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# Lithuania political briefing:
# Lithuania's Economic Overview and 2024 State Budget

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# Lithuania's Economic Overview and 2024 State Budget

**Summary**

*Despite facing hurdles in 2023, Lithuania's economy seems to have avoided any severe recession and is on the path towards continued stable economic expansion. The year 2024 is expected to be better for Lithuania's economy than 2023. Specifically, it is forecast that inflation rate will be significantly lower than last year, wages will grow at 6 to 8 per cent and real GDP is expected to expand at a rate of around 2 per cent. The 2024 State budget – an annual plan of public finances – was signed off in December 2023 and is based on key economic assumptions for the year 2024 and reflects the main government's economic priorities. It will play a crucial role in shaping the country's economy during the 2024. The government aims that 2024 State budget would allow people to feel the benefits of economic growth. Therefore, the 2024 state budget focuses on increasing people's incomes, and, among other things, allocates increased financing for country's defence, investment projects and aid for Ukraine. The main downside of the 2024 State budget is its planned 3 per cent deficit, which is at the upper limit of the so-called EU Maastricht criteria.*

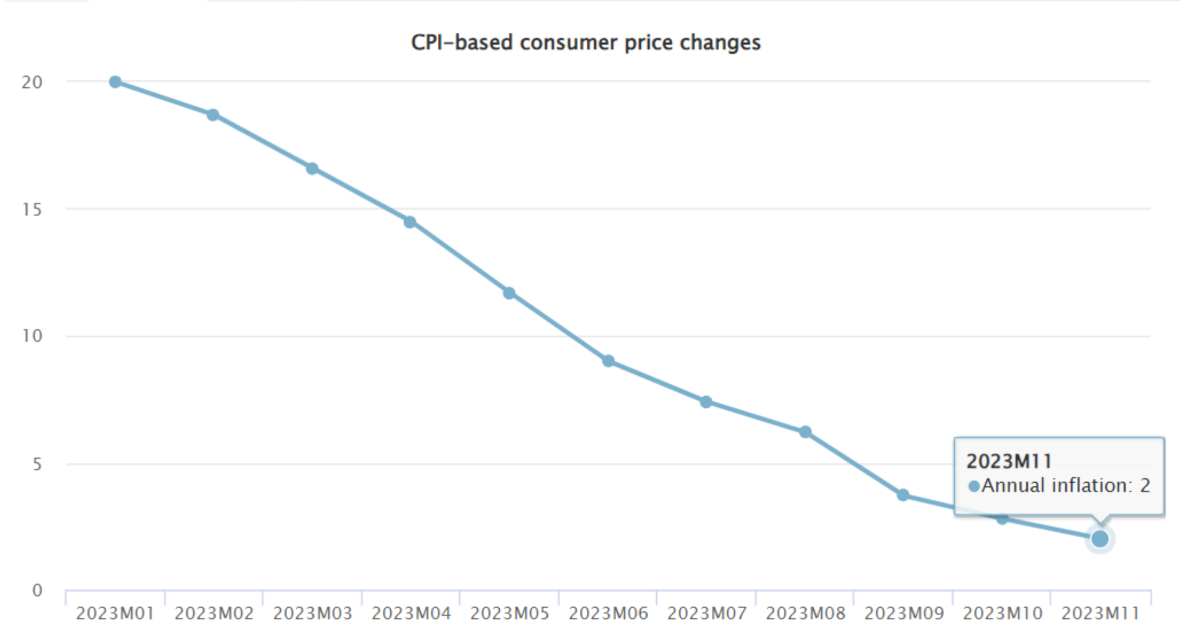
**Introduction**

The year 2023 was a challenging one for Lithuania‘s economy. The article summarizes the economic tendencies in Lithuania during the year 2023 and provides an outlook for the year 2024. The second part of the article focuses on one of the most significant political and economic events in the country – the newly adopted 2024 State Budget which will guide Lithuania's economic development for the next year. The 2024 state budget has been planned to have 3 per cent deficit and the article explains why it presents a risk of failing to meet the EU's Maastricht criteria.

