. The public can give proposals about the Budget law or any other laws. All public proposals are registered and assessed by responsible Government institutions before the budget is finalized. For the 2019 budget, some 150 proposals were received from the public or specific interest groups. If a proposal is rejected, the Government is obliged to give a justification for reasons of doing so.

2.4. Credibility

2.4.1. Independent Evaluation (Advanced)

58. As required by the EU fiscal governance framework, Lithuania established an independent fiscal institution in 2015. This task is performed by the BPMD in the NAO of Lithuania, and its duties are determined in the Constitutional Law on the Implementation of the Fiscal Treaty and the Law on National Audit Office. In line with its mandate, the BPMD submits annual reports to the Parliament on the credibility of the macroeconomic scenario produced by

³⁶ See also Section 2.4.1 which discusses NAO's oversight role over fiscal targets.

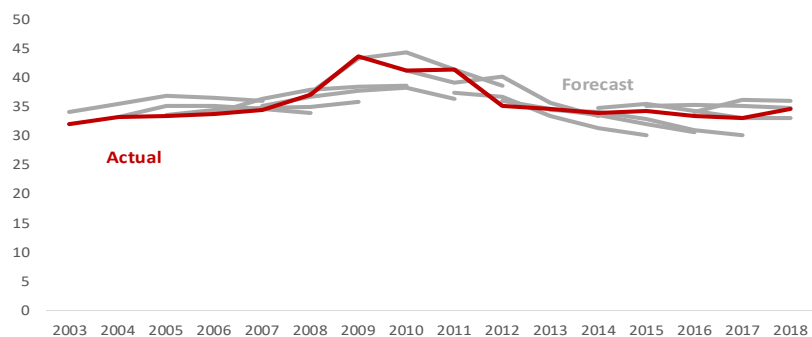
the MoF (see Section 2.1.2). So far, the official forecasts have been endorsed by the BPMD. However, such endorsement is complicated due to the timing of the publication of the output gap, as the MoF publishes the economic development scenario without information on the output gap.³⁷ Due to this timing, opportunities to discuss the underlying indicators of the output gap before it goes to Parliament is limited.

59. The BPMD also provides an evaluation of the Government’s performance against several fiscal targets. According to their assessment, the fiscal outcomes in 2017 were in line with the fiscal objectives, which was the first time the BPMD provided an ex-post evaluation of the Government’s compliance to its fiscal policy objectives.

2.4.2. Supplementary budget (Advanced)

60. Parliamentary approval is required prior to material changes to total budgeted expenditure or substantially altering its composition. As stated in the Statutes of the Parliament, the Government cannot change the total budgeted expenditure without the approval of the Parliament. In-year virements are permitted only to the extent to which they are already foreseen in the Budget Law initially approved by the Parliament. Such reallocations mostly relate to EU funds and must be done without breaching the expenditure limits initially approved. They are also included in the audited financial and budget execution statements, which are approved by the Parliament. While Lithuania has not issued any supplementary budgets since 2009, minor changes of the Annual Budget have taken place in recent years.³⁸

Figure 2.5. Budgeted versus Actual Expenditure, 2003–18
(Percent of GDP)



Source: Stability Program, IMF staff estimates.

³⁷ According to the Constitutional Law on the Implementation of the Fiscal Treaty and an Order of the Ministry of Finance, output gap should be calculated no later than 5 working days after publication of economic development scenario and should be published no later than 10 working days after publication of economic development scenario.

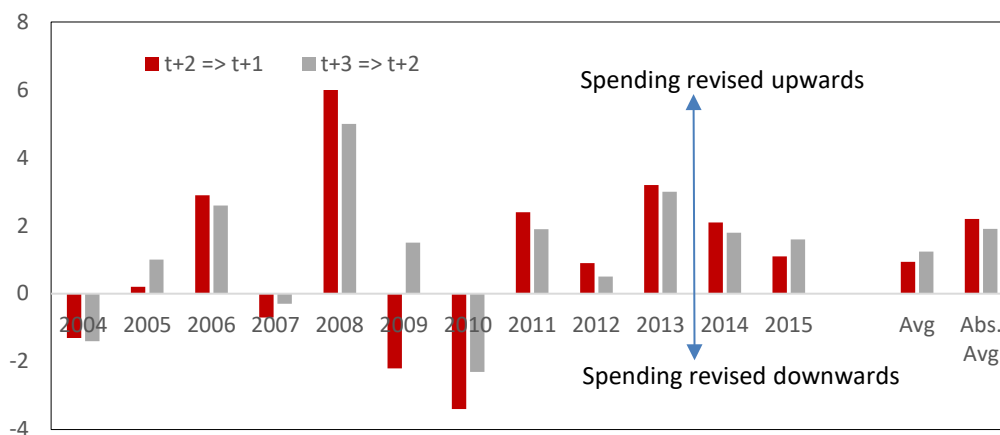
³⁸ The changes mainly had to do with redistribution of allocations between programs of a ministry (in 2011 and 2012), increase of appropriations of a ministry (in 2014) and foreseeing an additional right to borrow which finally was not executed (in 2018).

2.4.3. Forecast Reconciliation (Basic)

61. The budget documentation includes information on the discretionary expenditure and revenue measures included in the budget, and their budgetary impacts. It does not, however, provide a clear explanation of the differences between successive vintages of the government's revenue, expenditure, and financing forecasts, which in an ideal case, would be broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments. The Stability Program includes a comparison to the previous fiscal projections but without an explanation of the underlying reasons.

62. Similarly, Lithuania's medium-term expenditure plans have been revised from year to year, reflecting the non-binding nature of existing multi-year expenditure estimates. Between successive fiscal plans during the period 2005-2014, the absolute average of the revisions to the second year's expenditure has been around 1.9 percent and the third year's expenditure around 2.2 percent over the sample period (Figure 2.5). While such revisions are unavoidable, it requires more transparent explanations of the factors influencing the changes to the forecasts.

Figure 2.6. Revisions to Medium-Term Plans, 2004–15
(Percent of GDP)



Source: IMF staff estimates (years refer to the year when the MT-plan was made)

2.5. Conclusion and Recommendations

63. Lithuania's fiscal forecasting and budgeting practices follow good or advanced practices in many areas. The assessment against the Code, summarized in Table 2.3 shows that the budget, which includes medium-term forecasts and spending plans, is presented in a timely manner in accordance with the provisions of a high-quality budget law, and is subject to independent scrutiny by an independent fiscal institution.

64. There is scope, however, to enhance transparency of the budget documentation.

Transparency of the macroeconomic forecasts could be further enhanced by more comprehensive elaboration of the main factors effecting the economic outlook and the interaction between these projections and the fiscal forecast. Fiscal outcomes have deviated from the forecasts published with the budget, and differences between successive forecasts are not explained.

