

Key messages:

- With international trade acceleration forecast of GDP growth is expected to be revised upwards for the year 2017
- Labour market continues to heat up
- Fiscal deficit in 2017 may be near balance
- Gross debt will remain on slowly decreasing path
- Budget Governance reform is among the priorities of new Government

Macroeconomic outlook

A recovery in EU funds-driven investment and exports are set to power GDP growth up to 2.7% in 2017 and 2.8% in 2018. At the same time, domestic demand does not show any sign of slowdown. Last year, wages rose by roughly 8% and are expected to continue growing more than 6.0% in the medium term. Employment is expected to continue increasing but should slow down as the labour supply approaches its limit. Favourable situation in labour market has positive effects on private consumption. Inflation is picking up its momentum. According to current projections, inflation will stand at 3.2% in 2017.

Short-term fiscal outlook

The general government surplus was set to swing into deficit in 2017 due to the short-term costs of structural reforms, however revenue windfall collected during first five months of 2017 shows that annual result might be near balance.

Medium-term fiscal outlook

The medium-term objective (structural deficit of 1.0% of GDP) was achieved in 2014, and there was no deviation from it since then. This medium-term objective is set till 2018. Government projects that gross debt could decrease to 33.8% of GDP in 2020 (Chart 3). Government measures were balanced in 2017, discretionary decisions on expenditure's side were covered by abolishing VAT tax exempt for heating and hikes of excise duties on alcohol and tobacco (Chart 2).

Medium-term risks for the general government balance

	[% of GDP]	2017 f	2018 f	2019 f	2020 f
TOTAL RISK		0.0	-0.2	-0.4	-0.8
Old-age pensions		0.0	0.0	0.0	-0.3
Municipalities expenditure		0.0	0.0	-0.1	-0.1
Central gov't expenditure		0.0	-0.2	-0.3	-0.4
TOTAL COVERAGE		0.4	0.2	0.2	0.2
Direct tax		0.2	0.1	0.1	0.1
Social contributions		0.2	0.1	0.1	0.1
OVERALL IMPACT ON GG BALANCE		0.4	0.0	-0.2	-0.6

Fiscal framework and national fiscal rules

Among newly established Government's priorities there is a plan to implement Budget Governance reform. It aims at aligning strategic planning with budget appropriations, strengthening accountability for results. Reform is planned in stages with deadline in 2020.

Key indicator forecast

		2016	2017 f	2018 f	2019 f	2020 f
Real GDP growth rate	[% y-to-y]	2.3	2.7	2.6	2.5	2.4
Output Gap - MoF est.	[%]	0.6	1.0	1.1	1.2	1.4
Output Gap - BPMD est.	[%]	0.3	0.8	1.2	1.5	1.9
GG balance - MoF est.	[% of GDP]	0.3	-0.4	0.4	0.3	1.3
GG debt - MoF est.	[% of GDP]	40.2	42.4	38.4	39.1	33.8
GG debt - BPMD est.	[% of GDP]	40.2	38.5	37.1	35.9	34.5
GG structural balance - MoF est.	[% of GDP]	-0.1	-0.7	-0.3	-0.2	0.7
GG expenditure	[% of GDP]	34.2	36.3	36.0	36.0	35.4
GG revenue	[% of GDP]	34.5	36.0	36.4	36.3	36.7

Chart 1: Development of the Structural Balance 2016-2020

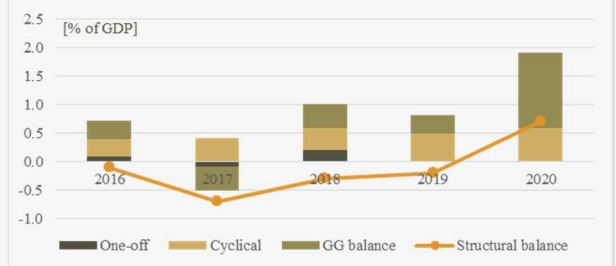


Chart 2: Government measures in 2017

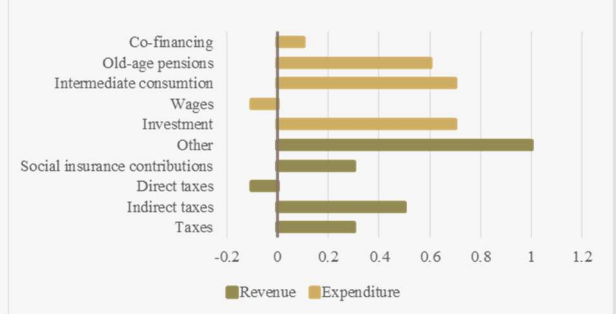
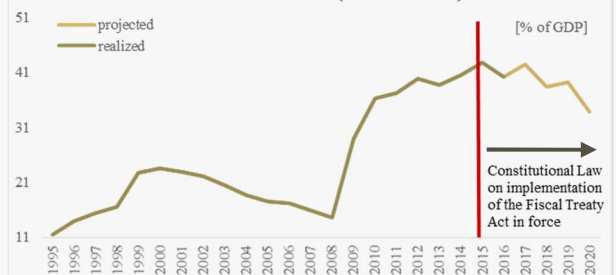


Chart 3: Debt-to-GDP ratio (% of GDP)



Sources:

The 2017 Stability program for Lithuania, 26.4.2017;

BPMD: The 2017 Report on General Government Fiscal Sustainability, 20.6.2017

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