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Assessment of the 2012 national reform programme and convergence programme for LITHUANIA

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Lithuania's 2012 national reform programme and delivering a Council Opinion on Lithuania's updated convergence programme for 2012-2015

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CONTENTS

EXECUTIVE SUMMARY

After a strong rebound in 2011, Lithuania's economic activity is expected to increase by 2.4% in 2012. Unemployment is foreseen to decrease gradually from its former peaks to 13.8% in 2012; however, unemployment remains high particularly among young and unskilled workers.

Helped by robust economic growth in 2011, Lithuania's general government deficit narrowed to 5.5% of GDP, and is expected to decrease further to 3.2% of GDP in 2012. Lithuania made progress in improving tax collection and reforming its state-owned enterprises.

Lithuania continues to face important policy challenges: demographic developments cast a doubt on Lithuania’s long-term fiscal sustainability, especially of its pension system. A low labour force participation rate, very high youth unemployment, shortage of skilled labour and skill mismatches, aggravated by high emigration, are other major concerns in the medium to long term. The growing poverty and social exclusion threatens to put an even higher strain on public finances in the near future. The country’s infrastructure, particularly its energy system, lacks competition and interconnections, thus hindering growth. Low energy efficiency, especially of buildings, as well as the low level of R&D spending and poor performance in innovation, are pressing issues. Modernising public administration and finalising the reform of state-owned enterprises are also essential to boosting competitiveness.

1. INTRODUCTION

Procedural aspects

In June 2011, the Commission proposed six country specific recommendations[1] (CSRs) for economic and structural reform policies for Lithuania. In July 2011, the Council of the European Union adopted these recommendations[2], which concerned public finances, the pension system, the labour market, state-owned enterprises, energy, competition and the business environment.

In November 2011, the Commission published its Annual Growth Survey for 2012[3] (AGS 2012) presenting the basis for building the necessary common understanding of the priorities for action at national and EU level in 2012. It focused on five priorities — growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration — and encouraged Member States to implement them in the 2012 European Semester.

Against this background Lithuania presented, in April 2012, updates of its national reform programme and convergence programme, detailing progress made since July 2011 and plans going forward.

This Staff Working Document assesses the state of implementation of the 2011 CSRs as well as the AGS 2012 in Lithuania, identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall assessment

Overall, Lithuania has made progress in implementing the 2011 recommendations. On the positive side, economic growth was robust in 2011 and the country managed to reduce its fiscal deficit. In addition, the country took further steps towards improving tax collection and reforming its state-owned enterprises. Notwithstanding these important achievements, reform efforts were limited, in particular regarding the labour market, social policies, energy efficiency and the energy sector. The challenges identified in July 2011 and reiterated in the AGS 2012 therefore remain valid in these areas. Regarding the pension system, Lithuania took a first important step by approving a gradual increase in the pension age to 65 years for both men and women by 2026. Nevertheless, without a comprehensive pension reform the long-term sustainability of public finances is at risk.

Lithuania faces the most pressing challenges in public finances, the labour market, the energy sector and in relation to poverty or social exclusion. The budget deficit has to be further reduced to reach the medium-term objective. This would also help maintain the confidence of financial markets. A low labour force participation rate, shortage of skilled labour and skill mismatches, aggravated by high emigration, are other major concerns in the medium to long term, given population ageing. The growing poverty and social exclusion threatens to put an even higher strain on public finances in the near future. The country's infrastructure, particularly its energy system, lacks competition and interconnections and thus is a factor that hinders growth. Low energy efficiency, especially of buildings, as well as the low level of R&D spending and poor performance

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1 SEC(2011) 823 final of 7 June 2011
2 2011/C 210/01 of 12 July 2011
3 COM(2011) 815 final of 23 November 2011

in innovation are pressing issues. Finally, in light of persistent uncertainties in international financial markets, prudent and pre-emptive policies in financial regulation and supervision remain important.

The policy plans submitted by Lithuania are relevant and substantiated, but in some areas they do not address the challenges in a comprehensive way. The national reform programme contains further plans (until the end of 2012) to maintain financial stability, foster employment (particularly among young people), improve the business environment and regulation, further restructure state-owned enterprises (SOEs), and improve energy connections and infrastructure. Medium-term plans include implementing social insurance reform, continuing reforms in the energy and health care sectors, as well as improving the business environment and conditions for research and innovation.

2. Economic developments and challenges

2.1. Recent economic developments and outlook

Strong economic expansion prior to the financial crisis was accompanied by growing imbalances and other signs of overheating, which led to a deep economic recession in 2009 (real GDP shrank by 14.8 %). Lithuania returned to growth in 2010 (+1.4 %) as a result of an internal devaluation. In 2011, economic growth picked up significantly and reached 5.9 %, despite the ongoing fiscal consolidation. Substantial nominal wage decline and productivity improvements fostered competitiveness and Lithuania took full advantage of growing export markets. Corporate profits as well as employment increased. Consequently, private consumption and investment growth gained momentum, and domestic demand took over as the main driver of economic growth. However, at the end of the year, Lithuania started to feel the repercussions of the slowdown in the EU. In addition, the bankruptcy of the domestic bank Snoras in November 2011 further dampened consumer confidence and business expectations.

Despite strong growth in 2011, unemployment remains high, standing at 13.9% at the end of the year, especially among young people, and skill mismatches have appeared in some sectors. Inflation (HICP) rose in 2011 on the back of higher energy and food prices, reaching an annual average of 4.1 % compared to 1.2 % in 2010.

Going forward, Lithuania’s economy will be affected by the ongoing recession in the euro area. Lower external demand and economic uncertainty are likely to dampen prospects for the Lithuanian economy in 2012, and a rebound is expected only in 2013. Overall, real GDP is projected to increase by 2.4 % in 2012 and 3.5% in 2013. Inflation is forecast to decrease in 2012, driven by lower commodity and food prices as well as weaker domestic demand. This downward trend should continue in 2013 due mainly to expected weaker oil prices. The unemployment rate will remain in double figures in 2012-2013 as the situation on the labour market is expected to improve only marginally.

According to the convergence programme, GDP growth could average 3.85% in 2014-2015, in the absence of adverse financial and external developments. This should further lower the unemployment rate to around 10% in 2015. However, unfavourable demographic tendencies will have the effect of reducing Lithuania’s potential growth in the medium and long term. Therefore, the government will have to undertake a broad range of structural reforms in order to keep growth at this level.

The national reform programme was approved by the government on 23 April 2012 and the convergence programme was adopted on 25 April 2012. Both were presented to the Lithuanian Parliament's European Affairs Committee, where they were debated without being voted upon; there was thus no formal parliamentary approval of the programmes. Although stakeholders were consulted in the process, they did not provide comments. The convergence programme was submitted to the European Commission on 27 April 2012 and the national reform programme on 30 April 2012, together with the commitments made by Lithuania under the Euro Plus Pact. The programmes are consistent with the guidance provided by the Secretariat-General of the Commission and the code of conduct. They outline in an integrated manner the fiscal consolidation efforts, the key structural reforms and the reforms that underpin macroeconomic stabilisation. Both documents share the same economic outlook, which is broadly in line with the most recent Commission forecast. The 2012 convergence report will assess the progress made by Lithuania in fulfilling its obligations regarding the achievement of economic and monetary union.

2.2. Challenges

Lithuania needs to speed up its reform agenda to improve its growth potential. Although the main policy challenges for the country have remained broadly unchanged since the European Semester 2011, some new areas that have been identified merit closer government attention.

In particular, continued growth-friendly fiscal consolidation is required to reach the medium-term objective (MTO) for the deficit and maintain the confidence of financial markets. Lithuania has scope for making use of less distortive and more growth-friendly taxation; moreover, tax collection and administration could be further improved. Lithuania's high energy intensity remains an issue that could be addressed through a shift in taxation towards energy use as identified in the 2011 Commission Staff Working Paper. The structural weaknesses of the fiscal framework require attention: low share of growth-enhancing expenditure, weak monitoring of budget implementation and a lack of enforceable and binding expenditure ceilings in the multi-annual budgetary planning. Demographic developments cast a doubt on Lithuania's long-term fiscal sustainability and a comprehensive pension reform, targeting both sustainability and adequacy of pensions, remains an important issue.

Regarding labour supply, the main challenge is to increase labour force participation by improving flexibility of contractual arrangements, enhancing labour market relevance and quality of skills and making better use of active labour market policies. The situation among young people and unskilled workers is particularly worrying. Skill mismatches have appeared in some sectors and long-term unemployment has increased in Lithuania. Another important challenge, also highlighted in the Annual Growth Survey for 2012, is the fight against youth unemployment. Despite robust growth, the youth unemployment rate is one of the highest in the EU (32 %), and young people often lack the necessary skills or qualifications to find a job.

Weaknesses in the area of business conditions, despite some progress, and the quality of education and low R&D investment continue to restrict growth and competitiveness in Lithuania. Limited competition among electricity suppliers, poor interconnections with other Member States, ageing generation capacity, and the absence of alternative gas supply routes keep energy prices high. Furthermore, energy efficiency, especially of buildings, is an urgent challenge. Enterprises would greatly benefit from further improvements in the business environment, while notable progress has been made on improving start-up conditions and reducing the time taken to obtain construction permits. Modernising public administration and finalising the reform of state-owned enterprises is also essential to boosting competitiveness.

