



FISCAL RISKS OVERVIEW

2026



MINISTRY OF FINANCE
of the Republic of Lithuania

SUMMARY

The risk occurrence ex post assessment of the 2020 Fiscal Risk Overview (FRO2020) shows that more than half¹ of the FRO2020 fiscal risks that were quantified occurred over the period 2020-2023, and their total exposure makes up EUR 7.76 billion, or an average EUR 1.94 billion per year. Risks with the biggest exposure on public finance included expenditure of EUR 4.3 billion to contain the COVID-19 pandemic and a loss of revenue of EUR 2.1 billion due to a larger-than-planned drop in revenue of the State budget and municipal budgets associated with the support measures applied for people and business at the time.

By comparison, according to ex-ante FRO2020 risk assessment, the estimated weighted exposure for one year was EUR 3.1 billion. This confirms the relevance of the sources of risk identified by FRO2020 and demonstrates that the risks addressed in this Fiscal Risk Overview (FRO2026) are likely to have a significant exposure on general government finance and, therefore, their monitoring and quantification of exposure are important for fiscal policy planning. It is therefore important to plan budgets with a certain margin or contingency reserve – a sufficient fiscal space to absorb adverse deviations from projections. This reduces the need for pro-cyclical expenditure cuts or other urgent fiscal adjustment measures when fiscal risks occur.

The risks discussed in the FRO2026 are summarised in the risk exposure and probability matrix (Fig. 1). If the theoretical assumption were made that all risks will occur at the same time and in full extent in certain years of the medium term, the exposure on general government finance would be about EUR 37.3 billion, or 44.4% of gross domestic product (GDP), expressed relative to the 2025² GDP figure (Table 1). This is the amount after assessment of all the risks for which their exposure and probability of occurrence have been assessed. If all risks were included for which the probability of occurrence is not assessed but there would be an exposure, the amount would rise to EUR 40 billion, or 47.6% of GDP. Moreover, a negative exposure on public finance, including debt, would potentially be exacerbated by the occurrence of those risks (e.g. associated with climate change) for which it is not possible to assess the precise exposure.

For the assessment of the exposure of the occurrence of individual risks on general government finance, a weighted exposure indicator is important, which well illustrates the expected value of risk, and which is calculated by multiplying the size of annual risk exposure by the probability of occurrence indicator. For example, if the probability of a risk occurring is low, although the size of exposure in monetary terms is high, its annual weighted exposure over the medium term will be lower than it would be if the probability of occurrence were high. The cumulative annual risk exposure indicated in the FRO2026 decreases to EUR 12.5 billion, or 14.9 % of GDP, expressed relative to the 2025 GDP figure, if weighted rather than cumulative risk exposure is assessed. Compared to the FRO2020 preliminary risk assessment, according to which a one-year weighted fiscal impact was EUR 3.1 billion, the exposure has increased. It should be noted that the increased leverage is influenced by the higher number of risks covered by FRO2026.

¹ Only those risks for which the quantitative information in FRO2020 is fully available and their validation is quantified shall be assessed.

² The latest available actual annual GDP estimate for 2025 (EUR 84,061.2 million) is used.

Based on the debt scenario of the risk simulations, assuming no fiscal policy change, there is a risk already in the medium term (in 2026-2029) to exceed the reference threshold for general government debt of 60% of GDP.

In the medium term, one of the fiscal risks with the highest exposure and probability of occurrence is associated with the decisions to undertake new long-term financial commitments without ensuring sustainable sources of their financing. Commitments themselves are not a risk, but the risk arises when their exposure on medium-term public finance is not sufficiently assessed and financing needs are not properly integrated into budget planning. If this risk materialises in the medium term, it would lead to deviation from a sustainable path of public finance and increase in the risk to the long-term sustainability of public finance, the management of which would result in diminishing opportunities to finance new State priorities in the future.

While it is unlikely that all risks materialise at the same time, it is important to also assess the potential exposure of individual risks in decision-making in the areas of State governance, particularly those with a high likelihood of materialisation. It is important to plan general government finance with a certain margin or contingency reserve, to take preventive measures to reduce the probability of occurrence of risks, and to develop as effective measures as possible to manage the situation in the event of occurrence of risk factors. Good risk management practice shows³ that, in the light of the results of the assessment of the potential fiscal risk exposure on general government finance, it is appropriate to leave a certain reserve in the preparation of the budget to cover the unpredictable increase in expenditure. A part of the unallocated appropriations from their maximum possible amount would help to avoid a situation where, if risks materialise, the rules on fiscal discipline are breached and, consequently, the long-term sustainability of public finance is endangered. Such a margin is needed to absorb forecast errors and unexpected expenditure increases.