65. Based on the above assessment, the evaluation highlights the following priorities for improving transparency of fiscal forecasts and budgets:

- **Recommendation 2.1: Publish a more detailed explanation of the assumptions and methodologies underpinning the macroeconomic forecasts and medium-term budget framework.** This can be implemented by:
 - including a more comprehensive discussion of the different components of GDP and a more thorough description of the estimation of the potential output and output gap in both March and September forecasts at the same time as the main forecast is published.
- **Recommendation 2.2: Publish a reconciliation of changes to key fiscal aggregates between successive fiscal forecasts and their main drivers, broken down into the effects of individual policy changes, macroeconomic determinants, and other factors.**

Table 2.3. Lithuania: Summary Evaluation: Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance		Rec
2.1.1	Budget Unity	Basic: The budget documentation presents gross revenue, expenditure, and financing of all State budget organizations and social security funds, but not all extrabudgetary central government units.	Low: Gross expenditure of extrabudgetary central government units is 2.4 percent of GDP, smaller than the EU average.		
2.1.2	Macroeconomic Forecasts	Good: Detailed three-year macroeconomic projections are presented in the budget, but explanation of the key drivers is limited.	Medium: The absolute average error of Lithuania's real GDP forecast for the budget year is 2.1 percent, higher than the EU average.		2.1
2.1.3	Medium-term Budget Framework	Advanced: The budget includes a three-year projection with spending plans by economic category and by administrative unit and program	Medium: The budget balance has been weaker than planned by 2.5 percent on average for the third year.		
2.1.4	Investment Projects	Good: Total obligations are disclosed. Major projects are contracted via open and competitive tender, but the cost benefit analysis is not published.	Medium: GG investment in Lithuania is slightly above the EU average at 3.2 percent to GDP in 2017.		
2.2.1	Fiscal Legislation	Advanced: Legislation defines the timetable for budget preparation and approval, the contents of budget documentation and the responsibilities of the executive and legislature.	Low: The legal framework is continually updated to address emerging issues, such as EU-related requirements.		
2.2.2	Timeliness of Budget Documents	Good: The budget is submitted and published not later than 75 days before the start of the financial year and approved by the start of the year.	Low: The timetable has been well respected.		
2.3.1	Fiscal Policy Objectives	Advanced: Numerical fiscal rules are enshrined in law and the government reports on performance against objectives.	High: The fiscal framework is very complex with many rules and escape clauses.		
2.3.2	Performance	Advanced: Targets are set for outcomes to be achieved under each policy program, and regularly reported against.	Medium: The many outcome indicators prevents a clear focus on results.		
2.3.3	Public Participation	Basic: A Citizen's Guide presents a summary of the State budget, but with limited detail on its implications for a typical citizen. The public can issue proposals for the draft budget.	Medium: The budget and its six annexes include a substantial amount of detailed information.		
2.4.1	Independent Evaluation	Advanced: An independent fiscal institution (NAO) evaluates the credibility of the budget forecasts and the Government's fiscal performance.	High: While the fiscal targets have been respected, their complexity highlights the importance of independent evaluation.		
2.4.2	Supplementary Budget	Advanced: The Budget Code requires parliamentary approval for any material changes to total budget.	Low: No supplementary budgets since 2009.		
2.4.3	Forecast Reconciliation	Basic: The budget documentation includes information on discretionary expenditure and revenue measures and their budgetary impact, but no explanation of the differences between successive vintages of the fiscal plans.	High: Between successive fiscal plans, the absolute average of the revisions to the third year's expenditure has been around 2.2 percent.		2.2

III. FISCAL RISKS

66. Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector. This chapter assesses the quality of Lithuania’s fiscal risk analysis, management and reporting practices against the standards set by three dimensions of the IMF’s Fiscal Transparency Code:

- General arrangements for the disclosure and analysis of fiscal risks;
- The management of risks arising from specific sources, such as government contingencies and guarantees, public-private partnerships, and the financial sector, and;
- Coordination of fiscal relations and performances between central government, local governments, and PCs.

67. Lithuania discloses information on fiscal risks across several different reports. The government discloses and assesses many of the fiscal risks it faces, including from macroeconomic shocks, the financial sector, and long-term risks associated with the social and health insurance funds. Table 3.1. lists the various reports published by the government that serves as the basis for fiscal risk analysis and management in Lithuania.

Table 3.1. Lithuania: Reports Related to Fiscal Risks

Report	Related Risks and Issues	Author
Stability Program of Lithuania	Macroeconomic risks, including scenario analysis, and specific risks from the financial system, deposit insurance, State guarantees and the long-term sustainability of government finances	MoF
General Government Debt	Debt management and Guaranteed Public Debt	MoF
Financial Stability Report (FSR)	Financial Sector Stability	BoL
Consolidated SOE Annual report	Adherence to OECD SOE Governance and transparency guidelines, disclosure and costing of noncommercial activities and sector and individual SOE financial performance	MoEc
National Risk Assessment	An assessment of various threats that could impact Lithuania, including both environmental and other (nuclear, cyber-attacks)	Mol
Budget Laws and Execution Reports	Budget contingency reserve allocation and how it has been used	MoF/MSSL/MoH

Notes: MoEc = Ministry of Economy, Mol = Ministry of Interior, MSSL = Ministry of Social Security and Labor, MoH = Ministry of Health

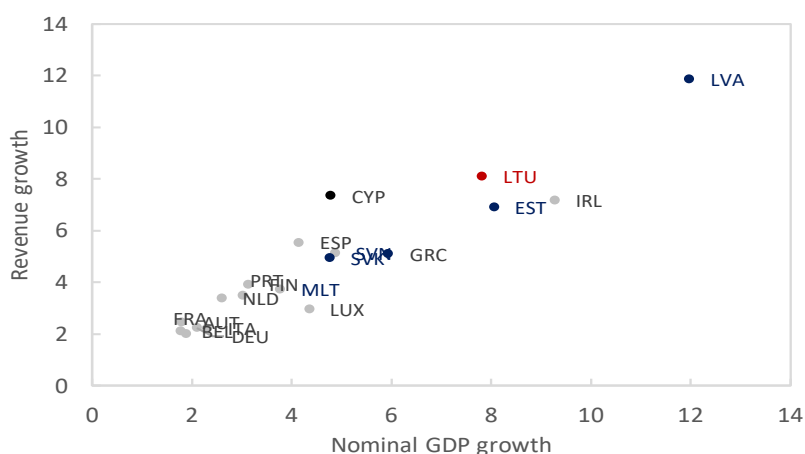
3.1. Disclosure and Analysis

3.1.1. Macroeconomic risks (Good)

68. The budget documentation includes a discussion of the main sources of macroeconomic risks based on sensitivity analysis and alternative macroeconomic and fiscal forecasts. The Stability Program of Lithuania also includes a chapter on risk and sensitivity analysis showing the impact of optimistic, baseline, and pessimistic macroeconomic scenarios on the key fiscal aggregates. Different scenarios are presented showing the estimated impact of a one percentage point change in the GDP growth projection on revenue and the government balance. This information is also published in the *Overview of the budget law* (an abridged 20-page version of the budget law).

69. The Lithuanian economy has been subject to volatility over recent years creating uncertainty for public finances.³⁹ The Lithuanian economy is a small open economy susceptible to shocks such as the financial crisis. Nominal GDP and revenue growth volatility over the period 2000–17 has been on average higher than in most EU member countries, including most of those that were granted accession in the same cohort as Lithuania in 2004 (Figure 3.1).

Figure 3.1. Volatility of GDP and Revenue (Percent)



Source: IMF WEO database, Oct 2018

Note: Volatility is measured as the standard deviation of the annual growth rate from 2000 -2017. Blue dots indicate EU accession in 2004.

