

REPUBLIC OF LITHUANIA
CONSTITUTIONAL LAW ON THE IMPLEMENTATION
OF THE FISCAL TREATY

6 November 2014 No XII-1289

Vilnius

Article 1. Purpose of the Law

1. The purpose of the Law shall be to ensure sustainability of general government finances and stable development of the economy and to implement the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union Between the Kingdom of Belgium, the Republic of Bulgaria, the Kingdom of Denmark, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Grand Duchy of Luxembourg, Hungary, Malta, the Kingdom of the Netherlands, the Republic of Austria, the Republic of Poland, the Portuguese Republic, Romania, the Republic of Slovenia, the Slovak Republic, the Republic of Finland and the Kingdom of Sweden of 2 March 2012 (hereinafter: ‘the Fiscal Treaty’).

Article 2. Definitions

1. **Budget policy monitoring authority** (hereinafter: the ‘monitoring authority’) means an institution which is responsible for the supervision of adherence to the rules and fulfilment of the tasks set out in this Law and which is authorised to prepare, submit to the Seimas of the Republic of Lithuania (hereinafter: the ‘Seimas’) and to publish in accordance with the procedure laid down by law the conclusions defined in this Law.

2. **Exceptional circumstances** means an unusual event outside the control of public authorities which has a major impact on the financial position of the general government or a severe economic downturn, as established in Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ 2004 *Special edition*, Chapter 10, Volume 1, p. 84), as last amended by Regulation (EU) No 1175/2011 of the European Parliament and of the Council

of 16 November 2011 (OJ 2011 L 306, p.12) (hereinafter: ‘Council Regulation (EC) No 1466/97’).

3. **Structural adjustment target** means a targeted annual adjustment of the structural general government sector balance indicator towards the medium-term objective the result of which is calculated as a percentage of gross domestic product (hereinafter: the ‘GDP’) at current prices and rounded to one decimal place.

4. **Medium-term objective** means a structural general government sector balance indicator which has to be reached within four successive years or a shorter period by omitting the year of exceptional circumstances.

5. Other terms used in this Law shall be understood as defined in the Law of the Republic of Lithuania on the Budget Structure, the Law of the Republic of Lithuania on State Debt, the Law of the Republic of Lithuania on Fiscal Discipline, the Law of the Republic of Lithuania on Public Sector Accountability, and Council Regulation (EC) No. 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ 2004 *Special edition*, Chapter 10, Volume 1, p. 89), as last amended by Council Regulation (EC) No 1177/2011 of 8 November 2011 (OJ 2011 L 306, p. 33) (hereinafter: ‘Council Regulation (EC) No. 1467/97’), and Council Regulation (EC) No. 1466/97.

Article 3. Surplus General Government Sector and General Government Sector Expenditure Growth Limitation Rules

1. The implementation of the commitments set out in the Fiscal Treaty shall be pursued by managing the structural general government sector balance indicator. Each year, with the exception of the year of exceptional circumstances, at least one of the following terms and conditions shall be satisfied:

- 1) general government sector is actually in surplus in structural terms;
- 2) actual structural general government sector balance indicator in absolute value is lower than the medium-term objective in absolute value and is annually decreasing, with the exception of the year when the output gap is negative;
- 3) actual structural general government sector balance indicator in absolute value is lower than the medium-term objective in absolute value in the year when the output gap is negative.
- 4) actual structural general government sector balance indicator adjustment towards the medium-term objective in absolute value is not lower than the targeted structural adjustment in absolute value.

2. Each year the Government of the Republic of Lithuania (hereinafter: the ‘Government’) or its authorised institution shall assess whether the terms and conditions referred to in paragraph 1 of this Article are followed and shall, by 15 May, submit to the Seimas the report on the implementation of the last-year structural adjustment target and structural general government sector balance indicator.

3. Each year the preparation, approval and amendment of draft laws or their draft amending laws on approval of the budgets attributable to the general government sector the planned appropriations of each of which exceed 3 % of GDP at current prices shall rely on the provision that, in case where arithmetic average of general government sector balance indicators of the past five complete years is negative, the aggregate growth of the appropriations of these budgets (with the exception of net of EU financial support) is not higher than 0.5 % of the average multi-annual growth rate of the potential GDP at current prices. This spending growth limitation rule must apply in order to ensure fiscal discipline, however, it shall not apply when one of the following conditions emerges:

1) Lithuanian GDP at current prices calculated on the basis of four last quarters of the year grows at a slower pace than the multi-annual growth of the GDP of the European Union at current prices increased by 2 percentage points;

2) projected general government sector balance indicator adjustment is positive and makes up at least 1.0 percentage point of GDP;

3) the arithmetic average of general government sector balance indicator of at least five successive years is in surplus, at least 0.1 % of GDP;

4) planned appropriations and revenue being subject to amendment for the current year in relation to the budgets attributable to the general government sector the planned appropriations of each of which exceed 3 % of GDP at current prices ensure that the deficit of the aggregate balances of the budgets attributable to general government sector mentioned in this point is not higher or the surplus of the aggregate balances of the budgets attributable to general government sector and mentioned in this point is not lower than the one before the amendment;

5) the output gap for the planned year calculated on the basis of the economic development scenario which is made public by the Government or its authorised institution and in regard to which the monitoring authority published its conclusion is negative.

