



NATIONAL AUDIT
OFFICE OF LITHUANIA
• BRINGING BENEFITS •

COVID-19 CRISIS AND EMERGENCY MANAGEMENT

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SUMMARY

Relevance of the Assessment

With the spread of the Coronavirus infection (COVID-19) in 2020, countries faced a situation without analogues posing a threat to human health, economy, and finances. On 11/03/2020, the World Health Organisation announced the Coronavirus pandemic (COVID-19).

In the context of exceptional uncertainty, the Government had to take urgent decisions to ensure the proper functioning of the health system and to mitigate the negative effects of COVID-19 on public health, population income, liquidity of enterprises, and certain sectors.

The Coronavirus pandemic affects all aspects of people's lives and poses great challenges for the Government and the whole public sector. The speed of the Government's reaction under constantly changing conditions and the extent of retaliatory actions have an impact on the amount of public expenditure and the quality of public services provided. Experiences in pandemic management and mitigation could serve the responsible authorities in their decision making that would respond most effectively to the novel challenges and needs of areas affected by the pandemic.

Economic sustainability becomes even more relevant during the pandemic. In order to mitigate the socio-economic consequences of COVID-19, complex measures and actions are needed: expeditious political decision making and adjustment of legislation, additional economic and financial measures to reduce the negative impact both on the economy and on serving the social needs of the public.

In this report prepared by the National Audit Office of Lithuania (NAOL), we summarised information on the actions and measures taken by the Government in February–October 2020 for emergency management, mitigation of the consequences caused by COVID-19, economic stimulus and recovery; we have reviewed how the funds allocated for this purpose have been used. When analysing the actions of the Government and the measures taken, we did not assess their suitability and effectiveness and the lawfulness

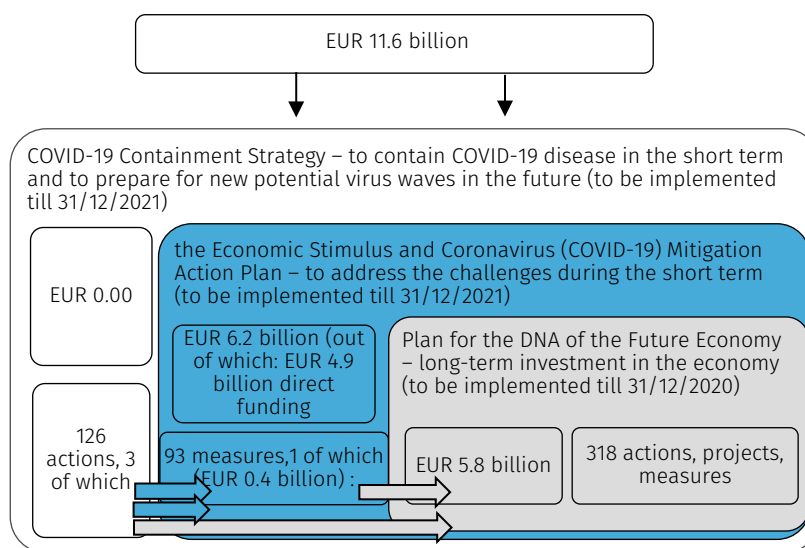
of the use of funds allocated for the measures. This assessment is not an audit and therefore no recommendations are made on the basis of its results.

Key Results

On 26/02/2020, the Government declared a national level emergency in Lithuania due to the threat of the shedding of the novel Coronavirus (COVID-19)¹. The management of the situation included the Government’s COVID-19 Situation Management Committee², which is not foreseen in the approved³ Emergency Management Scheme. The objective of the Committee is to assist the Government in managing a national level emergency.

Taking into account the negative impact of the situation on the social environment and the economy, and in order to contain the shedding of the COVID-19 disease, in March-June, the Government approved short-term and long-term response measures for this purpose, earmarking EUR 11.6 billion (Fig. 1). Of which EUR 2.76 billion was used: EUR 1.97 billion from the funds of the Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan (by the end of September) and EUR 0.79 billion from Lithuania’s Plan for the DNA of the Future Economy funds (until the end of October).

Fig. 1. EUR 11.66 billion is earmarked for the measures approved by the Government to counter the negative consequences of COVID-19



Source: National Audit Office of Lithuania under the COVID-19 Containment Strategy, Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan, Plan for the DNA of the Future Economy

The Coronavirus pandemic has had a negative impact on public finances, the economy, and the labour market: public debt increased, gross domestic product decreased, public income collected lower than planned, higher expenses incurred, the unemployment rate increased, etc. Nevertheless, Lithuania’s economic development in the first half of 2020

¹ 26/02/2020 Government Resolution No 152 on Declaring a State of National Emergency

² 25/03/2020 Government Resolution No 266 on the Formation of the Situation Caused by COVID-19 Management Committee of the Government of the Republic of Lithuania.