3.1.2. Specific fiscal risks (Not met)

70. The government does not publish a statement on specific fiscal risks that summarizes the range of risks to which the public finances are exposed.⁴⁰ Although information on some specific risks is available, as noted in Table 3.1, it is not comprehensive and

³⁹ See also Section 2.1.2 for a discussion on these volatilities.

⁴⁰ Article 19 (f) of the Law on the Budget Structure requests that a document containing a medium-term list of fiscal risks and their assessment be submitted to Parliament on an annual basis.

there is no consolidated report on the fiscal risks to which government is exposed. The Stability Program of Lithuania draws on the analysis presented in some of the reports (such as the FSR and debt report), but important risks are missing, namely risks in the public corporations sector and PPPs, sub-national governments, and natural disasters.

71. Lithuania is exposed to a range of specific fiscal risks, with the maximum gross exposure to those risks that can be identified and quantified estimated at around 80 percent of GDP (Table 3.2). The main exposures are from sizeable long-term fiscal pressures from the ageing of its population (33 percent of GDP),⁴¹ the bank deposit insurance fund (31 percent of GDP), and liabilities of public corporations (12 percent of GDP). Disclosure and analysis on the first two items are well covered (see Sections 3.13 and 3.25), but the potentially significant risks associated with the public corporations sector are not sufficiently discussed. Whilst the consolidated SOE report produces financial performance on major state-owned public corporations, there is no consolidated analysis of total fiscal flows with government and the relationship with loss making entities, which accounted for over a quarter of entities in 2017.⁴²

Table 3.2. Lithuania: Selected Specific Fiscal Risks, Gross Exposure

Specific Fiscal Risk	Magnitude		Reporting
	Millions (EUR)	Percent of GDP	
Non-Financial Public Sector			
Guarantees	408	1.0	Annual debt report (2017)
Public-private partnerships	228	0.5	MoF report (2018)
Nonfinancial public corporations liabilities	5,107	12.2	IMF staff calculations
Financial Sector			
Explicit exposure to financial sector	13,030	31	Stability Program Lithuania (2018)
Implicit exposure to financial sector ¹			Financial Stability Report (2018)
Contingent events			
Natural disasters	226	0.5	World Bank Development Report (2014)
Long-term Risks			
NPV of pension spending change (2015-2050)	14,078	33.6	IMF Fiscal Monitor (2017)

Source: IMF staff calculations.

1/ Risks in this area are considered to be low, given that over 80 percent of assets, loans and deposits are owned by three Nordic Banks (SEB, Swedbank and Luminor). There is very low risk of a systemic collapse of these banks as they are supervised by the Single Supervisory Mechanism and are participating in the Single Resolution Mechanism of the Banking Union whereby major banks, given their importance to the real economy and financial stability, instead of going bankrupt, are resolved under the EU Bank Recovery and Resolution Directive. (2014/59/EU) without recourse to public financial means.

⁴¹ This refers exclusively to pensions and not the overall impact of ageing on age-related social spending, such as health care, which cannot be quantified that easily.

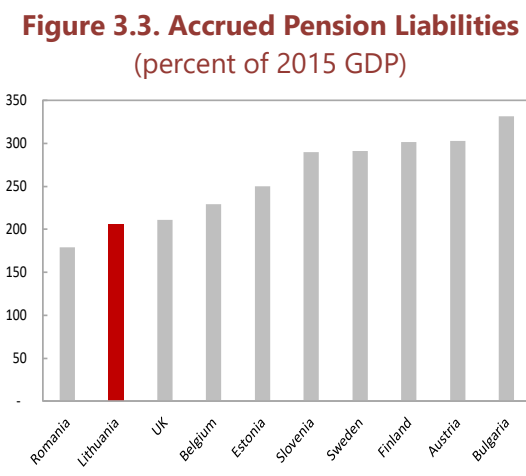
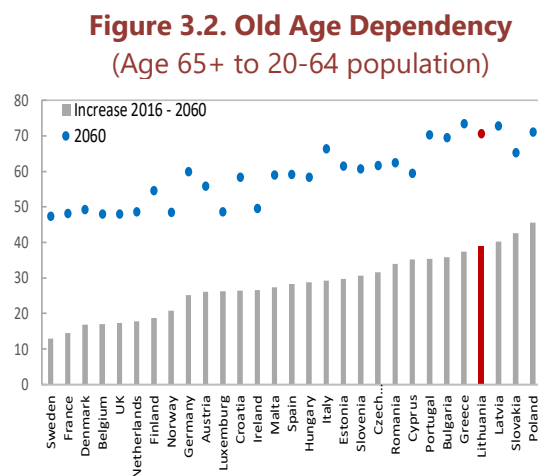
⁴² Based on the sample of enterprises presented in Pillar 1.

3.1.3. Long-term sustainability of public finances (Good)

72. The government publishes a regular assessment of long-term fiscal sustainability.

The Stability Program of Lithuania includes a chapter on the sustainability of government finances based on Eurostat's population projections determined in the EU aging report, which is produced every three years in collaboration with the Ministry of Social Security and Labor (MSSL) and draws upon different macroeconomic and demographic scenarios. Expenditure and revenue projections are provided until 2060 and factor in growing pension costs, health care, education and other age-related expenditure.

73. Lithuania has one of the highest old age dependency ratios in Europe and this is likely to more than double by 2060. The old age dependency ratio in 2016 was 32 percent and is expected to increase to 71 percent by 2060 (Figure 3.2). Further analysis by the government of the long-run fiscal implications of these trends would be beneficial, given Lithuania's labor force dynamics and the ongoing pension reforms. These resulted in reductions in the estimates of the accrued social security pension liabilities over this period following recent reforms to extend the retirement age and change the indexation formula that is estimated to be lower than most regional peers (Figure 3.3).



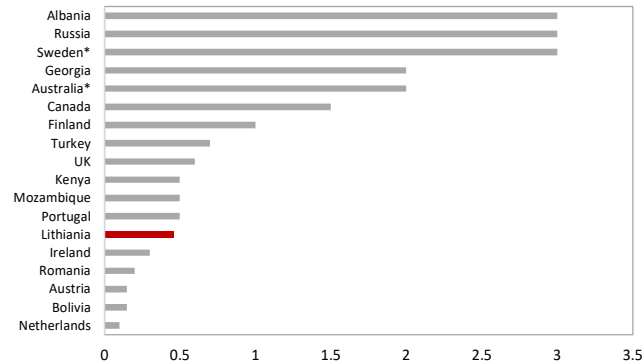
Sources: EU ageing report 2018 and Eurostat.

3.2. Fiscal Risk Management

3.2.1. Budgetary contingencies (Advanced)

74. The budget contains reserves to deal with unexpected spending. In 2017, there were four separate contingency reserves, accounting in total for approximately 0.5 percent of total general government expenditure (Figure 3.4). Two of these funds are general contingency funds, the Government Reserve (EUR 1.4 million) and the Reserve (Stabilization) Fund (EUR 60.1 million) and two relate to safeguarding against shortfalls in the social security fund (EUR 109 million) and compulsory health insurance fund (EUR 25 million). As depicted in Figure 3.4, the combined size of these funds as a proportion of total expenditure is in the middle range compared to other EU countries.