Since 2011 a new challenge has arisen. Lithuania is the EU country with the highest income inequality and has the fourth highest rate of poverty or social exclusion. It is particularly worrying that, despite economic growth, these rates have increased further. So far, the causes have not received the required policy attention and the plans presented in the national reform programme are not specific enough.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

In its 2012 convergence programme, Lithuania confirms to correct the excessive general government deficit by 2012 and to progress towards the medium-term budgetary objective (MTO). The programme confirms the previous MTO, i.e. a structural general government surplus of 0.5 % of GDP, which adequately reflects the requirements of the Stability and Growth Pact, and outlines a consolidation of at least 1 percentage point per year, planning a balanced budget by 2015. In structural terms, the planned annual progress towards the MTO is slightly higher than 0.5% of GDP, on the basis of the recalculated structural balance from the programme (using the commonly agreed methodology for calculating the structural budget balance).

Lithuania took steps to implement the fiscal CSR. Some temporary measures adopted during the crisis concerning social benefits have been made permanent, and tax compliance and administration were reinforced. According to the 2012 spring forecast, Lithuania's general government deficit decreased from 7.2 % of GDP in 2010 to 5.5 % of GDP in 2011, somewhat worse than the target of 5.3 % of GDP set in the 2011 convergence programme due to unforeseen calls on state-guarantees on corporate loans and a higher than planned deficit of local governments. This reduction was the result of consolidation efforts on the back of robust economic growth reaching 5.9 % in 2011. The adjustment has largely relied on expenditure restraint. The structural deficit decreased from 5.1 % of GDP in 2010 to 4.6 % in 2011.

The 2012 budget targets a further reduction in the deficit to 3.0% and includes additional structural measures: mainly substantial cuts in expenditure and additional non-tax revenue (see the Box 1 below). The 2012 spring forecast expects the general government deficit to decline to 3.2 % of GDP. Compared to the previous programme, the current one projects both revenue and expenditure lower in absolute terms, and by 3.4-3.6 precentage points lower in terms of GDP. The programme envisages lower tax revenue due to less favourable economic growth assumptions, and lower non-tax revenue, mainly related to EU grants, as well as lower current expenditure following further cuts in the 2012 budget and lower public investment as the main drivers. The Commission and the national authorities broadly agree on the macroeconomic outlook for 2012 and 2013.

Box 1. Main budgetary measures

Revenue	Expenditure
2011	
Increase in excise duties (+0.1 % of GDP)	Cuts in government spending, including extension of the public sector wage freeze (-1.0 %) Continuing freeze in social benefits, including pensions (-0.6 %) Reduction in social benefits, mainly maternity benefits (-0.2 %)
2012	
Increase in dividends from state-owned companies (+0.5 % of GDP) Introduction of 'luxury tax' on residential properties (+0.02 %) Reduction in transfers to the second pillar pension funds (+0.1 % of GDP) Sales of carbon rights (+0.3 % of GDP) Abolition of reduced VAT rate for hotels (+0.02 % of GDP) Increase in excise duties (+0.02 %)	Cuts in government spending (-0.5 %) Increase in retirement age (-0.1 % of GDP) Cut in road investment (-0.03 % of GDP) Continuing public sector wage freeze (-0.5 % of GDP) Reversal of previous temporary cuts in social insurance pensions (+0.5 %) Continuing cuts in state pensions (-0.1 %) Reduction in social benefits, mainly health care and maternity benefits (-0.5 %)
2013	
Changes to land tax (+0.1 % or higher) Increase in transfers to the second pillar pension funds (+0.2 % of GDP)	Reversal of the public sector wage freeze (+0.5 %) Increase in retirement age (-0.1 % of GDP) Environmental investment following sales of carbon rights (+0.3 % of GDP)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A plus sign means that revenue/expenditure increases/decreases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, in a multiannual budget.

The budgetary adjustment in 2012 has a strong focus on expenditure-reducing measures, which should contribute some 1.3 % of GDP, whereas revenue is expected to increase by around 0.9 % of GDP. According to the 2012 spring forecast, the revenue-to-GDP ratio is projected to increase from 32.0% in 2011 to 33.5% in 2012 and the expenditure-to-GDP ratio is expected to fall from 37.5% to 36.7%, broadly in line with the 2012 convergence programme.

Overall, these steps have put Lithuania on track to reduce the deficit further under the EDP. The 2012 spring forecast indicates that the country is likely to reduce its general government deficit to close to 3% of GDP (the reference value of the Treaty) in 2012.

The average annual fiscal effort over the period 2010-2012 is expected to be lower than recommended by the Council despite fiscal consolidation efforts. The 2012 spring forecast sees the structural balance decreasing substantially, from a deficit of 5.1% in 2010 to 4.6% of GDP in 2011 and 2.9% of GDP in 2012, 0.3 pp. higher than the (recalculated) structural balance[4] forecast by the Lithuanian authorities. The average annual fiscal effort over the reference period amounts therefore to 1.1% of GDP, substantially below the recommended 2.25 percentage points of GDP. The structural balances are strongly affected by extensive revision of potential growth following the boom and bust Lithuania's economy experienced before and during the crisis. The Commission has revised Lithuania's potential growth downwards to 0.3% in 2011 and 1.6 % on average in the period 2011-2015, much lower than its growth performance in 2011 and the forecast for 2012/13. Therefore part of the budgetary improvement which comes from fiscal consolidation should be attributed to cyclical changes.

Going forward, the 2012 convergence programme targets a general government deficit of 2.0% of GDP in 2013 and a further improvement until a balanced budget is reached in 2015. It is, however, not specified how such progress will be made. Based on the Commission 2012 spring forecast, a further slight decrease in the general government deficit to 3.0% of GDP is expected in 2013 as the overall expenditure increase will be contained by the state budget expenditure rule but some temporary measures are set to be reversed, including the freeze of government wages. Therefore, the difference is mainly due to the no-policy-change assumption as budgetary targets in the programme represent targets requiring unspecified measures. The deficit targets presented in the 2012 convergence programme differ slightly from those presented in the previous one. The planned consolidation path is somewhat slower due to the projection of subdued macroeconomic growth, especially in 2012. From 2013 onwards consolidation will mainly be driven by significant cuts in current expenditure.

The 2011 recommendation on fiscal consolidation required that Lithuania should make adequate progress towards the MTO, i.e. a structural general government surplus of 0.5% of GDP, which is not expected to be achieved within the programme period. This recommendation was also reflected in general terms in the AGS 2012. The budgetary adjustment needed to reach the target has been gradual over the period 2011-2012 with an average annual fiscal effort of around 1.1% of GDP. As the (recalculated) structural deficit is projected to stand at 2.6% of GDP in 2012, the average annual fiscal effort between 2013 and 2015 is set at around 0.6% of GDP, slightly above the standard benchmark of 0.5% of GDP. Based on the information on structural measures for the period 2013-2015 contained in the 2012 convergence programme, timely progress towards the MTO will demand significant additional efforts.

[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

The measures adopted or announced so far, while relevant and corresponding to the specific recommendations of the AGS 2012, lack ambition and sometimes credibility. The adopted changes in the retirement age will yield substantial savings only in the long run. The announced concept of social security system reform is ambitious compared to the overall policy challenge but very sensitive and subject to political decisions, especially in view of the general elections planned in autumn 2012. Consequently, significant changes cannot be excluded at this stage and a proper assessment has to wait until the final version is formally adopted.

The analysis of the development of the structural balance is complemented by an assessment of the expenditure benchmark. According to the information provided in the 2012 convergence programme, the growth rate of government expenditure, net of discretionary revenue measures, over 2013 will not exceed a rate which is lower than the reference medium-term rate of potential GDP growth (0.77%) and which ensures an annual structural adjustment towards the MTO by 0.5% of GDP (-0.58%). However, according to the Commission’s 2012 spring forecast, the expenditure growth rate of around 2.23% in 2013 far exceeds the benchmark, which indicates that progress towards the MTO might not be sufficient. In 2014 the programme target is in line with the expenditure benchmark, while it foresees much stronger expenditure growth in 2015 (3.04%) than would be needed to progress towards the MTO. Based on the 2012 spring forecast, it is unlikely that the 2013 target will be met without additional measures. It will therefore be even more difficult to meet targets in 2014-2015.

At the same time, expenditure cuts should be structured in such a way as not to undermine medium-term growth prospects, as mentioned in the AGS 2012. This aspect deserves particular attention as further savings in Lithuania could be achieved through structural fiscal reforms and better targeting and improving tax collection (see section below on taxation) rather than expenditure cuts. Prioritising growth-friendly expenditure such as public investment, R&D, education and training is important to enhance Lithuania’s growth.

Furthermore, the projected consolidation path is subject to a number of risks. Lithuania’s economic growth, and thus its tax revenues, may evolve less dynamically than expected, as the growth prospects of this small open economy depend considerably on the development of its main trading partners. In addition, volatile financial markets may result in a rise in the government’s interest cost, thus putting additional pressure on the state budget. Considering the substantial consolidation efforts needed, there are also implementation risks in view of upcoming elections in autumn 2012.

The general government debt increased substantially during the crisis from 15.5% of GDP in 2008 to 38.0% of GDP in 2010 and stabilised at 38.5% of GDP in 2011. Both the Commission and Lithuania expect it to remain well below 60% of GDP over the programme period; thus, the debt reduction benchmark is not applicable. Nevertheless, the Commission’s 2012 spring forecast is for public debt to rise to around 41% of GDP in 2013, while the 2012 convergence programme expects it to drop to 38.6% in 2013 and further to 34.9% in 2015. This divergence stems mainly from the 1 pp difference in the deficit forecast in 2013, which relates to the application of the no-policy-change assumption in the Commission’s 2012 spring forecast. In addition, the GDP forecast in the convergence programme is slightly higher (0.2 pp) than predicted in the 2012 spring forecast.