³ 20/10/2010 Government Resolution No. 1503 on the Approval of the State Emergency Management Plan

was better than expected⁴. This was partly influenced by the general government's economic stimulus and support measures for residents and businesses.

1. The government borrowed over EUR 7,000 million to reduce the consequences of the pandemic, to balance state cash flows and to finance budget expenditure

Due to the constraints on economic activity and society during quarantine and the deferral of taxes and contributions on businesses, revenue collected to the largest budgets in 1st - 3rd quarters of 2020 accounted for almost EUR 870 million⁵ less than planned (Sub-section 1.1, p. 16).

On 17/03/2020, after the Seimas increased the limit for the net change in debt liabilities⁶ from EUR 904.6 million to EUR 5 401.4 million⁷, the Government borrowed EUR 7,027.1 million. The funds were allocated to finance the reduction of COVID-19 consequences (EUR 3,002.7 million) and other needs (EUR 42.4 million). The remaining borrowed funds are used to balance state cash flows, loans on-lending, etc. It should be noted that the funds borrowed on behalf of the State were not shown in the State budget of 2020 approved by the Seimas. The current regulation provides with a possibility to cover such costs⁸, even though the appropriations approved by the Seimas change as a result of them. According to the NAOL, such practice does not allow to show the actual result of the planned state budget⁹. Lithuania has not foreseen how the debt growth will be stabilised and pre-conditions for its reduction (Sub-section 1.2, p. 18).

The amount of funds accumulated in the financial reserves between 2018 and 2019 increased, however, did not reach the planned level. On 30/09/2020, financial reserves amounted to EUR 749.3 million, i.e., 44% of EUR 1,714 million planned to be accumulated at the end of the year. NAOL has repeatedly called for the formulation of fiscal space policy and decision on the size of the minimum fiscal reserve for Lithuania and/or the amount of cyclical income earmarked for debt reduction (Sub-section 1.3, p. 21).

In order to contribute to the fight against COVID-19, private initiatives have provided support of EUR 8.5 million to the public sector (health care and care institutions, educational, scientific and educational institutions, social services centres, etc.): the amount of support received was EUR 2.2 million, the support of EUR 6.3 million was received through measures, equipment, services and works (Sub-section 1.1, p. 18).

In order to mitigate the negative consequences of the COVID-19 pandemic for countries, the EU has adopted measures to this end. Their total support, which Lithuania may apply for, according to preliminary data¹⁰, amounts to approximately EUR 7,079 million, of which:

⁴ Lithuanian Economic Review prepared by the Bank of Lithuania, September 2020.

⁵ Non-consolidated income.

⁶ Net change in debt liabilities means the difference between the amounts of obligations assumed and completed by the Government when borrowing on behalf of the State over a specific period.

⁷ 17/03/2020 Law No XIII-2819 amending Articles 9 and 10 of the Law No XIII-2695 on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2020

⁸ Article 14(5) of the Law on the Budget Structure allows to use the funds borrowed on behalf of the State in excess of the total amounts of appropriations approved by the Seimas for the purposes specified in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for a specific year.

⁹ Public audit report "Regularity of 2015 Set of Consolidated Statements of the State and Assessment of State Budget Execution", 03/10/2016 No. FA-P-60-6-10-1.

¹⁰ According to the data of 18/09/2020

- EUR 6,300 million from the economic recovery measure “Next Generation EU”, which provides for measures to recover and enhance the resilience of the EU Member States’ economies in the long term;
- EUR 602 million under the temporary support instrument to reduce unemployment risk due to an outbreak of COVID-19 (SURE);
- EUR 176.97 million from the EU Solidarity Fund to cover part of the public expenditure on combating the COVID-19 pandemic (Sub-section 1.4, p. 24).

Expenditure on public activities grew by 26.1% in 1st - 3rd quarters of 2020, compared to the same period in 2019 (EUR 2,647.2 million). The largest amount of it increased in the areas of social protection and employment (EUR 1,424.9 million), economic competitiveness and state information resources (EUR 617.3 million), and health (EUR 264.9 million). The appropriations allocated to all of them are used to implement the Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan (Sub-section 1.5, p. 26).