Figure 3.4. Size of Contingency Reserves in Selected Countries (Percent of Expenditure)



Source: IMF Fiscal Transparency Evaluations and other IMF staff estimates.

*Indicates reserve at end of MTBF

75. Each of the four contingency reserve funds has transparent access criteria that stipulate revenue inflows and conditions for their usage. There are clearly defined rules that stipulate access criteria, minimum size and rules authorizing investment of the funds for interest bearing purposes, which are summarized in Table 3.3.

76. In-year reporting on the utilization of all funds is done through quarterly budget execution reports and annual financial statements. The Government Reserve Fund forms part of the State quarterly budget performance report for the MoF along with an annual report. The Reserve (Stabilization) Fund reports quarterly through budget execution reports and produces an annual financial statement. Both the social and health insurance funds report on execution quarterly with clear accounting of the use of the contingency reserve lines as part of the summary financial tables. All funds are audited by the NAO to ensure compliance with statutory limits.

Table 3.3. Access Criteria for Budgetary Contingency Reserves

Fund	Access criteria	Source of Revenue inflows
Government Reserve	Extreme national circumstances ^(a)	Not applicable. The fund can be up to 1 percent of expenditure
Reserve (Stabilization) Fund	Extraordinary events that public authorities cannot control ^(b)	50 percent of dividends, land sales and the privatization of state holdings
Social Security Reserve	Extraordinary events that public authorities cannot control ^(c)	Equal to the previous year's SSIF total expenditure
Health Insurance Reserve	Extraordinary events that public authorities cannot control ^(d)	At least 1.5 percent of the revenue in the previous year as principal while the risk management component is not capped

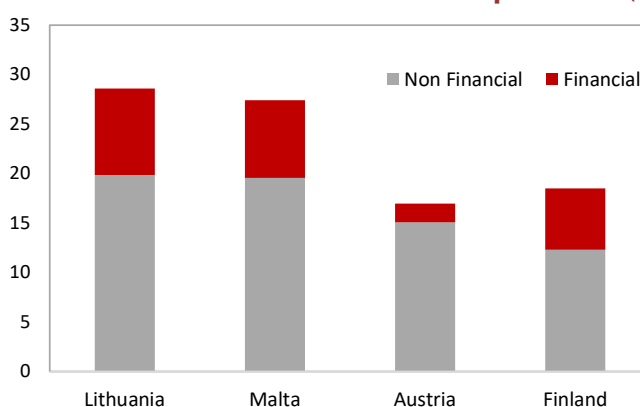
Source: IMF staff

Notes: (a) Article 15 of the Law on the Budget Structure. These include legal losses, fulfillment of international operations, funeral expenses and humanitarian events; (b) Article 9 of the Resolution of Parliament on the Approval of Reserve (Stabilization) Fund Provisions and Article 2 of the Constitutional Law on the implementation of the fiscal treaty, No. XII-1289 (2014); (c) Article 14 and 15 of the Government decree on the composition and management of the reserve—Law on Social Insurance; (d) Article 22 and 23 of the Law on Health Insurance.

3.2.2. Management of assets and liabilities (Basic)

77. The public sector’s balance sheet recorded assets of 165 percent of GDP and liabilities of 96 percent of GDP, which require careful management.⁴³ The stock of the general government’s debt (as reported by Eurostat) is equivalent to almost 40 percent of GDP. It is estimated that approximately 29 percent of financial and non-financial assets is concentrated in the nonfinancial public corporation sector—with just over two-thirds concentrated in non-financial assets and a third in financial assets—which is higher than European comparators (Figure 3.5). The bulk of non-financial assets are found in the major infrastructure sectors (transport, communications and energy) that play a strategic role in the economy and are therefore important from a risk management perspective.

Figure 3.5. Assets Held in Nonfinancial Public Corporations (Percent of GDP)



Sources: IMF Fiscal Transparency Evaluations (Malta and Austria 2016, and Finland 2013).

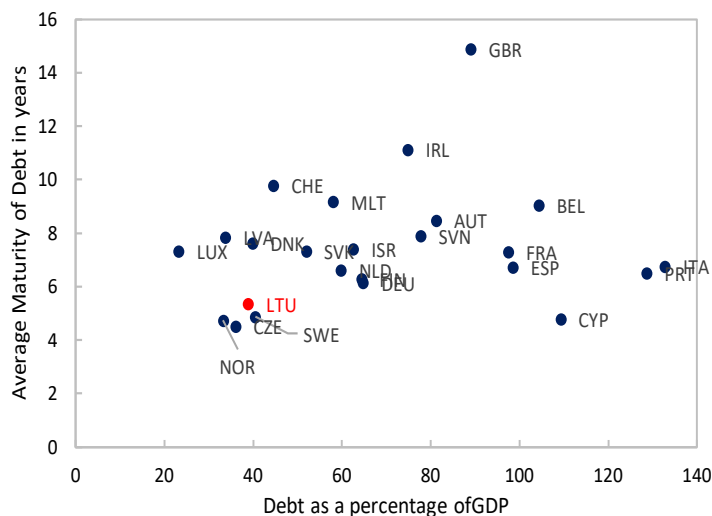
78. Government borrowing limits are set through the stability program of Lithuania and risk management of the debt portfolio is assessed annually in the debt report.⁴⁴ Three-year borrowing, and debt projection targets are set in the Stability Program of Lithuania, which parliament approves annually through the law on the approval of financial indicators. The annual debt report compares performance against targets, for each of the main risk categories concerning refinancing, interest rate, credit, liquidity, and exchange rate risks.

79. Exchange rate, interest rate and risks related to the maturity of the debt portfolio are low. As indicated before, the government reported its stock of general government debt at almost 40 percent of GDP at end-2017. However, since adopting the Euro in 2015, this debt is entirely denominated in Euros, thus eliminating the exchange rate risk. Over 99 percent is issued at a fixed interest rate. The average time to maturity has averaged 6.4 years since 2015, which is above the target of 4 years (Figure 3.6).

⁴³ See Section 1.1.2 for more information.

⁴⁴ See Section 2.3.1 for more information on the fiscal policy objectives.

Figure 3.6. Level and Average Maturity of Debt in Advanced Economies, 2017



Sources: IMF Fiscal Monitor, April 2017.

80. The MoEc reports on the risks around the government’s financial and non-financial assets in the public corporation sector, but this could be further enriched. Whilst the aggregate GCCSOE report provides sector information on nonfinancial assets, project descriptions, and information on dividend flows to the State, it does not discuss the potential risks related to large investment projects undertaken by public corporations. The State Treasury Department does provide internal guidelines on financial risk management of public corporations, but compliance is the responsibility of the parent ministries. A closer assessment of loss-making entities and information on risk associated with direct and indirect flows would also further strengthen risk management in this area.

3.2.3. Guarantees (Good)

81. Information on the stock of government guarantees is published annually and there are limits on total exposures. The Government resolution on State loans and guarantees stipulates the conditions on which a guarantee can be issued, which center on a viable business plan for the investment/social intervention.⁴⁵ The annual borrowing plan—which forms part of the suite of budget documents—discloses the stock of guaranteed debt which is subject to a limit of 3 percent of GDP stipulated in the Stability Program of Lithuania.⁴⁶ In addition, the Budget Law permits municipalities to have guarantees issued up to 10 percent of their revenue.⁴⁷ The annual debt report provides analysis on disbursements and repayments of guaranteed debt

⁴⁵ Resolution No. 667 (2001). Chapters II and III.