### Economic overview

During the year 2023 the country had to cope with one of the highest rates of inflation in the EU, which reached 20 per cent in January 2023 and had been decreasing througout the year (see **Graph 1**). The slowdown in inflation has been achieved at a cost of rising interest rates, which became a fairly significant burden both for households having mortgages as well as businesses. Together with slowing rate of inflation, Lithuania's economy has initially been contracting and subsequently stabilizing towards the end of 2023.

**Graph 1:** Annual inflation in Lithuania from January to November 2023[1]




The data of 2023 Lithuania's GDP is not yet finalized, but economists think that during the year 2023 Lithuania's economy contracted mildly and had a slight negative change in real GDP. During the first 9 months in 2023, GDP had contracted by 0.5 per cent, but the third quarter showed signs that contraction in Lithuania's real GDP had basically stopped and was almost unchanged comparing to third quarter of 2022.[2] Both Lithuania's manufacturing industry as well as retail sector are also estimated to have contracted during 2024. SEB senior

[1] OFFICIAL STATISTICS PORTAL: Annual changes in consumer prices (annual inflation), at https://osp.stat.gov.lt/statistiniu-rodikliu-analize?hash=eb3e825c-f627-4dcc-858d-7c5cf7b46bf9#/

[2] LIETUVOS RYTAS: Ekonomikos sąstingis tęsiasi, už tai finansų paslaugų sektoriaus rezultatai turėtų būti itin geri, at https://www.lrytas.lt/verslas/rinkos-pulsas/2023/10/31/news/lietuvos-triju-ketvirciu-bvp-siemet-0-5-proc-mazesnis-nei-pernai-28945214

economist Tadas Povilauskas is not worried about this slight economic contraction and considers it as a sign of economic stabilization or stagnation.[3] Regardless, Lithuania's economy is likely to have avoided any hard landing and will instead have a slight economic contraction.

While the year 2023 showed the signs of economic stagnation, it is predicted that Lithuania's economy will grow again in 2024 with real GDP growth of around 2 per cent. The economy of Lithuania and the entire EU will continue to be negatively affected by the war in Ukraine and Western sanctions against Russia and Belarus, increased loan interest rates due to the European Central Bank's efforts to control inflation, and declining consumption, but it is predicted that at least part of these negative actions will have subsided in the second half of 2024.[4]

Many analysts predict that the ECB should start cutting interest rates in the second half of the year. This, together with falling inflation, recovering consumption and expected investment growth, should promote faster economic recovery.

A potential decrease in interest rates could be beneficial for those with mortgages in Lithuania, given that the majority of these mortgages have fluctuating interest rates tied to the 6-month EURIBOR rates.

Average annual inflation, according to different institutions, should fluctuate between 1.8-3 per cent this year, the IMF publishes a worse forecast of 3.9 per cent. According to analysts, after the peak reached at the beginning of 2023, consumer prices are already starting to return to normal levels, and last December, according to preliminary data, average annual inflation fell to 8.7 percent.

The average salary is expected to grow by 6.5-8.5 percent this year. Growth will continue to be fueled by a shortage of skilled workers, higher wages for public sector workers and a higher minimum wage, but as economic activity slows, growth momentum will begin to decline. Rapidly rising wages and weak demand in export markets will reduce incentives to

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[3] ŽINIŲ RADIJAS: Žaliavos, kainos ir tendencijos, kur judėsime kitąmet, at https://www.ziniuradijas.lt/laidos/ekonominiai-pietus/zaliavos-kainos-ir-tendencijos-kur-judesime-kitamet?video=1

[4] MADE IN VILNIUS: Prognozė: svarbiausi Lietuvos ekonomikos ir verslo įvykiai 2024-aisiais, at https://madeinvilnius.lt/naujienos/lietuvos-naujienos/prognoze-svarbiausi-lietuvos-ekonomikos-ir-verslo-ivykiai-2024-aisiais/

create new jobs, some companies may lay off some workers. Consequently, unemployment may increase and is forecast to be 6.3-7.1 per cent during 2024. [5]

**2024 State Budget**

In December 2023 Lithuania's President Gitanas Nausėda signed the 2024 State Budget, which was first prepared and agreed by the government and then voted for by the Seimas, the Lithuanian Parliament. This is the penultimate budget drawn up by this government and the last one adopted by this parliament.