Long-term sustainability

Lithuania's long-term change in age-related expenditure is above the EU average. The initial budgetary position adds to the long-term costs. Under a no-policy-change assumption, debt would increase to 44.6% of GDP by 2020. Therefore, additional fiscal consolidation is needed beyond the forecast horizon to put debt on a downward path. Full implementation of the convergence programme would be enough to put debt on a downward path by 2020. Recent pension reform measures have contributed to improvement of fiscal sustainability, but further comprehensive reforms are needed to curb the projected substantial increase in age-related expenditure. Ensuring continued sufficient primary surpluses over the medium term, as planned in the convergence programme, would further improve the sustainability of public finances.

Fiscal framework

Lithuania's medium-term budgetary framework specifies revenues and expenditure of the national budget for three years. The fiscal framework also includes four fiscal rules, applicable separately to central and local levels of government. At the central level, the government has to respect a limit on net borrowing and take into account revenue and expenditure rules for the state budget. The revenue rule calls for the deficit of the state budget to be reduced by the estimated 'excess' revenue of the current year. The expenditure rule links expenditure ceilings to revenues. For the local governments, there is a balanced budget rule.

However, the framework has failed to prevent pro-cyclical fiscal policy in years of high growth, and the rules are not sufficiently binding. They lack a robust enforcement mechanism, e.g. automatic spending cuts or sanctions for non-compliance. Moreover, the fiscal framework suffers from a non-transparent budgetary process, including appropriate reporting of revenue and expenditure executions, insufficient monitoring of fiscal target execution and the comparability of budgetary indicators on cash and accrual bases.

Lithuania has taken some further steps to strengthen its fiscal framework, implementing the 2011 recommendation in this area. The work on reform of budget planning and execution is progressing. Some concepts and draft laws have been presented to the public, but the government has not yet approved them. If adopted, these laws would increase transparency, monitoring and execution of the budgetary process, since they provide for an independent body located in the State audit office, and introduce other measures. Of particular relevance is the aim to improve accountability within the fiscal framework. The draft laws propose to tighten rules on treasury reserves and to allocate greater responsibilities to the Ministry of Finance. The new legislation would also enhance and reinforce the binding character of the medium-term framework. However, these reform proposals are currently subject to public consultation, and it is unclear when and in what form this legislation will be adopted and implemented. These plans therefore are relevant, but still need to be approved. Finally, there has been some progress with adjusting the national classification of public accounts to the ESA95 standards.

Tax system

The Lithuanian tax system is characterised by significant tax evasion and low administrative efficiency. Tax compliance shows scope for improvement, with the shadow economy being perhaps as large as 30 % of GDP, well above the EU average of 15.9 %. Lithuania has potential for increasing VAT efficiency as estimates of the VAT 'compliance gap'[5] point to widespread VAT fraud and evasion. Administrative costs per collected revenue are relatively high and the time costs of paying taxes for businesses could be further reduced. The Lithuanian government has adopted a comprehensive tax compliance strategy and a plan of measures for 2011-2012. Cash registers have been introduced for food products in markets and border controls strengthened. Measures implemented in 2011 to reinforce tax compliance and administration have strengthened the tax bases and yielded additional revenue. Efforts and implementation will continue in 2012 and beyond. The measures taken are relevant and progress is being made as these measures enter into force. However, there is still room to step up efforts in this respect.

In 2010 Lithuania had the lowest tax-to-GDP ratio in the EU and has not increased major taxes in recent years. Fiscal consolidation so far is mainly due to expenditure restraint. Since Lithuania shows an unsustainable initial budgetary position, there is scope to look at additional tax revenue sources that are least detrimental to growth. In particular, Lithuania has scope for less distortive and more growth-friendly taxation. The tax structure relies on taxing labour and consumption, while at the same time taxes on property and environment are among the lowest in the EU.

The tax burden on labour has been steadily decreasing over the last decade and is now slightly below the EU average. The tax burden on the low-skilled is also below the EU average. Capital taxation, which is considered as the most detrimental to growth, is favourable in Lithuania. The implicit tax rate on capital was 10.9 % in 2010 and is one of the lowest in the EU, partly due to generous exemptions and lower rates for SMEs. The implicit tax rate on consumption of 18.2 % (in 2010) is one of the lowest in the EU. The standard VAT rate is 21 % and Lithuania applies two reduced rates (of 5 % and 9 %) only to a limited number of goods and services.

Revenue from environmental taxes is the third lowest in the EU. This is largely due to the transport taxes (excl. fuel), which are the lowest in the EU. Lithuania is among the few European states not to have motor vehicle taxation (no road tax or car registration tax). The car fleet in Lithuania remains one of the most energy-intensive in the EU. The same applies to the energy intensity of production. The implicit tax rate on energy consumption was the seventh lowest in the EU in 2010 whereas energy taxes in GDP terms are only slightly below the EU average. Regarding the implementation of the 2011 recommendation to take action to 'shift taxation towards energy use', only a few measures have been taken

The composition of tax revenue is quite favourable, as a large part is raised from indirect taxes that are less distortive for growth. However, recurrent property taxes or environmental taxes are relatively low. Going forward, Lithuania could broaden the tax base, improve efficiency of tax collection, eliminate existing tax exemptions and extend use of environmental and recurrent property taxes. The latter could be used much more to shift taxation towards a growth-friendly tax policy in line with the 2011 recommendation on energy taxation. The government has so far addressed only some of these crucial aspects of taxation.

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[5] The 'compliance gap' is the difference between accrued VAT receipts and the theoretical net VAT liability for the economy given the VAT rate structure.

3.2. Financial sector

Financial stability

Foreign-owned banks, in particular Scandinavian banking groups, play an important role in Lithuania's financial sector. In total, foreign subsidiaries manage 90 % of the banking system assets; 69 % are controlled by the three largest banks. The financial crisis severely hit the banking system, but it managed to absorb adverse economic shocks thanks to support from parent foreign banks and determined policy action by the Lithuanian authorities. In 2011, banking profits reached pre-crisis levels and the loan portfolio quality started improving. The share of non-performing loans fell to 21.1% in 2011 from 23.3% in 2010 (compared to the EU average of 7% in 2010) as clients that had previously been regarded as insolvent started to repay business and consumer loans. Capital and liquidity ratios are well above the regulatory minima for the banking system as a whole, with the capital adequacy ratio standing at 13.5% and the liquidity ratio at 44%[6].

As recommended in the AGS 2012, Lithuania started to address the weaknesses of its regulatory and supervisory framework. It has adopted a new macro-prudential instrument to avoid re-emergence of unsustainable credit and house price developments. The Regulation for Responsible Lending came into effect on 1 November 2011 and has several objectives: protecting the population against too high a financial burden and insulating the financial system and ultimately the Lithuanian economy against shocks. The regulation forces credit institutions to respect clear limits when they evaluate the solvency of clients and issue loans. This relevant measure should allow for more normal lending patterns to business and to private households, without the excessive risk-taking of the pre-crisis period, in line with the AGS 2012.

In addition, the legislators decided to centralise financial supervision entirely within one institution, the Bank of Lithuania. A new supervision service established as of January 2012 is tasked with supervising commercial banks, other credit and payment institutions, securities and insurance markets, as well as investigating disputes between consumers and financial institutions. The new model of supervision is expected to be more effective as well as cost-efficient and should lead to reinforced stability of the financial system since it will put more emphasis on macro-prudential, systemic risk supervision as well as on consumer protection and education.

The importance of close financial supervision was demonstrated in the wake of the bankruptcy of a domestically owned, medium-sized bank, Snoras, in November 2011. Through immediate action the Lithuanian authorities maintained confidence among consumers and investors and ensured that other banks were not affected. Going forward, continued scrutiny of the banking sector and pre-emptive financial supervision are required to avoid similar events like Snoras.

Funding of the economy

Credit to enterprises started to increase in the last quarter of 2011, after a continuous decline since 2009, when the credit bubble burst. However, lending remains low given the continuing deleveraging process. The government continues to support SMEs

[6] The source of the financial soundness indicators in this paragraph is the IMF.

through EU structural funds[7] and SMEs have no major problems in obtaining finance beyond those difficulties usually experienced by smaller enterprises. It is weak demand and a lack of good projects that is holding back lending rather than supply constraints. The venture capital market is embryonic and not a significant source of finance for SMEs.

Overall, Lithuania is addressing the lessons learned from the financial crisis with the recently adopted measures, but needs to follow closely their implementation and performance, so as to adjust them if required.

3.3. Labour market, education and social policy

During and after the financial crisis Lithuania's labour market proved to be highly flexible in wage determination, which contributed to regaining competitiveness and ultimately economic growth in 2010 and 2011. The labour market remains one of the daunting challenges the country has to tackle if it wants to maintain its growth potential and counteract negative demographic and social developments.

The overall low participation rate is an important concern. Only 68 % of the population in the 20-64 age group are active on the labour market. Particularly worrying is the situation among young people and unskilled workers. The youth unemployment rate is one of the highest in the EU (32 %) and the unemployment rate of the low-skilled is second highest in the EU (39.5%). Long-term unemployment rose from 1 % to 8 % over the last three years. In addition, skill mismatches have appeared in some sectors and, together with insufficiently flexible labour legislation and a social assistance system that contains disincentives to work, hinder employment growth.

These issues were identified by last year's CSRs and reiterated in this year's AGS. The government has acknowledged them in the national reform programme and set an employment target of 72.8 % for 2020. This objective is very ambitious compared to the current situation and requires additional forward-looking efforts. Lithuania has taken or is planning a set of measures targeting older workers, youth and unskilled persons. In addition, it intends to reduce skill mismatches and amend the labour legislation to make it more flexible and reform the social assistance system.