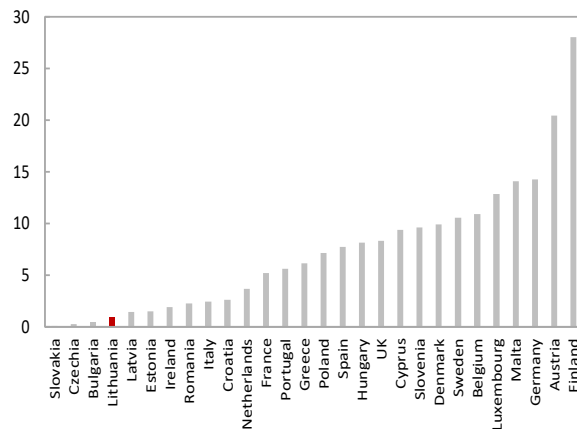
⁴⁶ In 2018, these were higher education and state vocational training institutions, loans to students and guarantees to IFIs for public investment projects.

⁴⁷ Budget Law, Article 12.1.3.

by creditor and provides information on any calls that were made in the year.⁴⁸ The MoF publishes on its website a lists of individual debtors only for one-off guarantees of the State and in its financial statement a probability assessment of them being called by creditor.

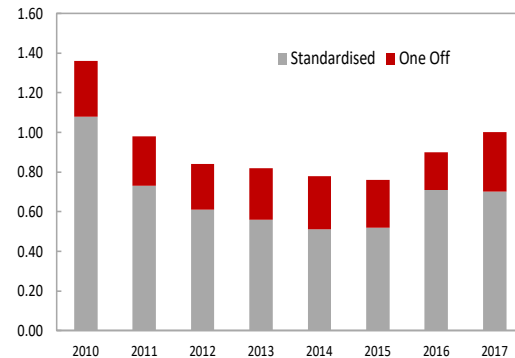
82. The stock of guaranteed public debt is comparable with regional peers, but small compared to the rest of the EU. Calls on guarantees have been negligible. Based on 2016 data, the stock of guarantees is lower than most member states, but in the same range as newer accession countries (Figure 3.7). At end-2017, the stock of government guarantees was 1 percent of GDP and is expected to rise to 1.2 percent in 2018. The composition is increasingly slanting towards standardized guarantees to support the social insurance fund, and more recently, loans to students and higher vocational training institutions. One-off guarantees covering risk of nonpayment to International Financial Institutions for investment projects are showing a decreasing share (Figure 3.8). Over the past three years, one call was made on a guarantee with value of EUR 200,000 for a guaranteed loan from the European Investment Bank for an environmental project, which highlights a low risk of future calls being made.

Figure 3.7. Government Guarantees in Europe, 2016 (percent of GDP)



Sources: Eurostat and MoF.

Figure 3.8. Lithuania Composition of Guarantee Stock (percent of GDP)



3.2.4. Public-private partnerships (Not met)

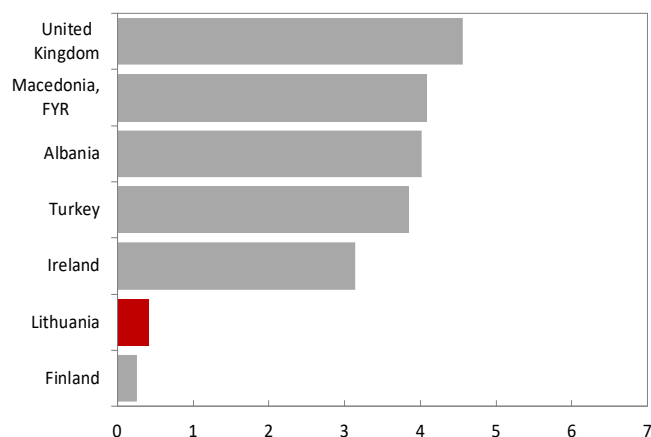
83. The disclosure of the government’s rights, obligations and other risk exposures for individual PPP contracts are not provided in budget documents, financial statements nor legal acts. The four PPP projects which have already been implemented do not form part of the State Investment Program. The consolidated financial statements and individual legal acts, which are produced for each project, include only descriptive information, which excludes structured details about the government’s rights, obligations and other risk exposures.

⁴⁸ The debt report does not assess the probability of guarantees being called, although this analysis is done internally by the MoF and published as part of its financial statements only by creditor.

84. Notwithstanding the lack of disclosure, the framework for managing PPPs is well structured with checks and balances for project approval. Multi-stakeholder project reviews take place before a project is approved, which involves the project management agency under the MoF, the private sector and Invest Lithuania. Several recent reforms have ensured that the pipeline goes through relevant checks and balances. Once selected, the government contribution to these projects forms part of an integrated budget ceiling, which also includes domestic and EU funds.

85. The total project value of ongoing public private partnership contracts is estimated at 0.5 percent of GDP excluding concessions at the municipal level. There are currently four central government public-private partnerships (PPPs) operating in Lithuania.⁴⁹ This ranks Lithuania amongst the lowest from the sample of countries that have undertaken an FTE (Figure 3.9). This excludes 30 concessions at the municipal level, which could carry a source of risk for public finances. The authorities are taking steps to publish concession documents, concession contracts and other relevant information on concessions as part of the new Law on Concessions.

Figure 3.9. PPP Capital Stock in Selected Countries
(Percent of GDP)



Source: IMF Public Investment Database (based on 2014 data).

Notes: This excludes concession arrangements at the municipal level.

3.2.5. Financial sector (Advanced)

86. Explicit obligations to the financial sector are quantified, disclosed and the BoL conducts regular assessments of financial stability. The government has direct exposure to the financial system through the Deposit Insurance Fund, which insures deposits of individual accounts up to a cap of EUR 100,000.⁵⁰ At the end of 2017, insured deposits amounted to

⁴⁹ Based on the *ESA 2010* definition of economic ownership, these are; (i) Construction and maintenance of Palanga bypass; (ii) Vilnius County Police Headquarters; (iii) Palūšė tourism centre, and; (iv) parking infrastructure in Santariškės medical campus.

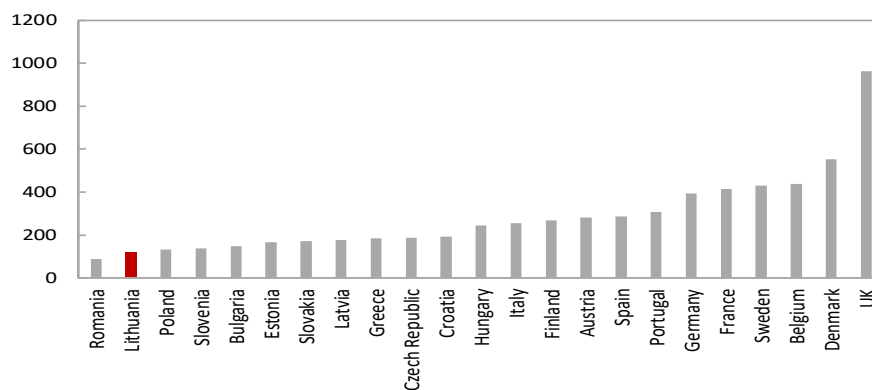
⁵⁰ In accordance with Article 6 of the EU directive on deposit guarantee schemes (2014/49/EU).