The final approval and voting for the state budget by the Seimas not only has economic but also political implications. Voting in the Seimas for the State budget, which is one of the crucial projects of the government, is an indication whether the government has political support in Lithuanian parliament and whether the ruling coalition is properly functioning and still able to command the majority of votes. For example, both last year's 2023 state budget as well as this year's 2024 state budget was approved in the Seimas by 73 affirmative votes. This means that although the year 2023 was fairly challenging both politically and economically, the ruling coalition has survived and maintained its composition.

According to the budget plan, in 2024 state revenue will amount to 16.98 billion euros (increase by 9.4 per cent) and expenditure will stand at 20.6 billion euros (increase by 7.9 per cent), leading to a budget deficit of 3 per cent of GDP, and the government debt will amount to 39.8 per cent of GDP.

Some of the decisions made earlier this year will also have an impact on 2024 state budget revenue. These include the bank solidarity levy that is expected to generate 280 million euros in revenue in 2024, as well as the three-year excise duty plan (43 million euros in revenue), and the green excise duty law (63 million euros).

The government forecasts that the 2024 budget revenue will increase significantly. Specifically, it foresees a 39.1 percent increase to 6.647 billion euros in VAT revenue, a 16.9 percent increase to 2.87 billion euros in personal income tax revenue, a 10.9 percent increase to 1.86 billion euros in excise duty revenue, and a 10.6 percent increase to 1.811 billion euros

[5] Ibid.

in corporate income tax revenue. EU and other financial assistance will go up by 14.6 percent to 2.487 billion euros. [6]

**People's income is set to rise**

In 2024 people's income will rise because of a number of items incorporated into the state budget. First, the minimum monthly pre-tax wage will rise by 10 percent to 924 euros in 2024. This will need a budget allocation of 33.7 million euros. Meanwhile, the non-taxable income rate will rise 20 percent to 747 euros, with a budget allocation of 241.2 million euros.

More than 688 million euros are earmarked for pay increases for cultural and arts workers, firefighters, medics, prosecutors, statutory and other officials, social workers, and judges. The increase in old-age pensions by around 12 percent is estimated to cost 519 million euros, which will raise the average old-age pension by 66 euros to 605 euros, affecting more than 623,000 people.

Support for families raising kids continues and monthly child allowance been increased to 96 Euros for each child, and to 153 Euros for each child if the child has any disabilities or a family has three or more children. One-time payment upon the birth of a child has been increased to 605 Euros.

Overall, the government plans to spend a total of 1.7 billion euros this year to raise people's income.

**Defence and aid for Ukraine and other expenditure**

Lithuanian will also allocate 232 million euros in assistance for Ukraine, including 127.2 million euros for war refugees and social services, 70 million euros for EU and international commitments, and 35 million euros for Ukraine under the European Peace Facility. Lithuania's defence spending in 2024 is projected at around 2.06 billion euros or 2.71 percent of the GDP.[7] The defence spending will be partly covered by the traditional budget allocations, which will amount to 2.52 percent of GDP, and the remaining part will be covered the temporary windfall

[6] LRT: Lithuanian government approves 2024 state budget, at https://www.lrt.lt/en/news-in-english/19/2093291/lithuanian-government-approves-2024-state-budget

[7] Ibid.

tax on banks and borrowing. The increase in excise duties will raise the price of beer, wine and other alcoholic beverages, as well as tobacco products.[8]

Investment and security are the other two significant areas of expenditure in the 2024 state budget. Specifically, 392 million euros is planned to be spent on security, and 3.2 billion euros will be allocated for investment in various areas.

**Maastricht criteria and EU Intervention**

It is important to mention that there are agreements in the EU that prescribe certain rules and limits as to how each EU member state can construct its fiscal policy and state budget. The countries must meet the Maastricht criteria, and the EU Commission reviews fiscal policies, taxation policies and state budgets of each EU member state, and issues its opinions whether or not state budgets are in line with EU recommendations. In other words, EU member states are not entirely independent when constructing their fiscal policies, taxation systems and state budgets.