2. The impact of the pandemic on economic indicators: debt and unemployment increased; gross domestic product declined at a slower pace than expected

The health system challenges posed by the Coronavirus (COVID-19) pandemic, the operational restrictions imposed by quarantine, and the high uncertainty surrounding the further viral shedding have affected all areas of public life and made influence on the country’s economic indicators:

- In the second quarter of 2020, the public debt increased by EUR 3,899.6 million to EUR 20,130.5 million, the largest amount of the debt to date. In order to contain the consequences of COVID-19, countries used various measures to stimulate and support the economy; therefore, in all EU countries, public debt grew on average by 8.4% in the second quarter of 2020. The same increase was observed in Lithuania’s public debt, which reached 41.4% of gross domestic product in the second quarter of 2020, however, it was more than 2 times lower than the EU average (87.8%).
- gross domestic product decreased by 4.6% in the second quarter of 2020 – less than expected. The reasons for this were the improvement in economic activity between May and June 2020 and additional measures taken by the State to stimulate the economy. The decline in gross domestic product in Lithuania was one of the lowest in the EU;
- the unemployment rate reached 9.8% in September 2020 and was almost 1.5 times higher than the level in September 2019. One possible reason is the possibility for unemployed people to receive temporary job search allowance from 12 June, which encouraged people who were previously inactive in the labour market to register in the Employment Services. By the end of September 2020, almost 207 thousand unemployed persons received this benefit, the total number of unemployed at the end of September was 243.3 thousand¹¹(Section 2, p. 27).

According to the forecasts of economic indicators presented by the Bank of Lithuania, the Ministry of Finance, the National Audit Office of Lithuania, the European Commission and

¹¹ According to the data of 07/10/2020 published by the Employment Services

the International Monetary Fund, at the end of 2020, compared to 2019, gross domestic product may decrease from 1.5% to 2.2%, debt may reach between 47.1 % and 48.3 % of gross domestic product, the unemployment rate may reach 8.9%, household consumption expenditure may decrease to 3.5%, the general government deficit may increase to 8.9%. Positive developments in some economic indicators, according to the September-November 2020 forecasts, are already projected in 2021 (Section 2, p. 35).

3. The implementation of 28% of COVID-19 Containment Strategy actions is delayed

The implementation of the COVID-19 Containment Strategy aimed at controlling the spread of COVID-19 disease in the short term and preparing for new possible virus waves in the future provides for 126 actions implemented by the Office of the Government, 9 ministries, their bodies and municipalities. 25% of the actions are carried out on a permanent basis (32 out of 126). 51% of actions was implemented until 07/10/2020 (64 out of 126). Almost a third (28%) of them are delayed: there is a delay in updating municipal emergency plans, reviewing and amending the necessary legislation and operational recommendations on infection management in personal health care institutions, drafting rules for communication of national, regional, and municipal institutions and agencies with a view to ensuring an uninterrupted dialogue of 24 hours in the event of an epidemiological crisis, reviewing and drafting amendments to the legal acts regulating the process of formation and utilisation of the State reserve, etc. (Sub-section 3.1, p. 36).

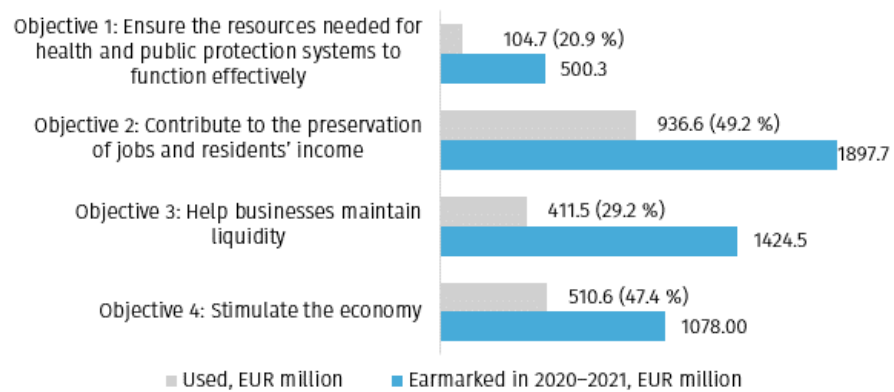
The deadlines for achieving the results are not set out in the COVID-19 Containment Strategy Implementation Action Plan and therefore it is not known when they should be achieved, e.g., when the planned indicators for providing the health system with the necessary medical equipment and supplies and personal protective equipment should be achieved (Sub-section 3.1, p. 40).

Under the instruction of the Administrative and Coordination Group of the COVID-19 Management Committee, the Ministry of Health, in cooperation with the institutions involved in the implementation of the Plan, carried out an assessment of the implementation of actions of the COVID-19 Containment Strategy Implementation Action Plan and the achievement of results, and submitted proposals regarding measures, actions, indicators and deadlines to the Office of the Government on 06/11/2020. They will be assessed and discussed with the responsible ministries (Sub-section 3.1, p. 39).

4. 40.1% of the funds earmarked to measures of economic stimulus and reduction of the consequences of the Coronavirus (COVID-19) shedding was used

The implementation of the Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan amounts to EUR 6,240.5 million, the direct funding needed for the measures (investments, loans, compensations, subsidies, payments) amounts to EUR 4,900.5 million (Fig. 2), of which 40.1% (EUR 1,965.8 million) was used by the end of September 2020 (Sub-section 3.2, p. 40).