EUR 13 billion (31 percent of GDP). The Fund discloses information on the total amount of deposits and insured deposits in its annual report and produces quarterly and annual financial statements, which provide activity performance in each of its sub-funds. This information is also summarized in the Stability Program of Lithuania along with information on banks which became insolvent and triggered payment of the deposit insurance. Stress tests of the Deposit Insurance Fund are carried out in line with the European Banking Authority guidelines and are compiled as part of its quarterly risk assessment.

87. The BoL publishes an annual Financial Stability Report (FSR) that includes detailed analysis of financial sector risks and mitigation measures. The report presents an assessment of the health of the financial system and draws attention to internal and external threats. It conducts biannual stress tests to assess the resilience of the financial system to withstand adverse macroeconomic shocks. Based on the analysis, it advises market participants and government on how to adequately prepare for challenges in the financial system. Following the release of the FSR, a series of advisory committees’ meetings are held between the MoF and the BoL to discuss risk management measures.

88. Lithuania’s financial sector is relatively small and well capitalized and faces a low level of risk. Financial sector liabilities were around 120 percent of GDP at end-2017, at the lower end of comparator countries (Figure 3.10). An assessment of banking sector stability indicators fares well in areas of capital adequacy (over twice the Basel III minimum threshold), non-performing loans, the liquid asset ratio (ability to withstand a month-long financial stress) and profitability measured by the return on assets (Table 3.4).

Figure 3.10. Financial Sector Liabilities – Select Countries, 2017
(Percent of GDP)



Source: Eurostat

Table 3.4. Indicators of Banking Sector Stability, 2017

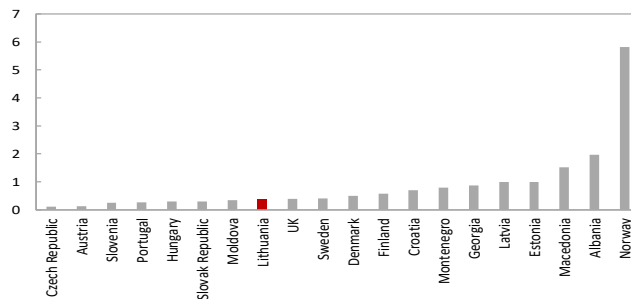
	Capital Adequacy Ratio	NPL/Total gross loans	Liquid Asset ratio	Return on Assets
Lithuania	19.1	3.2	23.6	1.1
Czech Republic	18.1	3.7	20.4	1.1
Estonia	29.2	0.7	23.7	1.4
Finland	21.4	1.7	20.9	0.5
Iceland	25.1	2.9	14.1	1.9
Latvia	20.8	5.5	34.0	1.0
Macedonia, FYR	15.7	6.1	23.2	1.4
Malta	17.3	4.1	7.9	1.0
Slovak Republic	18.8	3.7	-	1.1

Source: BoL and and IMF Financial Soundness Indicators.

3.2.6. Natural resources (Good)

89. The government publishes estimates of the volume and value of major natural resources in the national accounts, though these are relatively small. The national accounts include an estimate of the current value of natural resources based on a future stream of tax revenue minus the projected rate of consumption.⁵¹ In 2016 natural resource rents accounted for 0.4 percent of GDP (Figure 3.11). The Lithuanian Geological Survey, an independent directorate within the Ministry of Environment, estimates the volume and value of underground mineral resources and groundwater resources through an annual geological survey.⁵² The Ministry of Environment or other institutions under its authority undertakes a similar assessment for biological assets, comprising predominantly of forests. For the volume and value projections, tax rates are fixed, but changes in demand are factored in.

Figure 3.11. Natural Resource Rents, 2016
(Percent of GDP)



Source: World Bank World Development Indicators.

Total natural resource rents are the sum of oil, natural gas, coal (hard and soft), mineral and forest rents.

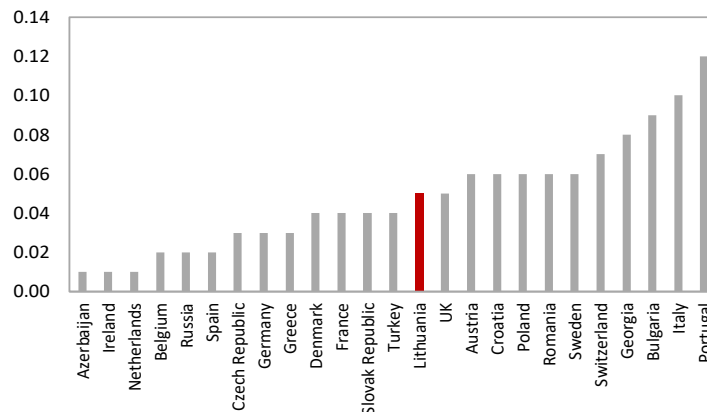
⁵¹ These are listed as minerals and forests, fruits and livestock.

⁵² Underground minerals comprise mainly of gravel, clay, sand, limestone and peat.

3.2.7. Environmental risks (Advanced)

90. Natural disasters pose risks to the public finances though these have been historically small. Between 2003 and 2012 there were four incidents of natural hazards, the most severe being hurricanes (such as Hurricane Irvine in 2005) followed by forest fires caused by drought, which were prevalent in 2008. Average annual damages from these incidents surmounted to less than 0.05 percent of GDP (Figure 3.12).⁵³

Figure 3.12. Average Annual Damages from Natural Disasters, 2003–12
(Percent of GDP)



Source: World Bank Development Report, 2014.

91. As part of its national risk assessment, government discusses the potential risks from environmental and manmade causes in the form of a risk matrix. The last risk assessment was undertaken by the Ministry of Interior in 2015 and provided the probability of different environmental incidents (hurricanes, droughts and floods) and potential manmade risks (nuclear, chemical and cyber-attacks) that could adversely impact Lithuania. The risk analysis is based on historical data and assesses: (i) the likely impact on the health of citizens; (ii) the likely impact on property and the environment; and (iii) the political and social impact. The legal framework for risk management is contained in the Law on Civil Safety. A separate Government Resolution established an inter-institutional emergency committee.⁵⁴ Individual ministries and agencies prepare risk management strategies as part of their respective mandates.⁵⁵

⁵³ Based on 2017 financial statements, an assessment of write-offs in the forestry sector (EUR 11.6 million) and two of the major electricity distribution companies; Amber (EUR 35.5 million) and ESO (EUR 4.3 million) amount to 0.12 percent of GDP. This suggests that costs in 2017 could be higher than those stated in Figure 3.11.

⁵⁴ Article 11 of the Law on Civil Safety (1998) and Resolution number 429 on the Establishment of the Emergency Committee, Article 7 stipulates that regular deliberations are published on the website of the Ministry of Interior.

⁵⁵ For example, the Ministry of Environment and its authorized institutions have a flood management strategy and undertakes studies to minimise potential contamination to Lithuania's ground water storages. The meteorological office of Lithuania also compiles a forest fire index.