Article 4. Rules for the Budgets Attributable to General Government Sector

1. When preparing the draft Law of the Republic of Lithuania on Approval of Financial Indicators of the State Budget and Municipal Budgets for a Given Year (hereinafter: the

‘Law on Approval of Financial Indicators of the State Budget and Municipal Budgets for a Given Year’), account must be taken of ensuring the implementation of the provisions of Article 3(1) of this Law. The monitoring authority must submit to the Seimas the conclusion on the structural adjustment target set out in the draft Law on Approval of Financial Indicators of the State Budget and Municipal Budgets for a Given Year and the need for additional measures (in monetary terms) necessary for the implementation of this target.

2. Each budget attributable to general government sector, with the exception of the budget of the State Social Insurance Fund of the Republic of Lithuania, the state budget and the budgets the planned appropriations of which do not exceed 0.3 % of GDP in the preceding year at current prices, must be planned, approved, amended and implemented to be in surplus or balanced when judged by its structural balance indicator calculated on accrual basis.

3. The budget of the State Social Insurance Fund of the Republic of Lithuania for a given year shall be planned, approved, amended and implemented in such a way that its structural deficit calculated on accrual basis could increase only in the year when a negative output gap is projected according to the economic development scenario which is made public by the Government of the Republic of Lithuania or its authorised institutions and in regard of which the monitoring authority published its conclusion.

4. Each budget attributable to general government sector the planned appropriations of which do not exceed 0.3 % of GDP in the preceding year at current prices shall be planned, approved, amended and implemented in such a way that the appropriations of the budget would not exceed its revenue, with the exception of the year when a negative output gap is projected according to the economic development scenario which is made public by the Government or its authorised institution and in regard to which the monitoring authority published its conclusion. In the latter case, the appropriations may not exceed revenue by more than 1.5 %.

Article 5. Establishment of the Medium-Term Objective

The medium-term objective must be established in the same way as the medium-term objective indicated in Council Regulation (EC) No 1466/97 and, without prejudice to the provisions of this Regulation, must meet the following additional terms and conditions:

1) the medium-term objective is established by 15 March of the current year by the legal act of the Seimas, but for a maximum period of three years;

2) the medium-term objective, with the exception of the exemption laid down in point 3 of this Article, must be structural general government deficit not higher than 0.5 % of GDP at current prices, or structural general government surplus;

3) the medium-term objective must be structural general government deficit not exceeding 1 % of GDP at current prices, or structural general government surplus, if general government debt ratio to GDP at current prices is lower than 60% of GDP at current prices and the risk, due to long-term sustainability of Lithuanian general government finances, is low.

Article 6. Establishment of the Structural Adjustment Target

1. The structural adjustment target must be established in such a way that it would be in compliance with the terms and conditions laid down in Council Regulation (EC) No 1466/97 and Council Regulation (EC) No 1467/97.

2. In the year following the year when the general government deficit was lower (planned to be lower) than 3 % of GDP or actual (planned) structural general government sector balance deficit is higher or actual (planned) structural general government sector balance surplus is lower than the medium-term objective by more than 2 percentage points of GDP, such a structural adjustment target must be established that the medium-term objective would be reached within four successive years or a shorter period starting from the year when the decision of the Council of the European Union on the excessive deficit in the Republic of Lithuania is abrogated or when the medium-term objective was reached for the last time, and by omitting only the year of exceptional circumstances.

3. If in the second and later years following the year when the medium-term objective was reached (planned to be reached) or the condition laid down in Article 3(1)(1) or (2) was satisfied (planned to be satisfied), the actual structural general government sector balance deficit was no more than by 2 percentage points of GDP higher or actual structural general government sector balance surplus was no more than by 2 percentage points of GDP lower than the medium-term objective, such a structural adjustment target must be established that the medium-term objective would be reached within two years by omitting the year of exceptional circumstances.

4. For the year for which the recommendations of the Council of the European Union to the Republic of Lithuania regarding the correction of the excessive general government deficit (hereinafter: the 'recommendations of the Council of the European Union') are applied, such a structural adjustment target must be established which would be in compliance with the recommended structural general government sector balance indicator adjustment (if recommended) only to the extent necessary to reduce the general government deficit below 3 % of GDP in the year indicated in the recommendations of the Council of the European Union based on a respective correction plan (if recommended).

5. Structural adjustment targets for the current and subsequent year as well as their guidelines for the remaining years of the medium term shall be set by the Seimas by adopting a legal act by 30 June of the current year, but not later than before the adoption of the law on approval of financial indicators of the state budget and municipal budgets for the year planned or the adoption of the law amending the law on approval of financial indicators of the state budget and municipal budgets for the current year. The Government shall submit proposals to the Seimas on the need for specific structural adjustment targets and their guidelines for the remaining years of the medium term. The Government shall also submit to the Seimas the proposals on the need for specific measure guidelines for implementation of these targets. The Seimas shall establish structural adjustment targets and their guidelines for the remaining years of the medium term only after receipt of the conclusion of the monitoring authority on the compliance of the guidelines proposed by the Government to the Seimas for setting the structural adjustment targets and measures for the implementation of these targets with the time limit requirements for the achievement of the medium-term objective laid down in paragraphs 1, 2, 3 and 4 of this Article.

6. Structural adjustment targets as well as their guidelines for remaining years of the medium term shall be proposed by the Government to the Seimas, and the Seimas shall set them only for the year preceding which the actual or planned structural general government sector balance deficit is higher or actual or planned structural general government sector balance surplus is lower than the medium-term objective.

7. Structural adjustment targets shall not be set for the year of exceptional circumstances.

Article 7. Establishment and Cancellation of Exceptional Circumstances

1. Exceptional circumstances shall be established in accordance with the provisions of Council Regulation (EC) No 1466/97.

2. The establishment and cancellation of exceptional circumstances shall be initiated by the Government or its authorised institution by preparing a notice on exceptional circumstances and submitting it to the monitoring authority for its approval along with the updated economic development scenario. Exceptional circumstances shall be considered to be established or cancelled when the monitoring authority publishes its conclusion on the compliance of the current or foreseeable situation with the definition of exceptional circumstances in accordance with the provisions of Council Regulation (EC) No 1466/97 and presents its conclusion on the approval of the economic development scenario.

3. During the period of exceptional circumstances, the Government or its authorised institution must, at least quarterly, publish the economic development scenario, and the monitoring authority must submit to the Seimas its conclusion on the approval of the economic development scenario.

Article 8. Procedures Applied in the Case of Failure to Implement the Structural Adjustment Target

1. If the Government or its authorised institution states in its report drawn up in accordance with the provisions of Article 3(2) of this Law that the structural adjustment target has not been implemented, the Government shall, along with the report on the implementation of the preceding-year structural adjustment target and structural general government sector balance indicator, submit to the Seimas and the monitoring authority a written notice on the reasons for failure to implement the structural adjustment target and the measures for the implementation of the structural adjustment target. This information shall be presented to the Seimas also verbally.

2. The monitoring authority shall submit to the Seimas the conclusion on the validity of the reasons for failure to implement the structural adjustment target and the appropriateness of the measures for the implementation of the structural adjustment target.

3. Having familiarised itself with the conclusion of the monitoring authority specified in paragraph 2 of this Article, the Government shall, within one month, provide the Seimas with a notice on the definitive reasons for failure to implement the structural adjustment target and the measures for the implementation of the structural adjustment target. When submitting a draft law on approval of financial indicators of the state budget and municipal budgets for the next year to the Seimas, the Government shall submit the information on the measures for the implementation of the structural adjustment target envisaged by the Government in the submitted draft law.

Article 9. Independence of the Monitoring Authority and its Right to Receive Data

1. When implementing the goals established by laws and discharging the functions laid down by this Law, the monitoring authority, the head of the monitoring authority, his deputies, civil servants and other officials of the monitoring authority working under employment contracts must not accept instructions from any other institution and person. State institutions and other persons must respect the independence of the monitoring authority and not seek to influence the head of the monitoring authority, his deputies, civil servants and other officials of the monitoring authority in the performance of the duties laid down by this Law.

2. The Bank of Lithuania shall submit to the monitoring authority its macroeconomic forecasts each time they are updated, but at least twice per calendar year. The monitoring authority shall have the right to receive from state and municipal institutions the requested data necessary for the performance of its functions.

3. The monitoring authority shall have the right to involve independent Lithuanian and foreign experts.

Article 10. Entry into Force and Implementation of the Law

1. This Law, with the exception of Article 4(2), (3) and (4) and paragraph 4 of this Article of this Law, shall enter into force on 1 January 2015.

2. Article 4(2) of this Law shall enter into force on 1 January 2018.

3. Article 4(3) and (4) of this Law shall enter into force on 1 January 2016.

4. The Government, other institutions and agencies shall adopt legal acts implementing this Law before the date of the entry into force of this Law.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC

DALIA GRYBAUS KAITĖ