Fig. 2. Use of the funds of the Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan for the implementation of measures requiring direct funding



Source – National Audit Office of Lithuania according to data of the Government Strategic Analysis Centre and institutions

- In implementing the measures to ensure the effective operation of health and public protection systems, ministries and other institutions purchased personal protection and disinfection equipment, laboratory diagnostic tools and medical equipment for EUR 61.8 million. EUR 24.5 million was used to finance additional health care costs, including employee salary supplements. The additional costs of public authorities involved in emergency management, including staff salary supplements, for the purpose of which EUR 16.3 million was used, etc. (Sub-section 3.2, p. 44).
- In implementing measures for the preservation of jobs and maintenance of the income level of the population, enterprises received EUR 159.8 million of compensations for idle time for the employee's salary; subsidies amounting to EUR 174.5 million for salaries of employees on their return to work after idle time and employment of supported unemployed. About EUR 110 million of fixed benefits (EUR 257) were paid to self-employed persons, EUR 171.3 million of one-off payment benefits (EUR 200) to recipients of social insurance pensions and social assistance benefits, etc. (Sub-section 3.2, p. 48).
- In order to preserve business liquidity, the recovery of tax arrears amounting to EUR 759.2 million was suspended. State Tax Inspectorate, SODRA, and Customs signed tax deferral agreements for EUR 121.8 million. EUR 93.6 million of subsidies earmarked to micro-enterprises, etc. In the course of analysis of the implementation of measures to preserve business liquidity, it was observed that there are companies that have been identified by the State Tax Inspectorate as not having had a negative impact on the ongoing activities of COVID-19, which have received state support under the COVID-19 support measures, the executor of which is "Investicijų ir verslo garantijos", UAB, however, there is no mechanism for exchanging information between all the institutions involved in the implementation of the measures of the Plan on the results of the checks on the validity of the measures and the decisions taken;¹² It appears that institutions have different shelf-life for similar instruments: deferral of taxes and suspension of recovery of arrears from 17/08/2020 to 06/11/2020 was not applied in SODRA, while it was applied in the State Tax Inspectorate (Sub-section 3.2, p. 55).

¹² Corruption risk analysis carried out by the Special Investigation Service. Internet access: <https://www.stt.lt/naujienos/7464/vieninga-valstybes-politika-teikiant-parama-verslui-del-covid-19-didintu-skaidruma:3005>.

- By implementing economic stimulus measures, EUR 39.9 million of short-term loans to municipalities were disbursed in order to provide conditions for them to implement investment projects. In order to accelerate investment programmes, EUR 345 million were allocated to 328 investment projects, etc. (Sub-section 3.2, p. 59).

Taking into account the country's economic and social situation and the results of the implementation of the measures, the Economic Stimulus and Coronavirus (COVID-19) Mitigation Action Plan has been amended and 61 additional measures have been added by 02/10/2020 and two have been abandoned (Sub-section 3.2, p. 41).

5. 13.5% of funds earmarked for the Plan for the DNA of the Future Economy was disbursed

The goal of the Plan for the DNA of the Future Economy is to seek rapid and effective investment in Lithuania's economic recovery and growth in order to make Lithuania's economy sustainable, innovative and create high added value. By 31/12/2021, EUR 5.8 billion is planned to be used for this purpose, allocating it to 5 priority areas: human capital, digital economy and business, innovation and research, economic infrastructure, climate change, and energy. By 31/10/2020, EUR 790.2 million (13.5%) was disbursed for the implementation of actions (Sub-section 3.3, p. 60).

In the Plan for the DNA of the Future Economy, EUR 1.7 billion is planned for the implementation of additional investments. The remaining EUR 4.1 billion has already been planned and included in the activity plans of the appropriation managers before the adoption of this plan, e.g., projects financed by EU structural funds (their contracts were signed, e.g., in 2016–2020); permanent activities foreseen in the Ministries' strategic operational plans; reconstruction of buildings (e.g. reconstruction of the buildings complex of Vilnius Palace of Concerts and Sports; development of Vilnius Gabija Gymnasium) (Sub-section 3.3, p. 62).

NAOL recommended that the Government change the procedure for planning and accounting of all state investments by integrating strategic and investment planning and reporting processes¹³. The recommendation has not yet been implemented. On 25/06/2020, the Law on Strategic Management regulating the principles of the new strategic planning system was adopted, however, the Strategic Planning Methodology implementing its provisions has not been approved. A common framework for national and international investment management could have contributed to the Plan for the DNA of the Future Economy and directing the funds towards planned economic growth (Sub-section 3.3, p. 64).

¹³Public audit report "Management of the Programme for Investment in 2015", 10/10/2016 No. VA-P-60-9-16.