Regarding labour market flexibility, the Law on Temporary Employment Agencies to facilitate short-term employment entered into force on 1 December 2011. The law defines employment relations between temporary employees and temporary employment enterprises. However, its impact may not be significant, since temporary work agencies were already operating in Lithuania previously. Instead, a comprehensive review of the labour law could identify unnecessary restrictions and administrative hurdles that prevent flexible contractual agreements, such as dismissal provisions and flexible working time arrangements. Lithuania attempted to facilitate fixed-term employment by allowing use of fixed-term contracts in newly created jobs. However, this measure expires in July 2012. Discussions on changing the Labour Code have started, but no agreements have been reached so far. The national reform programme presents a number of measures to

[7] Currently, there are two holding funds in operation funded by the ERDF with a total allocation of EUR 228 million, one fund administered by the EIF (EUR 170 million from ERDF) and one administered by INVEGA (EUR 58 million from ERDF). Implementation on the ground started to take off in 2011 and further progress is expected in 2012.

ease the regulative and administrative burden for employers and employees. It is, therefore, very important that these plans are realised swiftly and efficiently.

As regards older worker employment, Lithuania continued to implement the Active Ageing Strategy. However, its general nature and a lack of quantifiable indicators, a clear timetable and financial means do not allow its impact to be assessed and call its credibility into question. A new strategy after 2013 could address these shortcomings. However, the national reform programme does not present any plans in this regard. Fiscal disincentives for people of pensionable age (lower pensions for those who receive employment-related income) expired at the end of 2011. However, the new pension legislation has expanded the possibilities for early retirement (no longer limited to the long-term unemployed). This in part counteracts the removal of fiscal disincentives.

The challenge of youth unemployment (above 30% at the end of 2011) became especially evident during the crisis, which revealed that young people do not possess the skills and practical experience demanded by employers. Addressing it was identified as one of the main priorities. Following the European Council of 30 January 2012, the Lithuanian authorities and the Commission examined measures for reducing youth unemployment, including changes to the regulatory framework and reallocation of the European Structural Funds. As a result, it was decided to re-focus the European Social Fund (ESF) in the period 2012-2013, implying that around 18 000 additional young people could benefit from ESF support in Lithuania. The national reform programme reflects this initiative and the government is implementing active labour market policy measures, training of entrepreneurial skills, vouchers for vocational training, job experience, first job subsidies[8] and support for apprenticeship schemes, internship and volunteering. Furthermore, from the European Regional Development Fund (ERDF), young people could receive support for start-ups, coaching and information about business financing as well as grant schemes for SMEs. However, additional efforts are needed to ensure a smooth transfer from education to the labour market. To address the problem of skills mismatch, Lithuania is developing a system of qualification demand forecasting, which should help to align training with labour market demands.

The key tool for improving employability, active labour market policy, struggles to cope with the increasing number of unemployed. The activation rate in Lithuania is among the lowest in the EU and the financial allocations to the active labour market policy are decreasing. Hence, it is essential to improve its coverage, focus and efficiency. It is important to limit public works to the most vulnerable and provide more labour market relevant re-skilling and up-skilling programmes. To this end, the vocational training of the unemployed was reformed in January 2012. A voucher scheme was introduced to allow job seekers to choose their trainers, including potential employers. The measure is relevant, but it needs to be based on sufficient financial resources, transparent and simple implementation procedures and efficient quality control. The other active labour market policy measures would benefit from a similar review and refocusing.

Lithuania faces important challenges in education with regard to the transition from education to the labour market, underachievement in general education, and availability of pre-school education and care, as well as adult learning. Lithuania seeks to sustain the level of tertiary attainment above 40% (43.8% in 2010) by introducing measures such as

[8] The employer-paid social insurance contributions have been reduced from 31% to 7.7% for persons starting their first job until July 2012.

a state-supported study loan scheme, social scholarships, financial support for students with disabilities, and targeted scholarships for certain study programmes. The ongoing higher education reform mainly aims at improving quality and consolidating institutions. The government is also tackling mismatches between the supply of graduates and the labour market needs. Lithuania has made progress in increasing the number of maths, science and technology graduates. Currently, the early school leaving rate is below the EU average (at 8.1 % in 2010). To keep it below 9 % by 2020, Lithuania is implementing measures involving collection of data on potential drop-outs, targeting priority groups, aiming to raise the quality of education and targeted support. The impact of these measures is still to be seen; however, Lithuania's target for early school leavers could be set to a higher level.

In general, considering all the measures taken, in terms of ambition and adequacy Lithuania has addressed the country-specific recommendations related to the labour market only partially. Additional measures to enhance participation in the labour market especially for young people, unskilled and older workers, and to improve labour market flexibility are necessary.

Lithuania's social security system is posing several challenges. Firstly, its pension system needs to be reformed to become sustainable in the long run, while safeguarding its adequacy aspects. Secondly, the financial crisis has exposed a sizeable number of people to the risk of poverty or social exclusion and resulted in greater income inequality. These challenges were highlighted in the AGS 2012. In addition, the first challenge was identified in last year's CSRs and Lithuania has started to tackle it.

Lithuania's pension system is currently underpinned by favourable demographics but these will change in the future. The old-age dependency ratio is projected to more than double by 2060. At the same time, the working-age population is expected to drop by 35.8 %, compared with 13.5 % for the EU-27. These developments cast serious doubts on the sustainability of the pension system. Adequacy also remains an issue, as the share of the population 65+ living in poverty or social exclusion is well above the EU average. A relevant first step was taken in June 2011, when the Lithuanian Parliament amended the Law on State Social Insurance Pensions and approved a gradual increase in the pension age to 65 years for both men and women by 2026. However, this alone will not ensure a sustainable and adequate retirement income in the future, and supplementary measures are needed. These could include linking the pensionable age and future benefits to demographic factors, establishing clear rules for indexation, reforming of pension accumulation system and promoting occupational pension funds. In addition, elimination of incentives to early retirement and implementation of active ageing measures would enable people to work longer.

Lithuania could in addition make better use of supplementary voluntary pension provision, which remains marginal at 0.1 % of the labour force. In addition, there is the possibility to establish occupational pension schemes (pension plans created by an employer for the benefit of an employee), though none have been created so far. If they were taken up on a broader scale, they would ease the burden of the social security system and at the same time improve the adequacy of future pension incomes.

Around one third of the Lithuanian population is at risk of poverty or exclusion as they live in households with very low work intensity or are materially deprived. This is the fourth highest value in the EU. Single parents, families with three or more children, unemployed persons, single adults and retired persons are particularly vulnerable. The relatively low level of social assistance benefits together with limited quality training and active labour market policy measures put vulnerable groups particularly at risk of long-term exclusion. Lithuania is also the EU country with the highest income inequality. Its causes have not received a lot of policy attention until now. Some measures have been taken to ensure more equity, such as a tax-exempt threshold, introduction of equivalent scales into the social benefits scheme and compensations. Despite these efforts, income inequality and poverty or social exclusion were still increasing in 2010, which suggests that these measures may not be sufficient to tackle the growing poverty or social exclusion and income inequalities.

In 2011, Lithuania amended the Law on Cash Social Assistance to reform the social support system as of January 2012. It has launched a pilot model of social support distribution, changed the method for calculating the amount, introduced certain work incentives and increased coverage. The social assistance reform is a step towards reducing disincentives to work (in-work benefits for the long-term unemployed, gradual decrease of social benefits for non-working recipients of workable age) and close monitoring of the reform is required to see if it can overcome low wage traps and ultimately encourage employment without aggravating the situation of the most vulnerable. The reform could also benefit from additional emphasis on labour market inclusion measures, e.g. by providing activation measures for long-term social beneficiaries.

Lithuania has addressed the recommendations related to social policies only partially. More determined efforts are needed to reform the pension system. The effectiveness of the social protection system is still hampered by inadequate assistance and coverage and could be better targeted. However, the national reform programme does not present a clear solution. High income inequalities remain an important issue.

3.4. Structural measures promoting growth and competitiveness

Lithuania’s economy has been undergoing a substantial adjustment in recent years. To enhance its growth potential, it is important that the country tackles the challenges that were identified in the European Semester 2011 and the AGS 2012. The modernisation of the country is a key issue in that respect, especially regarding its business environment and infrastructure, innovation frameworks, energy dependency and efficiency.

State-owned enterprises

The government has been undertaking a far-reaching reform of state-owned enterprises (SOEs) since 2010. The objective is to restructure corporate governance, increase transparency and separate ownership and regulatory functions (and increase competition and efficiency). The reform is relevant and involves legislative as well as organisational changes. Major progress was made in all areas in 2011. In particular, transparency and accountability have significantly improved as reports are now published on a quarterly and annual basis and clear enterprise objectives have been established. However, the government has postponed some parts of the reform, in particular the recommendations on separation of commercial and non-commercial activities of SOEs, and guidelines on separation of ownership and regulatory functions. These are to be approved in the first half of 2012 according to the national reform programme. As a result, the corresponding CSR has only been partially implemented.

Energy efficiency

Lithuania has made some progress in implementing the 2011 recommendation on improving the energy efficiency of buildings. According to the national reform programme, 85 multi-apartment buildings were modernised in 2011. Moreover, EU structural funds for 2007-2013 for the renovation of public buildings were already depleted and assigned to concrete projects. With the aim of increasing efficiency, the renovation of public buildings is well under way with financing allocated to 66 additional projects in 2011. In contrast, progress has been slower with respect to the ERDF-funded JESSICA Holding Fund, under which an estimated 1 000 buildings are expected to be upgraded by the end of the programming period. At the beginning of 2012, there were about 50 projects signed and another 200 in the pipeline. However, only 4 official multi-apartment renovation projects were finalised using JESSICA. Therefore, the government approved a revision of the Multi-Apartment Building Modernisation Programme in December 2011. The new approach is less ambitious and is expected to deliver lower savings. In general the target number of buildings to be renovated has been reduced; however, additional financial support to renovation projects with large potential for energy efficiency improvements is planned. While the programme has sufficient relevance, subsidies available in other policy areas might counteract the impact of JESSICA and the Ignalina NPP closure funds, which can also be used for renovation of buildings. Low-income households are entitled to receive subsidies to cover increased energy costs. Furthermore, Lithuania is applying a 9 % reduced VAT rate to residential heating until the end of 2012. Taken together, these two measures reduce the incentives for inhabitants of residential buildings to improve their energy efficiency. Considering that in Lithuania there are above 30 000 multi-apartment houses with very low energy efficiency performance, further substantial and accelerated efforts are needed to improve energy efficiency of buildings.