³ OECD (2025), *Quality Budget Institutions: Developments in OECD Countries*, OECD Publishing, <https://doi.org/10.1787/8e811202-en>.

Fig. 1. Matrix of all fiscal risk exposure probability indicated in FRO

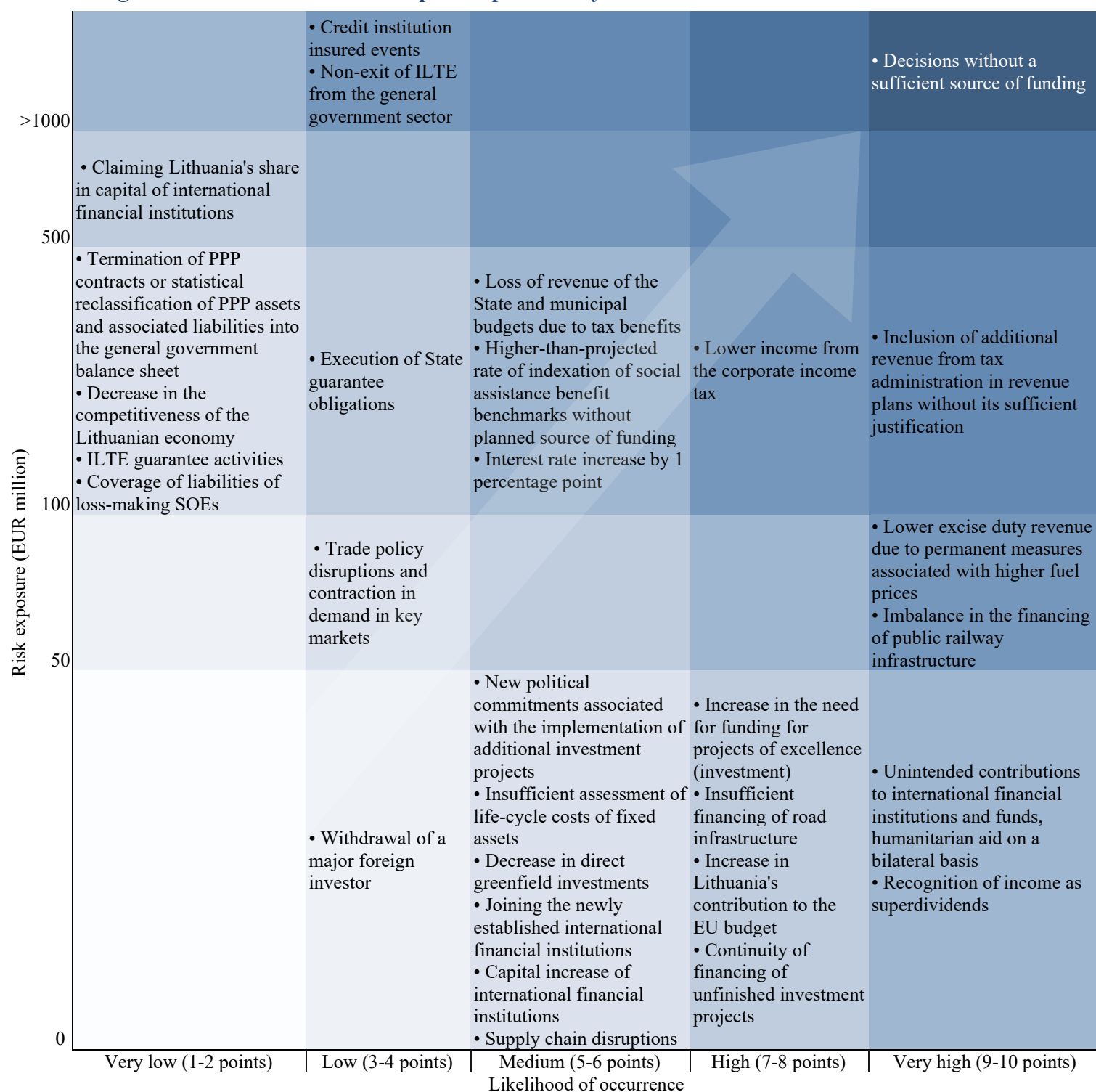


Table 1. Assessment of the quantitative risk exposure and the likelihood of risk occurrence

Indicator	TOTAL (EUR million):	TOTAL (% of GDP in 2025):
Exposure on public finance if all risks occur at the same time	37,333	44.4
Weighting effect on public finance if all risks occur at the same time	12,502	14.9
Risk	Annual risk exposure in the medium term, EUR million	Probability of risk occurrence in the medium term
1. Withdrawal of a major foreign investor	47	3 points
2. Decline in direct greenfield investments	14	5 points
3. Supply chain disruptions	36	5 points
4. Trade policy disruptions and contraction in demand in key markets	62	3 points
5. Decrease in the competitiveness of the Lithuanian economy	240	1 point
6. Lower income from the corporate income tax	440	8 points
7. Lower excise duty revenue due to permanent measures associated with fuel prices	85	10 points
8. Loss of revenue of the State and municipal budgets due to benefits	300	5 points
9. Inclusion of additional revenue from tax administration in revenue plans without its sufficient justification	350	9 points
10. Recognition of income as superdividends	8.9	10 points
11. Decisions without a sufficient source of funding	1,113	9 points
12. Higher-than-projected rate of indexation of social assistance benefit benchmarks without planned source of funding	145	6 points
13. Continuity of financing of unfinished investment projects	7,5	7-8 points
14. Increase in the need for financing of projects of excellence (investments)	43,8	7-8 points
15. New policy decisions and commitments	43.8	5 points
16. Financial imbalance in public railway infrastructure	87,5	9 points
17. Insufficient financing of road infrastructure	43,8	8 points
18. Insufficient assessment of life-cycle costs of fixed assets	31.3	5 points
19. Interest rate increase by 1 percentage point	112,5	5 points
20. Claiming Lithuania's share in capital of international financial institutions	816.8	1 point
21. Capital increase of international financial institutions	3.91	6 points
22. Joining the newly established international financial institutions	22.5	6 points
23. Unintended contributions to international financial institutions and funds, humanitarian aid on a bilateral basis	12.5	10 points
24. Increase in Lithuania's contribution to the EU budget	31.3	8 points
25. Termination of PPP contracts or statistical reclassification of PPP assets and associated liabilities into the general government balance sheet	465.6	1 point
26. Execution of the State guarantee obligations	391.6	3 points
27. ILTE guarantee activities	272.7	2 points
28. Non-exit of ILTE from the general government sector	2,000	4 points

29. Coverage of liabilities of loss-making SOEs	105.2	2 points
30. Credit institution insured events	30,000	3 points

Note: Where the risk exposure has been estimated for several medium-term years, the summary table shows the average annual exposure. Where the specific year of occurrence of the risk is not specified, it is assumed that the risk may occur in any year of the period under assessment and therefore all indicated risk exposure is presented.

Table 2. Risks for which it is not possible to assess the probability at the time of preparation of the FRO

Exposure on public finance if all risks occur at the same time	
TOTAL (EUR million):	2,676.2
TOTAL (% of GDP in 2025):	3.2
Risk	Annual risk exposure in the medium term, EUR million
1. Energy price shock	629.4
2. Increase in pension expenditure due to faster growth of payroll	1,490.4
3. Increase in social security benefits due to unfavourable economic conditions	302.8
4. Performance of municipal guarantee obligations	64.6
5. Coverage of liabilities of loss-making SMEs	189

Note: Where the risk exposure has been estimated for several medium-term years, the summary table shows the average annual exposure. Where the specific year of occurrence of the risk is not specified, it is assumed that the risk may occur in any year of the period under assessment and therefore all indicated risk exposure is presented.

Table 3. Risks for which it is not possible to assess the quantitative exposure at the time of preparation of the FRO

Risk
1. Income-affecting decisions adopted after the adoption of the budget
2. Income-affecting decisions made in response to unpredictable external factors
3. Inclusion of additional income from dividends paid by SOEs in revenue plans
4. Increase in tax arrears during the crisis
5. Possible changes to the methodology for assessing the fiscal estimates of discretionary revenue measures applied by the EC
6. Unintended need to urgently increase defence funding due to the changing geopolitical situation
7. Risk of significant differences between forecasts of acquisition costs of arms and military equipment and military stocks and actual data on accrual basis (according to ESA) in general government finance statistics
8. Additional unintended increase of the ESM capital
9. Natural emergencies
10. Technical emergencies
11. Ecological emergencies
12. Other emergencies
13. Risks associated with meeting climate change mitigation objectives
14. Risks related to climate change
15. Decrease in ILTE's share capital