Fiscal policy of each EU member state must meet the so-called The Maastricht criteria, also known as Euro convergence criteria. The Maastricht fiscal architecture relies on limits on debt and the general government deficit. Each EU member state should not exceed 3% for the deficit of their state budget and 60% for the debt, both in terms of GDP. So these are the EU prescribed limits on how much a country can borrow and how much their budget expenditure can exceed their budget revenue.

If a state is found by the commission to have breached the deficit criteria, they will recommend the Council of the European Union to open up a deficit-breached EDP against the state in accordance with Article 126(6) of the Maastricht Treaty, which only will be abrogated again when the state simultaneously comply with both the deficit and debt criteria.[9]

As explained above, it is crucial that the budget deficit does not exceed 3 per cent of country's GDP. Since it is already planned that the budget will have 3 per cent maximum allowed deficit, it is very important that all the revenues and expenditures are based on correct

[8] LRT: Lithuanian parliament passes 2024 state budget, at https://www.lrt.lt/en/news-in-english/19/2141919/lithuanian-parliament-passes-2024-state-budget

[9] WIKIPEDIA: Euro convergence criteria, at: https://en.wikipedia.org/wiki/Euro_convergence_criteria#:~:text=If%20a%20state%20is%20found,both%20the%20deficit%20and%20debt

assumptions and well calculated estimates. If any of the crucial estimates on which the budget is based turns out to have worse impact than expected, the budget may well have a deficit bigger than 3 per cent and thus breach the Maastricht criteria.

What is more, the European Commission reviews draft budget plans Euro Zone countries and makes recommendations on them. For 2024, the Commission is recommending to remove bottlenecks to private and public investments, support a favourable business environment, and develop the necessary skills for the green and digital transitions. At the same time, the Commission provides tailored policy advice to euro area countries. This year the focus lies on policy responses to the challenges of high inflation and competitiveness.[10]

Although some critics claim that EU rules limit on national sovereignty of individual EU member states, this is yet another area where a common EU policy benefits both individual countries and the EU as a whole. Namely, national governments and politicians have to be fiscally responsible and make realistic and sustainable promises to their electorate. Also, common EU policy ensures more transparency and fairer competition between EU member states.

**Evaluation of the budget**

The 2024 State Budget – an annual plan of public finances – reflects the main priorities of the country as well as the main economic assumptions for the next year.

Some critics say that estimates about 2024 year's salaries growth, inflation rate and other economic parameters are quite optimistic and there is a risk that the actual budget revenue will be less than the estimated figures. If that is the case, that would mean that the tightly planned budget deficit of 3 per cent may in fact exceed this limit and no longer comply with the Maastricht deficit criteria.

For example, V. Mitalas thinks that "the budget assumptions are quite optimistic in terms of inflation. It is said that inflation will increase by 2.9 per cent (average annual inflation in 2024 - BNS), but we have seen and are still seeing much higher numbers. I hope that the Government's optimism will be realized, although I have some doubts," V. Mitalas claimed to

[10] EUROPEAN COMMISSION: Commission makes recommendations to EU countries and reviews 2024 draft budget plans, at: https://commission.europa.eu/news/commission-makes-recommendations-eu-countries-and-reviews-2024-draft-budget-plans-2023-11-21_en

BNS. According to him, the change in wages was calculated "quite modestly" to be 6.5 per cent growth: "Apparently we can expect a bigger change." [11]

The opposition parties, as per tradition, also criticize the budget. Algirdas Butkevičius of the Democratic faction "Vardan Lietuvos" believes that the budget is "very optimistic and electoral". According to him, the planned real GDP growth of 1.7 per cent is "quite optimistic." Mr. Butkevičius pointed out that the budget revenue growth is planned to reach 9.4 per cent, although recently every month collection of value added tax, which is the largest source of budget revenue, has been decreasing by 1-1.5 percentage point.[12]

Despite the criticism mentioned above, there are reasons to be optimistic about the state budget and prospects of Lithuanian economy.