Competition

As regards strengthening competition, investigations undertaken so far by the National Competition Council have provided no indications that the Lithuanian retail market is subject to anti-competitive practices or a high degree of concentration significantly different from other EU Member States. In any event, the Lithuanian Competition Council is best placed to monitor the situation and act if required. Since March 2012 it has become an independent body and has received new powers to control competition across all sectors. In particular, the ability to set its priorities for conducting infringement investigations and sector inquiries as well as concentrating its resources on the most important cases is an improvement that should allow the Competition Council to act more effectively in the future.

Infrastructure

Lithuania’s gas and electricity market is suffering from market isolation and a lack of supply alternatives. To address this problem in the gas sector, the government is considering several investment projects in transmission gas system and interconnection capacity, such as the diversification of natural gas supply with a regional LNG terminal in the Baltic States. In the electricity sector, the planned interconnections with Poland and Sweden should ease this problem once implemented. The insufficient interconnections hinder the emergence of competition in energy markets. Concentration remains high (above 90 %) in both the gas and electricity markets. Electricity prices are still regulated until 2015. Lithuania has transposed the Directives of the Third Energy

Package and now needs to implement them after adopting key legislation in both the electricity and gas sectors.

Lithuania's renewables targets for 2020 are 23 % of total energy consumption and 10 % of consumption in the transport sector. By 2009, Lithuania had already achieved its interim 2011/2012 target. However, progress on non-cost barriers to large-scale development of renewable energy, particularly in the electricity sector, is relatively slow.

Furthermore, Lithuania's transport infrastructure continues to restrict growth. In rail, only 7% of the tracks are electrified and average speed is low. The country has only limited connections to Poland and Western Europe. The ongoing Rail Baltica project, connecting major EU rail networks with North-eastern Europe, has recently received priority in the TEN-T policy review. Progress can be expected once the participating countries have agreed on a common approach within the deadline set by the Commission to receive EU structural fund support. Lithuania still has to overcome some administrative, technical and regulatory obstacles to create an efficiently functioning rail market. In particular, the rail sector requires attention since the independence of infrastructure management from rail operations has not been ensured. Lithuania continues to benefit greatly from cohesion policy over the period 2007-2013 with a total allocation of nearly EUR 6.8bn, with priorities focusing on innovation and balanced growth. The financial progress is more than satisfactory with nearly 48% of payments already made by the Commission. The level of contracted projects is satisfactory — 89% for the ERDF (European Regional Development Fund) and CF (Cohesion Fund) programmes — although some sectors, such as R&D and ICT, need further attention.

R&D and innovation

The Lithuanian economy's low level of innovation is a significant weakness. The country ranks among the poorest performers in the EU.[9] Compared to the current level of R&D spending, Lithuania has set a very ambitious national R&D intensity target at 1.9% of GDP by 2020. R&D expenditure has stagnated at around 0.8% of GDP, almost unchanged since 2004, and is one of the lowest in the EU. This low R&D level is worrying because it has important repercussions on the wider economy, in which the scientific and technological performance and export structure are poor. In order to improve the situation, Lithuania has been conducting deep reforms of its science base, including development of five clusters (called 'Science valleys' and funded by the ERDF) integrating higher-education institutions, research institutions and businesses in a number of scientific and technological areas. These clusters are complemented by financial incentives, in particular an R&D tax credit in place since 2008, intensive use of structural funds and innovation vouchers. Furthermore, new legislation which proposes to allow public authorities to use up to 5% of their procurement budgets to purchase R&D-related products and services is being debated in the Lithuanian Parliament. The target date for implementation is 2013.

The reform of the science base is expected to make the Lithuanian research and innovation system more efficient and productive in the years to come. However, scientific and technological areas where Lithuania can be internationally competitive would merit much more focus and concentration of resources. Demand-side measures for

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[9] Ranking based on business expenditure on research and development in manufacturing: 21/25; services: 23/25, patent intensity in manufacturing: 26/27; share of high-tech (also high and medium tech) in manufacturing: 23/25. It is the worst performer in the EU regarding the share of knowledge-intensive services.

innovation are clearly less developed. Removing obstacles to — and supporting — the growth of innovative companies would be beneficial to future economic growth as these companies can be a key engine of structural change. Financing the very early phase of the development of a new technology-based business is often difficult and would benefit from public-sector support, to enable the founders to subsequently leverage private funds. Also, in order to improve the capacity of the country to exploit research results commercially, there is an urgent need to develop a culture of entrepreneurship and innovation, skills in higher education and in the public research sector, as well as the right incentives and training for researchers in the public sector to engage in knowledge transfer and commercialisation activities.

Environment

Lithuania has committed itself to limiting the increase in greenhouse gas emissions to 15% (compared to 2005) by 2020. According to Lithuania’s latest projections, emissions are expected to increase by 23% in this period, leading to a shortfall of the target by 8 percentage points. This underachievement could be mostly due to the country’s relatively high energy intensity (twice the EU average). House heating, particularly in multi-apartment buildings, and the emission-intensive transport sector, particularly that of passenger cars, are important contributors with potential for cuts. Therefore, additional efforts need to be made to ensure that Lithuania meets its greenhouse gas emissions target.

Lithuania also has substantial room for improvement in its waste management system as more than 90% of municipal waste is landfilled, and its recycling rate of 4% is one of the lowest in the EU. If the country wants to reach its recycling targets, steps towards encouraging resource efficiency could be taken in the form of landfill taxes, increasing producer responsibility, or favouring prevention and participation in separate collection.

3.5. Modernisation of public administration

The functioning of public administration, policy design and delivery are weaknesses of public institutions in Lithuania. To implement the 2011 recommendation on start-up conditions and delivery of construction permits, reforms have been enacted (like online registration, no more notary involvement) that allow a public limited company (PLC) to be registered seven days faster, while reducing the costs of registration by 65%. There has been some improvement in delivery of construction permits. The number of procedural requirements has been reduced from 17 to 14 with time savings of 50% (28 to 14 days). Lithuania has fully implemented the 2011 recommendations for start-up conditions and construction permits.

Lithuania is undertaking a major regulatory reform project, intended to streamline business inspection institutions. Currently business inspections are carried out by more than 70 public institutions; the reform aims at consolidating these into nine clusters by a target date of 2013/2014. This reduction will be supplemented by draft guidelines, which should provide for less frequent, less burdensome and more targeted and standardised inspections. Some progress has been made already and the reform is on track for completion by the target date.

Moreover, Lithuania is trying to change other aspects of its administration, though these attempts to reform the civil service are lacking a systemic approach and a clear strategy. The previous strategy on public administration reform ended in 2010 and was replaced in February 2012. Although its principles and objectives are relevant, its ambition and credibility will depend on the action plan, and more in particular on concrete actions aiming at strengthening result- and client-oriented dimensions of public administration. This could be achieved through the introduction of quality management systems and service quality standards in the public sector. Better implementation of the principles of the European Administrative Space could be achieved through designing the recruitment and career paths of civil servants, as well as by encouraging and improving the mobility of public servants between different public institutions, while continuing skills development.

Although the online availability of public services for citizens increased in 2011 to 69%, it is still far below the EU average. Take-up by citizens is also far below the EU average although slightly increasing. Availability is higher for services for businesses (at 75%), though still below average. Finally, take-up by businesses exceeds the EU average by 20 percentage points and is the third highest value in the EU.

To improve the business environment, Lithuania has set an objective of reducing the administrative burden on enterprises by 30 % by the end of 2012. The 2010 law on restructuring of enterprises offers enterprises experiencing temporary financial difficulties more flexibility and the possibility of restructuring instead of bankruptcy. In addition, the government has proposed further measures — a proposal to simplify employment procedures and recent tax administration reforms. The legislation still needs to be approved and put in place before the impact can be properly assessed. Overall, modernising of public administration remains one of the challenges for the Lithuanian government and is in line with the AGS 2012 priorities.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Adopt additional fiscal measures of a permanent nature by the time of the 2012 budget to correct the excessive deficit in line with the Council recommendations under the EDP. Reinforce tax compliance and take full advantage of the economic recovery to further accelerate deficit reduction and ensure progress towards the medium-term objective by at least 0.5 % of GDP annually. Strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework.	Lithuania has partially implemented the CSR. The 2012 budget, which received parliamentary approval in December 2011, targets a general government deficit of 3% of GDP, which is consistent with the aim to correct the excessive deficit by 2012 if fully implemented. Some of the temporary measures adopted during the crisis concerning social benefits have been made permanent. Tax compliance and administration were reinforced in 2011 and this strengthened the tax bases and improved revenues. The medium-term objective of a structural surplus of 0.5% of GDP is not expected to be achieved until 2014. Measures have yet to be specified and structural reforms accelerated. If adopted, draft laws would improve budgetary process and execution by establishing an independent body. There are also plans to tighten rules on treasury reserves.
CSR 2: Adopt the proposed implementing legislation on Pension System Reform. In order to enhance participation in the labour market, remove fiscal disincentives to work, especially for people at pensionable age.	Lithuania has partially implemented the CSR. Gradual increase in the pensionable age is a step in the right direction but further steps are yet to be taken. The restoration of full pensions to working pensioners has removed fiscal disincentives to work for people of or approaching pensionable age.
CSR 3: Enhance labour market flexibility by amending the labour legislation to make it more flexible and to allow better use of fixed-term contracts. Amend the relevant legislation to ensure that the social assistance system does not contain disincentives to work.	Lithuania has partially implemented the CSR. No significant changes to the labour legislation were made in 2011. The amendment to allow fixed-term employment contracts in 'newly created' jobs expires on 31 July 2012. The social assistance reform is a step towards reducing disincentives to work.
CSR 4: Implement all aspects of the State-owned enterprise reform package by the end of 2011, ensuring a separation of ownership and regulatory functions, clear enterprise objectives, enhanced transparency and a separation of commercial and non-commercial activities.	Lithuania has partially implemented the CSR. Draft ownership guidelines were prepared at the beginning of 2012. No full separation of ownership and regulatory functions is envisaged. Lithuania has significantly advanced as regards the transparency objective. Separation of commercial and non-commercial activities is postponed until 2012.
CSR 5: Improve the energy efficiency of buildings, including through a rapid implementation of the Holding Fund, and take steps to shift taxation towards energy use.	Lithuania has only partially implemented the CSR. The Programme for the Modernisation of Multi-apartment Houses, and in particular the implementation of the JESSICA mechanism, has been stalling for the last few years. Minor measures were implemented regarding shifting taxation towards energy use.
CSR 6: Take steps to improve start-up conditions and the delivery of construction permits, and to strengthen competition in the energy and retail	Lithuania has fully implemented the business-conditions part of the CSR, while it has only partially implemented the competition part,