3.3. Fiscal Coordination

3.3.1. Subnational governments (Good)

92. The consolidated balance sheet of all municipalities is included in the annual national financial statements. These data are derived and compiled by the MoF from individual submissions of financial statements from municipalities. Municipalities are also required to publish information on their financial performance on a quarterly basis, but compliance is incomplete.⁵⁶ The level of detail of in-year reporting also varies. Some local governments publish detailed information on their cash flows and balance sheets, while others provide only the main aggregates.

93. Fiscal risks are mitigated by strong controls on local government borrowing. The Annual Budget Law limits municipal borrowing to 60 percent of forecasted revenue⁵⁷ and all borrowing limits are approved by the MoF during the budgeting process.⁵⁸ Municipalities can borrow within these limits but are expected to balance their budgets in three years' time. As part of the broader legal framework on fiscal rules, each municipality is required to produce a nominal balanced budget on cash basis and the three largest municipalities a non-negative structural balance every year.⁵⁹ The outturns of municipal finances are disclosed in the national financial statements.

94. Local governments' spending and debts are low. Local government expenditure represents approximately 8 percent of GDP, and these authorities are highly reliant on central government transfers, with own source revenue making up only 5 percent of their funding (Figure 3.13). Furthermore, local government debt remains relatively low at around 1.3 percent of GDP. Most municipalities are operating with a budget surplus (Figure 3.14), although eight of them ran deficits in 2017.⁶⁰

⁵⁶ Based on an assessment of the current quarterly submissions of the 30 largest municipalities, covering 80 percent of municipal liabilities, four had not published financial reports for the last three quarters.

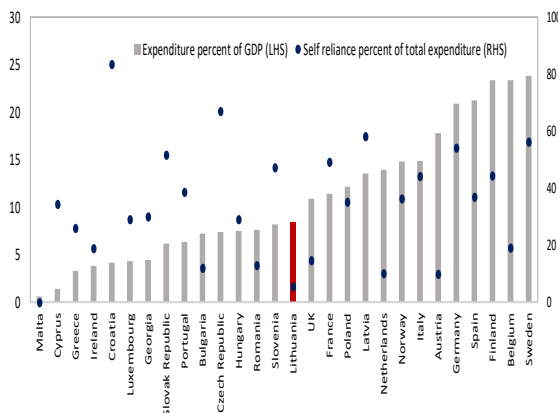
⁵⁷ Except for Vilnius City Municipality whose borrowing limit is 85 percent of revenue.

⁵⁸ Revenue as defined in Annex 7 of the Annual Budget Law.

⁵⁹ Constitutional Law on the Implementation of Fiscal Treaty, Article 4.2 and 4.4

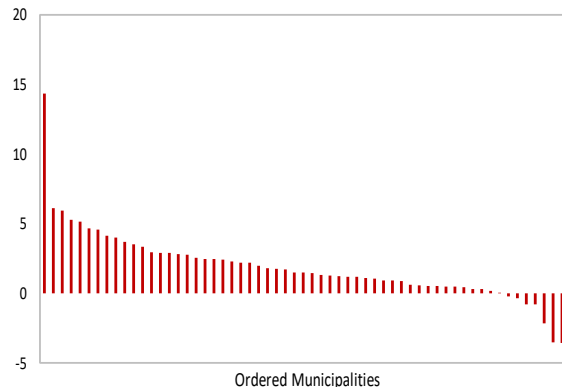
⁶⁰ These are Pasvalio raj.; Utenos raj.; Kretingos raj.; Širvintų raj.; Palangos m.; Elektrėnų sav.; Alytaus m.

Figure 3.13. Size and Self-Reliance of Sub-National Governments, 2016



Source: IMF GFS Database and MoF, Lithuania.

Figure 3.14. Budget Balance, 2017 (Percent of Revenue)



3.3.2. Public corporations (Good)

95. Transfers to and from government to public corporations are captured in budget documents as part of the financial performance of parent ministries.⁶¹ Individual line ministries break down grants, subsidies and capital transfers in their strategic budget plans and quarterly reports. Dividends and profit contributions to the State are reflected in the semi-annual consolidated GCCSOE report. The same report provides aggregate and sector financial information summarized from financial statements of 108 entities and income statements and balance sheets of the largest 19 state-owned public corporations are analyzed in greater detail with financial performance ratios. Indirect support through guarantees are published on the MoF website (see section 3.2.3).

96. Details of the ownership policy and quasi fiscal activities of public corporations are provided although these are not complete. Whilst the consolidated GCCSOE report includes chapters for both aspects, which are in line with OECD guidelines, coverage issues exist.⁶² For example, for 42 percent of corporations, no information is provided on the government’s equity participation. Similarly, the costing of quasi-fiscal activities is limited with several data gaps in the GCCSOE annual report.

97. The effectiveness of the monitoring, oversight and analysis of risks associated with public corporations could be further strengthened. No single report consolidates the fiscal flows between the State and the public corporations, and the associated risks. Although monitoring and oversight are currently concentrated on the 19 largest entities, there is evidence of several other loss-making entities (Figure 3.15), with over a quarter of them making losses

⁶¹ Public corporations in Lithuania include: enterprises with full ownership by the State and municipalities; and public and private limited liabilities companies. These operate at the central government levels (called SOEs) and at the municipal level (called MOEs).

⁶² OECD, 2015. “The Guidelines of Corporate Governance of State-owned Enterprises.” The guidelines include recommendations on ownership, transparency, and nomination procedure.

amounting to more than EUR 30 million. The disclosure of fiscal risks associated with municipal public corporations is not available and provisional analysis of these entities show signs of impairments to profitability, which are commonly associated with utility companies due to uncompensated quasi-fiscal activities, (Figure 3.16). This could have long-term fiscal risk implications, given that the total liabilities of non-financial public corporations are already in the mid-range of EU countries (Figure 3.17). Of these liabilities, most are concentrated in the Energy sector (Figure 3.18).

Figure 3.15. Loss Making Public Corporations, 2017

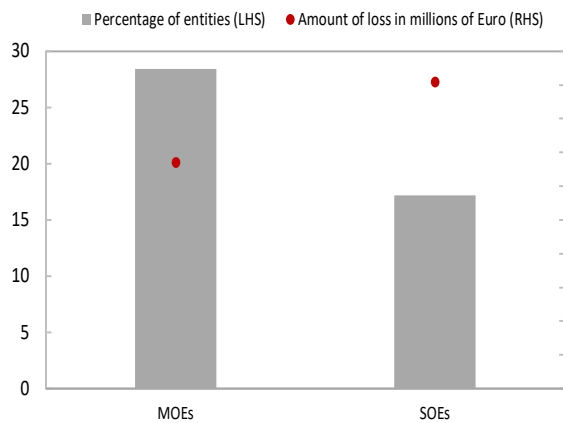


Figure 3.16. Profitability of Utility MOEs, 2017 (Number of entities)

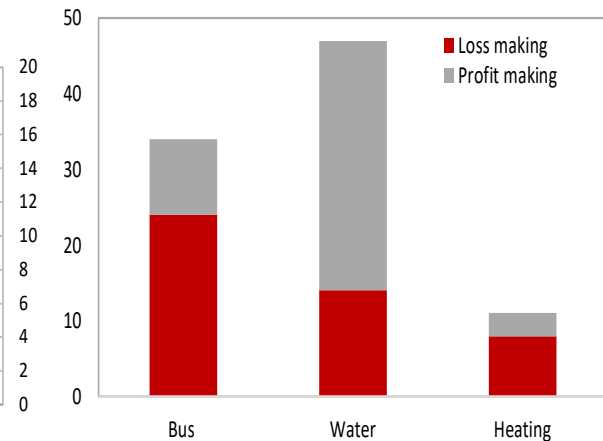


Figure 3.17. Total Liabilities of NFPC, 2016 (Percent of GDP)

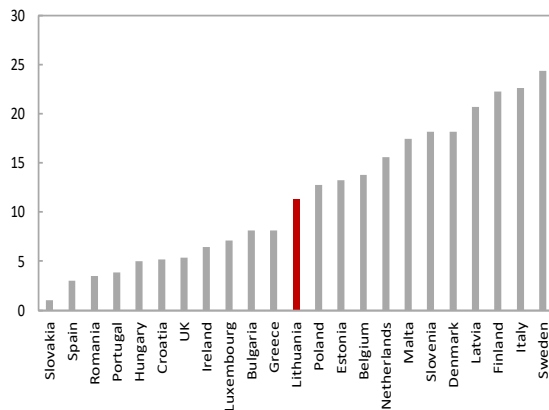
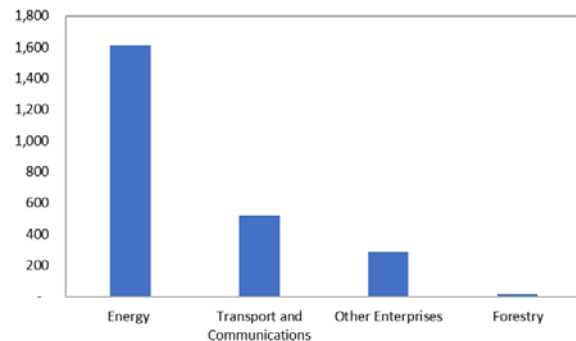


Figure 3.18. NFPC Liabilities by Sector, 2016 (Millions of Euro)



Sources: GCCSOE report, individual MOE financial statements and Eurostat.

3.4. Conclusion and Recommendations

98. Table 3.5 summarizes the assessment of Lithuania’s practices in fiscal risks. Lithuania meets basic or good practice in 7 of the code’s 12 dimensions and advanced in 3 dimensions, which is above the EU average.⁶³ Lithuania’s public finances are exposed to sizeable fiscal risks from a variety of sources. Information is available on most risks, but exclude consolidated information on risks associated with municipal public corporations, PPPs, some subnational governments and natural disasters. Information on fiscal risks is scattered across several documents and no report provides a comprehensive picture of government’s aggregate fiscal risk exposure.

99. Recommendation 3.1. Disclose the size and nature of specific fiscal risks by publishing a comprehensive statement on fiscal risks. As a first step, strengthen reporting on specific fiscal risks that are missing and following this gradually compile all risks in a summary fiscal risk statement, comprising:

- A discussion on the main macroeconomic risks relevant to the fiscal aggregates and alternative macroeconomic and fiscal scenarios that incorporate a range of plausible shocks to key macroeconomic variables;
- Long term sustainability analysis based on projections to alternative macroeconomic and demographic scenarios, factoring in progress of pension reforms;
- Analysis of risk surrounding the government’s debt portfolio and main financial and non-financial assets;
- All explicit and implicit risks associated with the public corporations sector (including MOEs), summarizing all major fiscal flows with the government (both direct and indirect);
- All major explicit contingent liabilities (including a list of guarantees by beneficiary and probability of these being called for one off guarantee and the rights, obligations and other exposures under PPP contracts and municipal concessions); and
- A section on other specific risks that could include the financial sector, sub national governments, natural disasters, legal claims and any other material fiscal risks.

100. Recommendation 3.2. Strengthen the monitoring and oversight of all public corporations by producing and publishing a consolidated report on their stocks, flows, and inter-public sector transactions.

- Develop the analysis over the medium term and incorporate into the statement of fiscal risks.

⁶³ Based on eight FTEs undertaken in Europe.

Table 3.5. Lithuania: Summary Evaluation: Fiscal Risks

	Principle	Rating	Importance	Rec
3.1.1	Macroeconomic Risks	Good: The Stability Program includes macro-fiscal sensitivity and scenario analysis, but no probabilistic fan charts.	High: Volatility of growth in nominal GDP and revenue is 7.8 and 8.1 percentage points respectively.	
3.1.2	Specific Fiscal Risks	Not Met: No report summarizes specific fiscal risks, though relevant information is disclosed in various reports and statistics.	High: Maximum exposure to specific fiscal risks is estimated at about 80 percent of GDP.	3.1
3.1.3	Long-term Fiscal Sustainability	Good: Long-run fiscal projections are published, using a range of macroeconomic assumptions.	High: A rapidly ageing population is estimated to double the old age dependency ratio by 2060.	3.1
3.2.1	Budgetary Contingencies	Advanced: There are clear access criteria for contingency reserves and regular in-year reporting on utilization.	Low: At 0.5 percent of total expenditure in 2017, the size is in the mid-range compared to selected EU countries.	
3.2.2	Asset and Liability Management	Basic: Borrowing is authorized by law and risks around debt are disclosed and analyzed. There is limited analysis of risks of financial and non-financial assets.	Medium: General government debt are 40 percent of GDP and financial and non-financial assets of NFPCs are 29 percent of GDP	3.1
3.2.3	Guarantees	Good: There is regular reporting on the stock of guarantees and limits on the size, but no information on the probability of guarantees being called.	Low: 30 percent of the guaranteed debt stock is one-off guarantees, and only one (negligible) call has been made in the last three years.	3.1
3.2.4	Public-Private Partnerships	Not met: The government's PPP-related rights and obligations are not reported on comprehensively.	Medium: PPPs account for only about 0.5 percent of GDP and limited information is published on municipal concessions.	3.1
3.2.5	Financial Sector Exposure	Advanced: Explicit obligations associated with deposit insurance are disclosed, and the BoL publishes annual financial stability assessments which includes stress tests.	Low: The banking system is well capitalized and over 80 percent is safeguarded by the EU bank recovery and resolution directive.	
3.2.6	Natural Resources	Good: The government publishes estimates of the volume and value of major natural resources in the national accounts.	Low: Natural resource rents are worth 0.4 percent of GDP.	
3.2.7	Environmental Risks	Advanced: Government reports on the main environmental risks and quantifies them based on historical fiscal cost. A published risk management strategy is in place.	Medium: Four natural hazards occurred between 2003-12 with an annual cost of 0.05 percent of GDP but could be as high as 0.12 percent of GDP in 2017.	
3.3.1	Sub-national Governments	Good: Information on the financial performance of municipalities is published annually, and their borrowing is limited by law.	Low: Municipality spending and debt is low at 8 and 1.3 percent of GDP respectively.	
3.3.2	Public Corporations	Good: Fiscal flows between the State and state-owned public corporations are recorded. An ownership policy and financial performance is published.	High: Total liabilities of NFPCs are 12 percent of GDP. One-third of state-owned NFPCs, and half of municipality-owned NFPCs are loss-making.	3.2

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