

COUNCIL DECISION**of 7 July 2009****on the existence of an excessive deficit in Lithuania**

(2009/588/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Lithuania,

Whereas:

- (1) According to Article 104 of the Treaty, Member States shall avoid excessive government deficits.
- (2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.
- (3) The excessive deficit procedure (EDP) under Article 104 of the Treaty, as clarified by Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽¹⁾, which is part of the Stability and Growth Pact, provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the EDP. Council Regulation (EC) No 3605/93⁽²⁾ lays down detailed rules and definitions for the application of the provisions of that Protocol.
- (4) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of public finances in the long run. It aimed at ensuring that, in particular, the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.
- (5) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. Having taken into account its report in accordance with Article 104(3) of the Treaty and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4), the Commission concluded that an excessive deficit exists in Lithuania. The Commission therefore addressed such an opinion to the Council in respect of Lithuania on 24 June 2009⁽³⁾.
- (6) Article 104(6) of the Treaty states that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Lithuania, this overall assessment leads to the conclusion set out in this Decision.
- (7) According to EDP notification by the Lithuanian authorities, the general government deficit in Lithuania reached 3,2 % of GDP in 2008, thus exceeding the 3,0 % of GDP reference value. The deficit was close to the 3,0 % of GDP reference value but the excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and of the Stability and Growth Pact. In particular, it did not result from a severe economic downturn in 2008, when GDP growth declined to 3,0 % in 2008 from 8,9 % in 2007. This annual average growth figure alone does not allow the 2008 deficit to be qualified as exceptional. Furthermore, the excess over the reference value cannot be considered temporary. According to the Commission services' spring 2009 forecast, taking into account measures for the current year in the budget for 2009 and in the supplementary budget adopted by Parliament in May 2009, the deficit would widen to 5,4 % of GDP in 2009, and on a no-policy-change assumption, to worsen further to 8,0 % of GDP in 2010. Therefore, the deficit criterion in the Treaty is not fulfilled.
- (8) General government gross debt remains well below the 60 % of GDP reference value and stood at 15,6 % of GDP in 2008. It is, nevertheless, according to the Commission services' spring 2009 forecast, projected to rise rapidly to 22,6 % of GDP in 2009 and to 31,9 % in 2010 mainly due to expected high primary deficits.

⁽¹⁾ OJ L 209, 2.8.1997, p. 6.

⁽²⁾ OJ L 332, 31.12.1993, p. 7.

⁽³⁾ All EDP-related documents for Lithuania can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=_m2

(9) In accordance with the Stability and Growth Pact, due consideration should be given to systemic pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. While the implementation of these reforms leads to a temporary deterioration of the budgetary position, the long-term sustainability of public finances clearly improves. Based on the estimates of the Lithuanian authorities, the net costs of this reform amount to 1,0 % of GDP in 2008, and due to the temporary reduction of contributions from 5,5 % to 2,0 %, 0,5 % in 2009 and 0,4 % in 2010. According to the Stability and Growth Pact, these can be taken into account on a linear degressive basis for a transitory period and only where the deficit remains close to the reference value. For 2008, which is the only year in which the deficit can be considered close to the reference value, taking into account the net cost of the reform would produce an adjusted deficit of 2,6 % of GDP. For 2009 and 2010, on the other hand, the deficit forecast by the Commission services is no longer close to the reference value and, therefore, the cost of the pension reform cannot be taken into account.

(10) According to Article 2(4) of Regulation (EC) No 1467/97, 'relevant factors' can only be taken into account in the steps leading to the Council decision on the existence of an excessive deficit in accordance with

Article 104(6) of the Treaty if the double condition — that the deficit remains close to the reference value and that its excess over the reference value is temporary — is fully met. In the case of Lithuania, this double condition is not met. Therefore, relevant factors are not taken into account in the steps leading to this Decision,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment, it follows that an excessive deficit exists in Lithuania.

Article 2

This Decision is addressed to the Republic of Lithuania.

Done at Brussels, 7 July 2009.

For the Council
The President
A. BORG