First, the government has a track record of being rather conservative when estimating the budget revenue and expenditure. For example, the 2023 state budget turned out to have less deficit than originally estimated. Specifically, the parliament-approved state budget for 2023 originally projected a government deficit of 4.9 percent of GDP, but the budget deficit is now expected to stand only around 2 percent this year due to favourable circumstances. Budget revenue is higher than projected this year because businesses have been less active in making use of tax deferrals, while expenditure is lower because only part of the funds earmarked for energy price compensation have been used. [13]

There's a possibility that the actual 2024 state budget deficit could be less than anticipated. In November 2023, the Lithuanian government initially projected a budget deficit of 2.9 per cent in its draft budgetary plan (which was later revised to 3 per cent in the final state budget plan). After examining the economic assumptions in the state budget, the European Commission projected that Lithuania's general government deficit would amount only to 2.3 per cent. Moreover, the European Commission had a more positive outlook than the Lithuanian government, forecasting a 2.4 per cent expansion in Lithuania's economy, while the Lithuanian

[11] VERSLO ŽINIOS: Biudžetas 2024 m: valdantiesiems realistinis, opozicijai pernelyg optimistinis, at: https://www.vz.lt/finansai-apskaita/2023/10/05/valdantieji-2024-m-biudzeta-vadina-realistiniu-opozicija--pernelyg-optimistiniu

[12] Ibid.

[13] LRT: Lithuanian government approves 2024 state budget, at: https://www.lrt.lt/en/news-in-english/19/2093291/lithuanian-government-approves-2024-state-budget#:~:text=Budget%20revenue%20is%20higher%20than,price%20compensation%20have%20been%20used.

government estimated a real GDP growth of 1.7 per cent in 2024 in its state budget assumptions. [14]

Evaluating the 2024 State budget, Eugenijus Gentvilas, the leader of the ruling coalition's liberals, says that the 2024 budget is realistic, reflecting both the state's capabilities and Brussels' financial instructions. "Financial discipline is being tightened again in the European Union and the budget deficit has to be reduced to 2.9%." It is very important to preserve the sustainability of finances", said the MP. According to him, the most important emphases are military affairs, stabilization of the geopolitical situation, implementation of the education agreement and raising salaries and pensions, which must exceed inflation. "These indicators were planned and set as the most important and they are achieved with this budget," he emphasized. [15]

Vytautas Mitalas, a member of the Freedom faction, calls the most important state revenue and expenditure plan for 2024 reasonable. He puts emphasis on education agreement and says that the salary increase of 66% for teachers and 70% for lecturers during this government term means that the main goals of the education agreement are being implemented. However, V. Mitalas is of the opinion that additional funds should be provided for the promotion of children's afterschool programs and digital education tools. [16]

Overall, the government is confident about the budget and feels that it reflects the recent positive development and growth of Lithuania’s economy. “After the shocks of the last few years, this 2024 budget will allow people to feel real economic growth,” Finance Minister Gintarė Skaistė said during the cabinet meeting.[17]

[14] EUROPEAN COMMISSION: Commission Opinion on the Draft Budgetary Plan of Lithuania, at: https://economy-finance.ec.europa.eu/system/files/2023-11/c_2023_9513_lt_en_en.pdf

[15] VERSLO ŽINIOS: Biudžetas 2024 m: valdantiesiems realistinis, opozicijai pernelyg optimistinis, at: https://www.vz.lt/finansai-apskaita/2023/10/05/valdantieji-2024-m-biudzeta-vadina-realistiniu-opozicija--pernelyg-optimistiniu

[16] Ibid.

[17] LRT: Lithuanian government approves 2024 state budget, at: https://www.lrt.lt/en/news-in-english/19/2093291/lithuanian-government-approves-2024-state-budget#:~:text=Budget%20revenue%20is%20higher%20than,price%20compensation%20have%20been%20used.

## Conclusion

Despite the difficulties faced by Lithuania's economy in 2023, it has managed to steer clear of a profound economic downturn and is projected to resume steady economic growth. All crucial economic indicators, including real GDP growth, inflation rate, interest rate, and unemployment rate, are expected to improve in 2024 compared to 2023. The 2024 state budget mirrors this tangible economic growth with its anticipated rise in revenues and spending. Based on the European Commission's computations and historical data, barring any significant external economic disruptions, Lithuania's actual economic performance in 2024 might surpass expectations once again. Similarly, the financial outcome of the State Budget could be more favourable, and the planned deficit could be lower.