sectors.	especially in relation to the energy sector. Improvement has been made in formal requirements for start-up conditions. The number of procedural requirements for delivery of construction permits has been reduced and timing has been reduced nearly by half. The National Competition Council was given new powers to control competition in different sectors in March 2012.
Euro Plus Pact (national commitments and progress)	
Commitments to further improve public finance sustainability include laws on facilitating accumulation of funds in the State Treasury reserve for times of economic difficulties, promoting a responsible anti-inflationary budgetary policy, ensuring sustainability and adequacy of pensions and social benefits, and optimising the State Social Insurance Fund (SSIF) as well as the healthcare network.	Lithuania has only partially implemented the commitments. Draft laws on facilitating accumulation of funds in the State Treasury reserve have been prepared but not yet adopted. Ensuring sustainability of pensions is part of the social security system reform, which Lithuania has started to implement. Restructuring of the SSIF administration was adopted by the government in July 2011 and will be implemented from 2012.
Commitments to foster employment focus on increasing labour participation and promoting employment of young people. These include providing conditions for flexible employment agreements, promoting self-employment, providing incentives to employ young people, installing a system for long-term qualification demand forecasting and reforming the planning of vocational training for unemployed persons.	Lithuania has partially implemented the commitments. Gradually increasing the pensionable age will help boost the participation of older workers, if supported by active ageing measures, but will have no effect on other population groups where low participation remains an issue. No significant changes to the labour legislation have been made so far. The Law on Vocational Training was amended and the Ministry of Economy is going to organise forecasting of qualification demand. Employing young unemployed is temporarily subsidised. Expenses related to the acquisition of a business certificate are reimbursed to registered unemployed persons. A new system of training based on 'training vouchers' will allow job-seekers to choose their trainers, including potential employers.
Commitments to foster competitiveness presented by the government focus on education (improving quality and ensuring greater consolidation of the higher-education network), innovation (fostering protection of industrial property rights and promotion of clustering through the Innovation Voucher scheme) and improving administrative efficiency (by reducing overall administrative burden and unifying remuneration terms for employees performing work of the same complexity and requiring the same qualifications in different entities funded by the State).	Lithuania has partially implemented the commitments. Progress has been made in consolidating the higher-education network and the merger of some universities. A new Law on Education and Science transferred the ownership of intellectual property rights from the State to the higher-education institutions. Five thematic 'valleys' are being developed. The government is also keeping up its efforts to raise the quality of higher education and address the mismatches between the supply of tertiary education graduates and labour market needs. The implementation of the Innovation Voucher scheme is on track. Reducing the administrative burden has been slower than planned and no progress has been made so far on unifying remuneration in the public sector, but the relevant legislation is planned to be drafted in 2012.
Commitments to contribute to financial stability	Lithuania has partially implemented the

include laws on financial stability, the Provisions for Banks' Organisation of Internal Control and Risk Assessment, and the Plan for the Prevention and Management of Financial Crises. It was also decided to devote special attention to actions promoting the cooperation between Lithuanian institutions and their counterparts in the Nordic and other Baltic States in the area of crisis prevention and management.	commitment. The Law on Financial Stability provides for consolidation of measures strengthening financial stability and enhances the readiness to manage crisis situations, while contributing to higher stability in the financial sector. In addition, amendments to other legal acts made factoring, reforming, and sales process of problematic banks more efficient.
Europe 2020 (national targets and progress)	
Employment rate target (population aged 20-64): 72.8 %	The employment rate of the population aged 20-64 was 67.2 % in 2009, 64.4 % in 2010 and 67.2 % in 2011. The objective of 72.8 % by 2020 is very ambitious compared to the current situation. The key tool for improving employability — the active labour market policy — helped in making progress towards the objective (68.0 % in Q4 2011) but the high number of unemployed is still a challenge. Little progress has been made towards achievement of the target.
R&D target: 1.9 %	The R&D target of Lithuania is very ambitious compared to the current level of R&D spending. Gross domestic expenditure on R&D was 0.84 % of GDP in 2009 and 0.79 % in 2010. The capacity of the country to increase R&D intensity has not been demonstrated for the last seven years. No progress has been made towards achievement of the target.
Greenhouse gas emissions target: +15 % (compared to 2005 emissions, ETS (Emissions Trading System) emissions are not covered by this national target)	The non-ETS greenhouse gas emissions were reduced by 11% between 2005 and 2010, which corresponds to the current ETS scope.
Renewable energy target: 23 %	The share of renewable energy in gross final energy consumption increased to 17 % in 2009 and to 19.7 %% in 2010. Lithuania has already achieved its 2011/2012 interim renewable energy target.
Energy efficiency — reduction in primary energy consumption by 2020: 1.14 Mtoe	The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology for expressing the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present this overview.
Early school leaving target: <9 %	Early leavers from education and training (percentage of the population aged 18-24 with at most a lower secondary education and not in further education or training) stood at 8.1 % in 2010. Lithuania's early school leaving rate is below the EU average. The national target set for 2020 is to keep this rate below 9 %. The target has been achieved.
Tertiary education target: 40 %	Tertiary educational attainment stood at 40.6 % in 2009, and 43.8 % in 2010. The

	target has been achieved.
Target on the reduction of population at risk of poverty or social exclusion: 814 000	Due to the increase in the number of people who are severely materially deprived or live in households with very low work intensity, the national target has become difficult to reach. The number of people at risk of poverty or social exclusion increased from 985 000 in 2009 to 1 109 000 in 2010. The deterioration of the situation means that no progress has been made towards achievement of the target.

5. ANNEX

Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	4.5	7.0	7.1	-14.8	1.4	5.9	2.4	3.5
Output gap [1]	-5.8	-0.7	7.2	-9.9	-8.4	-3.3	-2.5	-1.4
HICP (annual % change)	10.5	0.6	5.8	4.2	1.2	4.1	3.1	2.9
Domestic demand (annual % change) [2]	7.0	7.8	8.6	-24.7	1.6	5.3	2.6	3.8
Unemployment rate (% of labour force) [3]	9.6	14.1	6.0	13.7	17.8	15.4	13.8	12.7
Gross fixed capital formation (% of GDP)	21.9	20.6	25.4	17.2	16.3	17.6	18.2	19.2
Gross national saving (% of GDP)	12.8	14.3	15.6	13.2	17.5	17.3	17.6	18.6
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.4**	**-2.3**	**-1.3**	**-9.4**	**-7.2**	**-5.5**	**-3.2**	**-3.0**
Gross debt	**15.9**	**21.8**	**17.2**	**29.4**	**38.0**	**38.5**	**40.4**	**40.9**
Net financial assets	**32.9**	**9.9**	**9.3**	**-2.6**	**-12.9**	**n.a**	**n.a**	**n.a**
Total revenue	35.4	33.0	33.3	34.3	33.7	32.0	33.5	33.1
Total expenditure	39.9	35.3	34.6	43.8	40.9	37.5	36.8	36.1
of which: Interest	0.9	1.3	0.7	1.3	1.8	1.8	2.1	2.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.3**	**-2.8**	**-4.8**	**16.7**	**13.5**	**n.a**	**n.a**	**n.a**
Net financial assets, non-financial corporations	**-86.0**	**-85.3**	**-97.5**	**-103.6**	**-94.1**	**n.a**	**n.a**	**n.a**
Net financial assets, financial corporations	**-2.4**	**-1.7**	**-1.1**	**2.8**	**2.8**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.2	13.7	18.5	3.2	9.6	n.a	n.a	n.a
Gross operating surplus	23.6	31.1	33.2	31.7	35.8	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**0.8**	**-0.7**	**-3.6**	**-0.1**	**-1.5**	**n.a**	**n.a**	**n.a**
Net financial assets	**36.9**	**41.8**	**37.3**	**38.4**	**39.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	31.1	31.3	34.2	35.2	33.4	n.a	n.a	n.a
Net property income	10.0	17.3	12.8	14.3	10.8	n.a	n.a	n.a
Current transfers received	10.6	11.4	12.8	19.6	18.0	n.a	n.a	n.a
Gross saving	1.8	2.5	-0.8	3.1	0.8	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-10.0**	**-5.7**	**-9.7**	**7.1**	**4.9**	**1.0**	**0.5**	**0.3**
Net financial assets	**19.3**	**35.8**	**52.3**	**66.1**	**66.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-10.3	-6.1	-10.6	-1.5	-1.3	-1.5	-2.3	-2.6
Net primary income from the rest of the world	-1.5	-1.7	-2.6	2.2	-1.3	-3.7	-3.4	-3.3
Net capital transactions	-0.1	0.3	1.6	4.4	3.8	2.5	2.5	2.3
Tradable sector	54.1	55.5	53.2	52.0	55.2	56.1	n.a	n.a
Non-tradable sector	34.5	33.8	36.8	38.1	34.5	33.6	n.a	n.a
of which: Building and construction sector	6.5	5.8	8.9	6.0	5.3	5.8	n.a	n.a
Real effective exchange rate (index, 2000=100)	82.6	103.3	124.3	131.1	119.9	118.5	115.6	114.4
Terms of trade in goods and services (index, 2000=100)	90.6	101.4	108.1	105.2	106.0	105.1	104.4	104.4
Market performance of exports (index, 2000=100)	120.3	125.2	145.8	166.4	175.1	182.4	185.4	186.9

