

Anti-inflation measures come into force in Lithuania after fierce discussions by top-level public actors

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In the last five years, Lithuania has experienced a period of successful economic development and rapid personal income growth. But it has now become the leader in inflation in the EU. The President of the country, the President of the Central Bank, the Government, and the political opposition have engaged in a public debate on measures aimed at helping the people most affected by rising prices. They largely agree. Opinions differ only on the targeting of the measures, and there are concerns about the public budget deficit. Despite these concerns, the anti-inflation measures were approved and are being implemented.

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Description

In May 2022, Lithuania had one of the highest inflation rates in the EU (18.5%), according to Eurostat, driven mainly by increases in energy and food prices [Eurostat, 2022]. The “Baltijos Tyrimai” opinion poll (carried out between 22 February and 3 March 2022) showed that 90% of respondents were personally affected by rising energy, fuel, food and service prices; nine out of ten Lithuanians believed that the authorities were not doing enough to combat soaring prices [Delfi.en, 2022a].

In response to the rapid increase of prices, on 1 April 2022, the Government proposed an extensive package of measures entitled “Mitigation of the Effects of Inflation and Strengthening Energy Independence” [hereinafter - “Anti-inflation Package”; Ministry of Finance [MoF], 2022]. Aiming to increase personal income, the Government’s plan is to increase contributory old-age pensions by 5% and to allocate more resources (€30.3 million) to social assistance benefits. Simultaneously, non-contributory state pensions are to be increased by 5-10% (depending on the type of pension), social assistance pensions by 15.3%, and child benefits by 9.5% [MoF, 2022]. Moreover, the Government plans to further expand the group of those receiving heating compensation and to compensate all residents for expenditure related to a sharp increase in electricity and gas prices. The number of recipients of heating compensation is expected to increase by 14%. Furthermore, the state will cover up to €0.09 per kWh of electricity and €0.54 per m³ of gas for

household consumers. These reimbursements for six months apply from 1 July 2022. Prices for the public supply of electricity to household consumers will increase by about 45% under the compensation mechanism, instead of about 200% without intervention; the prices for gas will rise by up to 40%, instead of by about 300% [My Government, 2022b]. In total, the revised state budget sets out spending of €973 million (1.8% of GDP) to mitigate the effects of inflation [Delfi.en, 2022b]. The anti-inflation measures were approved: an increase in social benefits came into force on 1 June and compensation for the increase in electricity and gas prices on 1 July (My Government, 2022a and 2022b).



Outlook and commentary

While being generally positive about the Government’s Anti-inflation Package, the chairman of the board of the Central Bank of Lithuania did not support the overly broad electricity, gas and heating compensation. “We propose to consider adjusting the electricity and gas compensation schemes by providing for a minimum per capita consumption of electricity and gas, i.e. to compensate only up to a certain level of consumption”, he said. He also criticised a partly politically motivated increase in pensions, which deviates from the pension indexation system provided for by law [Delfi.en, 2022b]. However, the latter is much needed given the chronically low levels of pensions. Indeed, the median income of people aged 65 or more was 65% of the median income of people younger than 65 in 2020, which is one of the lowest levels in the EU (the EU average was 89%)

(Eurostat, Table ILC_PNP2). The poverty risk among pensioners reached 40%, as opposed to 16% at EU level (Eurostat, Table ILC_LI04).

On the other hand, the Central Bank of Lithuania has proposed a further increase in non-taxable income for the lowest earners - from (currently) €460 per month to €730 per month (to make it equivalent to the minimum monthly wage). Another proposal was for public transport subsidies to follow in the footsteps of Germany towards free public transport. Furthermore, the Central Bank suggested indexing the basic rates of social assistance and other social benefits [Delfi.en, 2022c]. However, these proposals have not been approved.

Saulius Skvernelis, the leader of the opposition Democrat Union "For Lithuania" party, admitted that the Anti-inflation Package proposed by the Government is necessary. However, he regretted that when it comes to huge extra public expenditure, there are no measures foreseen to secure a sustainable budget. He suggested that taxes should be reviewed immediately, considering taxes on capital and luxury goods, as well as increasing the progressivity of income taxation [15min.lt, 2022a]. For now, a tax reform that could increase public revenue is not on the table.

The President of Lithuania criticised the ruling coalition for their "sluggishness" in fighting inflation [Delfi.en, 2022a]. The criticism may seem to be deserved, as inflation was at 9.7% already in December 2021 [Eurostat, 2022]. It should be remembered, however, that all social benefits and the minimum wage have been increased since 1 January 2022, although this was not announced as an anti-inflationary policy. Yet, the increase in benefits since 1 January 2022 has been uneven. The highest increase (12-15%) was in social insurance pensions and minimum wages. Non-means-tested family benefits and non-contributory pensions were increased only by 5%; means-tested social assistance cash benefit only by 0.5% [My Government, 2021].

The Anti-inflation Package aims at balancing these differences. As already mentioned, social assistance and non-means-tested benefits will increase more, but the increase in contributory pensions and non-taxable minimum for low wage earners will be lower. The Government's target is to increase all benefits by about 15% from mid-2022 compared with 2021 (15min.lt, 2022b). That was approximately the rate of inflation at the time of the announcement of the Anti-inflation Package.

Further reading

15min.lt (2022a). Finansų ministrė: kitų metų ekonomikos skaičius galime tik įsivaizduoti [Minister for Finance: We can only imagine economic figures for the next year]. <https://bit.ly/38JdGNb>

15min.lt (2022b). S. Skvernelis: didinant išlaidas reikia galvoti ir apie mokesčių pokyčius [S. Skvernelis: When increasing costs, it is necessary to think about tax changes]. <https://bit.ly/38DuANj>

Delfi.en (2022a). Nine in ten Lithuanians think authorities not doing enough to reduce prices, 20 March 2022. <https://bit.ly/3PJul46>

Delfi.en (2022b). Central banker speaks out against wide distribution of state compensations. <https://bit.ly/3MANUcS>

Delfi.en (2022c). Central Bank proposes anti-inflation measures for hardest-hit groups. BNS Sunday, 3 April 2022. <https://bit.ly/3sPc7UZ>

Eurostat (2022). PRC_HICP_MANR. <https://bit.ly/3G3D8Jv>

MoF (2022). €2.26 Billion Package Presented to Counter the Effects of Inflation and to Strengthen Energy Independence. Ministry of Finance. <https://bit.ly/3wDRIDs>

My Government (2021). Kaip keisis pajamos 2022? [How will income change in 2022?]. <https://bit.ly/3Py05ZW>

My Government (2022a). Nuo vasaros pradžios – didesnės socialinės išmokos [From the beginning of the summer - higher social benefits]. <https://bit.ly/39TmyQT>

My Government (2022b). Vyriausybė patvirtino elektros ir dujų kainų kompensavimo tvarką [The Government has approved a procedure for compensating electricity and gas prices]. <https://bit.ly/3H30Iqq>

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