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	5.9	5.9	2.4	2.5	3.5	3.7	3.4	4.3
Private consumption (% change)	6.1	6.1	3.0	4.5	3.4	3.7	5.1	4.0
Gross fixed capital formation (% change)	17.1	17.1	4.8	2.5	8.2	5.4	3.6	6.5
Exports of goods and services (% change)	13.7	13.7	4.3	0.9	6.0	8.2	9.4	7.7
Imports of goods and services (% change)	12.7	12.7	4.5	1.8	6.2	8.5	9.8	8.1
Contributions to real GDP growth:								
- Final domestic demand	6.8	5.4	2.5	3.3	3.9	4.1	3.9	4.8
- Change in inventories	-1.4	n.a.	0.2	n.a.	0.0	n.a.	n.a.	n.a.
- Net exports	0.5	0.5	-0.2	-0.8	-0.4	-0.4	-0.5	-0.4
Output gap[1]	-3.3	-3.5	-2.5	-2.5	-1.4	-0.9	0.1	1.7
Employment (% change)	2.0	2.0	0.6	0.7	0.5	0.8	0.9	0.9
Unemployment rate (%)	15.4	15.4	13.8	14.0	12.7	12.8	11.5	9.8
Labour productivity (% change)	3.8	3.8	1.8	1.8	3.0	2.8	2.4	3.4
HICP inflation (%)	4.1	4.1	3.1	2.7	2.9	3.1	3.5	3.5
GDP deflator (% change)	5.3	5.3	2.1	1.7	3.0	3.2	3.4	3.4
Comp. of employees (per head, % change)	3.4	3.9	2.1	-1.5	3.3	4.6	6.0	7.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.0	0.9	0.5	1.6	0.3	0.8	0.7	0.7

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source :

Commission spring 2012 forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	CP	COM	CP	CP	CP	CP
Revenue	**32.0**	**33.5**	**33.8**	**33.1**	**31.4**	**30.2**	**30.0**	**-2.0**
of which:								
- Taxes on production and imports	11.6	11.9	12.2	11.9	12.5	12.3	12.4	0.8
- Current taxes on income, wealth, etc.	4.4	4.6	4.4	4.7	4.4	4.5	4.5	0.1
- Social contributions	10.2	10.2	10.1	9.8	9.7	9.7	9.7	-0.5
- Other (residual)	5.8	6.8	7.1	6.7	4.8	3.7	3.4	-2.4
Expenditure	**37.5**	**36.8**	**36.8**	**36.1**	**33.4**	**31.3**	**30.1**	**-7.4**
of which:								
- Primary expenditure	35.7	34.7	34.6	34.0	31.3	29.3	28.3	-7.4
of which:								
Compensation of employees	10.1	9.8	8.9	9.5	8.9	8.5	9.0	-1.1
Intermediate consumption	5.6	5.0	5.1	4.6	5.2	4.9	5.2	-0.4
Social payments	13.2	12.9	12.9	12.5	12.5	11.6	10.6	-2.6
Subsidies	0.4	0.4	0.4	0.4	0.4	0.3	0.3	-0.1
Gross fixed capital formation	4.2	4.3	4.9	4.6	2.8	2.5	1.9	-2.3
Other (residual)	2.1	2.3	2.4	2.5	1.6	1.3	1.2	-0.9
- Interest expenditure	1.8	2.1	2.2	2.0	2.1	2.0	1.8	0.0
General government balance (GGB)	**-5.5**	**-3.2**	**-3.0**	**-3.0**	**-2.0**	**-1.0**	**0.0**	**5.5**
Primary balance	**-3.7**	**-1.2**	**-0.9**	**-0.9**	**0.1**	**1.0**	**1.8**	**5.5**
One-off and other temporary measures	0.0	0.3	0.3	-0.5	0.3	0.5	0.4	0.4
GGB excl. one-offs	**-5.5**	**-3.5**	**-3.3**	**-2.5**	**-2.3**	**-1.5**	**-0.4**	**5.1**
Output gap[2]	-3.3	-2.5	-2.5	-1.4	-0.9	0.1	1.7	4.9
Cyclically adjusted balance[2]	-4.6	-2.6	-2.3	-2.6	-1.8	-1.0	-0.4	4.2
Structural balance[3]	**-4.6**	**-2.9**	**-2.6**	**-2.1**	**-2.1**	**-1.5**	**-0.8**	**3.8**
Change in structural balance		*1.8*	*2.0*	*0.8*	*0.6*	*0.5*	*0.7*	
Structural primary balance[3]	-2.8	-0.8	-0.4	0.0	0.0	0.5	1.0	3.8
Change in structural primary balance		*2.0*	*2.4*	*0.8*	*0.5*	*0.4*	*0.5*	
Expenditure benchmark								
Public expenditure growth[4] (real)		-4.64	-6.26	2.23	-0.58	0.44	3.04	-
Reference rate[5,6]		2.21	2.21	2.21	2.21	*2.21*	*2.21*	-
Lower reference rate[5,7]		0.77	0.77	0.77	0.77	*0.77*	*0.77*	-
Deviation in % of GDP from applicable reference rate		-1.90	-2.09	0.48	-0.36	*-0.09*	*0.57*	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-0.71	-1.23	*-0.23*	*0.24*	-

Notes*:*

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source :

Convergence programme (CP); Commission spring 2012 forecasts (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**23.5**	**38.5**	**40.4**	**40.2**	**40.9**	**38.6**	**36.7**	**34.9**
Change in the ratio	3.9	0.5	1.9	1.7	0.5	-1.6	-1.9	-1.8
Contributions [2] :								
1. Primary balance	**3.2**	**3.7**	**1.2**	**0.9**	**0.9**	**-0.1**	**-1.0**	**-1.8**
2. 'Snow-ball' effect	**0.1**	**-2.0**	**0.4**	**0.5**	**-0.4**	**-0.5**	**-0.5**	**-0.8**
Of which:								
Interest expenditure	1.0	1.8	2.1	2.1	2.0	2.1	2.0	1.8
Growth effect	-0.2	-2.0	-0.9	-0.9	-1.3	-1.4	-1.2	-1.5
Inflation effect	-0.7	-1.8	-0.8	-0.6	-1.1	-1.2	-1.3	-1.2
3. Stock-flow adjustment	**0.6**	**-1.1**	**0.3**	**0.3**	**0.0**	**-1.0**	**-0.4**	**0.9**
Of which:								
Cash/accruals diff.								
Accum. financial assets								
Privatisation				0.0		0.0	0.0	0.0
Val. & residual effects								

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, the accumulation of financial assets, and valuation and other residual effects.

Source :

Convergence programme (CP); Commission spring 2012 forecasts (COM); Commission calculations.

Figure. Medium-term debt projection

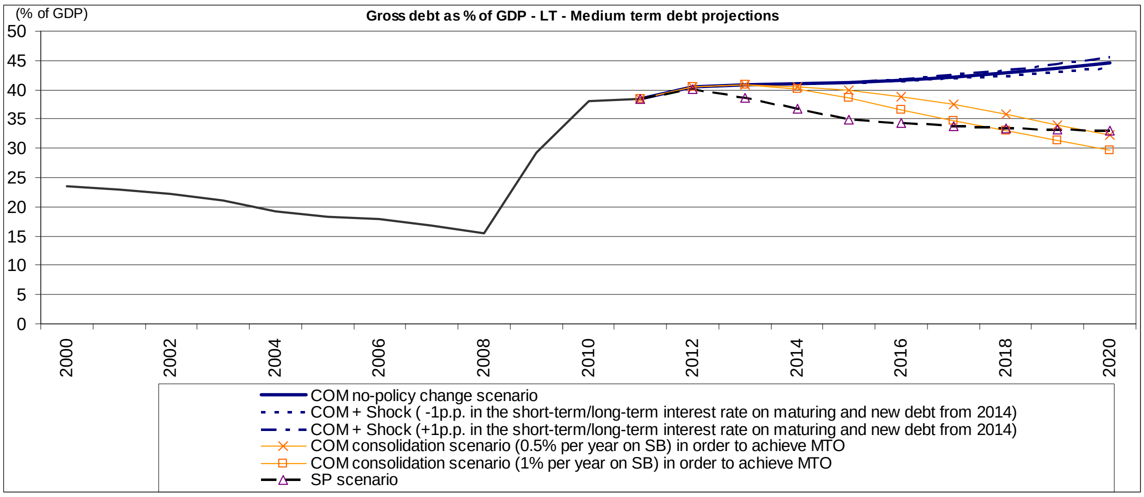

Table V. Long-term sustainability indicators

	LT		EU27	
	no-policy change scenario	**Programme (SP) scenario**	**no-policy change scenario**	**SCPs scenario**
S2	4.3	3.4	2.9	0.7
of which:				
Initial budgetary position (IBP)	0.8	-0.2	0.7	-1.6
Long-term change in the primary balance (LTC)	3.5	3.6	2.3	2.4
of which:				
Pension	2.7	2.9	1.1	1.2
Care (HC and LTC)	1.1	1.0	1.5	1.5
Others	-0.3	-0.3	-0.3	-0.3
S1 (required adjustment)*	-0.1	-1.8	2.2	-0.1
Debt, % of GDP (2011)	38.5		82.8	
Age-related expenditure, % of GDP (2011)	18.1		25.8	

Notes:

The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented).

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Source:

Commission, 2012 stability and convergence programmes.

Table VI. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.5	28.4	29.5	30.0	29.2	27.1
Decomposition by economic function (% of GDP)[1]						
Consumption	11.5	10.7	11.3	11.3	11.2	11.5
of which:						
- VAT	7.3	7.1	8.1	8.0	7.4	7.9
- excise duties on tobacco and alcohol	1.2	1.2	1.3	1.5	1.6	1.5
- energy	1.8	1.7	1.6	1.5	1.9	1.8
- other (residual)	1.1	0.7	0.3	0.4	0.3	0.3
Labour employed	15.3	14.2	14.2	14.5	14.7	13.1
Labour non-employed	0.1	0.2	0.2	0.3	0.3	0.3
Capital and business income	1.3	2.7	3.2	3.4	2.6	1.7
Stocks of capital/wealth	0.7	0.6	0.6	0.5	0.7	0.7
p.m. Environmental taxes[2]	2.5	2.3	1.8	1.6	2.0	1.9
VAT efficiency[3]						
Acctual VAT revenues as % of theoretical revenues at standard rate	50.7	51.6	60.9	57.7	46.3	49.0

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission services

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	82.8	81.6	98.4	93.3	81.3
Share of assets of the five largest banks (% of total assets)	80.9	81.3	80.5	78.8	…
Foreign ownership of banking system (% of total assets)	83.7	84.8	83.4	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1)]	1.0	4.6	19.3	23.3	21.1
- capital adequacy ratio (%) [2)]	10.9	12.9	14.2	14.8	13.5
- return on equity (%) [3)]	25.9	13.5	-48.4	-4.6	15.3
Bank loans to the private sector (y-o-y % change)	42.9	18.8	-8.9	-6.5	-7.0
Lending for house purchase (y-o-y % change)	60.0	27.1	-1.6	0.0	-1.7
Loan to deposit ratio	161.9	196.1	168.8	145.8	133.3
CB liquidity as % of liabilities	0.0	0.0	0.0	0.0	0.0
Banks' exposure to countries beneficiary of official financial assistance (% of GDP)	…	…	…	…	…
Private debt (% of GDP)	59.3	62.4	69.2	62.5	…
Gross external debt (% of GDP) [4)]					
- Public					
- Private	25.3	25.9	25.5	25.0	24.1
Long term interest rates spread versus Bund (basis points)*	32.9	162.3	1078.2	282.3	255.2
Credit default swap spreads for sovereign securities (5-year)*	…	529.2	482.6	258.9	234.9

Notes:

1) From 2005 to 2007, loans overdue 60 days and more. From 2008 onwards, non-impaired loans overdue more than 60 days plus impaired loans. Latest September 2011.

2) The capital adequacy ratio is defined as total capital devided by risk weigthed assets.Latest September 2011.

3) Net income to equity ratio. After extraordinary items and taxes. Branches of foreign banks are excluded. Latest September 2011.

4) Latest data 2011Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	71.6	72.9	72.0	67.2	64.4	67.2
Employment growth (% change from previous year)	1.7	2.3	-0.9	-6.8	-5.1	2.0
Employment rate of women (% of female population aged 20-64)	68.3	69.5	68.8	67.5	65.1	66.7
Employment rate of men (% of male population aged 20-64)	75.2	76.5	75.5	66.9	63.6	67.7
Employment rate of older workers (% of population aged 55-64)	49.6	53.4	53.1	51.6	48.6	50.5
Part-time employment (% of total employment)	10.1	8.7	6.9	8.5	8.2	8.9
Part-time employment of women (% of women employment)	12.2	10.4	8.8	9.7	9.5	10.7
Part-time employment of men (% of men employment)	8.0	7.1	5.0	7.1	6.8	7.0
Fixed term employment (% of employees with a fixed term contract)	4.5	3.5	2.4	2.2	2.4	2.8
Unemployment rate[1] (% of labour force)	5.6	4.3	5.8	13.7	17.8	15.4
Long-term unemployment[2] (% of labour force)	2.5	1.4	1.2	3.2	7.4	8.0
Youth unemployment rate (% of youth labour force aged 15-24)	9.8	8.2	13.4	29.2	35.1	32.9
Youth NEET[3] rate (% of population aged 15-24)	8.2	7.0	8.9	12.4	13.5	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	8.2	7.4	7.4	8.7	8.1	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	38.9	38.9	41.6	43.7	46.4	:
Labour productivity per person employed (annual % change)	5.9	6.8	3.6	-8.6	6.9	3.8
Hours worked per person employed (annual % change)	-0.8	1.1	1.6	-2.3	1.0	-1.3
Labour productivity per hour worked (annual % change; constant prices)	6.7	5.7	1.9	-6.5	5.8	5.2
Compensation per employee (annual % change; constant prices)	9.4	4.8	4.2	-6.4	-2.9	-1.8
Nominal unit labour cost growth (annual % change)	10.2	6.6	10.4	-1.4	-7.3	-0.3
Real unit labour cost growth (annual % change)	3.3	-1.9	0.6	2.4	-9.1	-5.4

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Table VIII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	3.83	4.10	4.26	4.60	5.40
Invalidity	1.32	1.35	1.44	1.62	2.09
Old age and survivors	5.40	5.23	6.00	6.40	8.37
Family/Children	1.17	1.14	1.20	1.87	2.83
Unemployment	0.37	0.40	0.39	0.39	0.90
Housing and Social exclusion n.e.c.	0.00	0.00	0.00	0.00	0.00
Total	13.2	13.4	14.4	16.1	21.3
of which: Means tested benefits	0.27	0.23	0.20	0.26	0.49
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	35.9	28.7	27.6	29.5	33.4
Risk-of-poverty or exclusion of children (% of people aged 0-17)	37.2	29.9	29.4	31.0	34.3
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	41.3	39.1	38.1	35.8	30.0
At-risk-of-poverty rate[2] (% of total population)	20.0	19.1	20.0	20.6	20.2
Value of relative poverty threshold (single household per year) - in PPS	2772	3428	4170	4382	3615
Severe material deprivation[3] (% of total population)	25.3	16.6	12.3	15.1	19.5
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	8.3	6.4	5.1	6.9	9.2
In-work at-risk-of poverty rate (% of persons employed)	9.9	8.0	9.4	10.4	12.3

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:

For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	5.9	6.8	3.6	-8.6	6.9	2.8
Labour productivity[1] in manufacturing (annual growth in %)	8.1	3.1	1.7	-3.2	17.6	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	2.7	4.8	3.3	-25.1	20.9	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	0.3	0.2	0.2	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	210	210	275	275	275
Time to start a business[3] (days)	n.a.	26	26	26	22	22
R&D expenditure (% of GDP)	0.7	0.8	0.8	0.8	0.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	31.4	38.0	39.9	40.6	43.8	n.a.
Total public expenditure on education (% of GDP)	5.2	4.7	4.9	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

*figure for 2007.

Source:

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Indicators on green growth

Lithuania		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.58	0.44	0.44	0.43	0.46	0.36
Carbon intensity	kg / €	1.37	1.20	1.17	1.09	1.15	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.17	2.13	2.30	2.37	1.89	n.a.
Waste intensity	kg / €	n.a.	0.39	0.34	0.31	n.a.	n.a.
Energy balance of trade	% GDP	-1.5%	-3.3%	-4.2%	-5.8%	-4.2%	-7.2%
Energy weight in HICP	%	14	13	13	13	13	14
Difference between change energy price and inflation	%	0.98	3	5.2	9.1	12	6.4
Environmental taxes over labour taxes	ratio	17.6%	12.4%	12.2%	11.1%	13.6%	n.a.
Environmental taxes over total taxes	ratio	9.2%	6.2%	6.0%	5.5%	7.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.24	0.20	0.19	0.15	0.17	n.a.
Share of energy-intensive industries in the economy	% GDP	8.6	8.6	9.0	8.7	8.1	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	n.a.	0.05	0.05	0.08	0.09	0.10
Public R&D for energy	% GDP	n.a.	0.01%	0.00%	0.00%	0.00%	n.a.
Public R&D for the environment	% GDP	n.a.	0.03%	0.02%	0.02%	0.01%	n.a.
Recycling rate of municipal waste	ratio	0.0%		3.8%	4.0%	4.4%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	27.8%	23.9%	25.4%	26.8%	n.a.
Transport energy intensity	kgoe / €	0.66	0.56	0.56	0.52	0.46	n.a.
Transport carbon intensity	kg / €	2.06	1.69	1.66	1.53	1.35	n.a.
Change in the ratio of passenger transport and GDP	%	n.a.	3.9%	-9.2%	-5.9%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	48.0%	63.4%	62.3%	59.2%	51.2%	n.a.
Diversification of oil import sources	HHI	n.a.	0.96	0.93	0.93	0.99	n.a.
Diversification of energy mix	HHI	0.32	0.27	0.28	0.28	0.29	n.a.
Share of renewable energy in energy mix	%	8.2%	9.3%	8.8%	9.2%	10.5%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents