

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Lithuania's 2012 national reform programme and delivering a Council opinion on Lithuania's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 27 April 2012, **Lithuania** submitted its convergence programme covering the period 2012-2015 and, on 30 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 convergence programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible**. It is broadly in line with the Commission's 2012 spring forecast for 2012 and 2013.

The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2012 as recommended by the Council. 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.

General government debt is projected to remain below 60% of GDP over the programme period, increasing to nearly 41% of GDP in 2013, according to the Commission's 2012 spring forecast, while the convergence programme targets the debt to decrease to around 35% by 2015.

According to the Commission, the **main policy challenges** for the country are as follows:

- Measures were implemented in 2011, which reinforced tax compliance and yielded additional revenue. However, continuing implementation will be required to advance significantly against tax evasion.

- Demographic developments cast serious doubts on the sustainability of the pension system. Although Lithuania adopted a gradual increase in the pension age to 65 years by 2026, this alone will not ensure a sustainable and adequate retirement income in the future and needs to be complemented with additional measures.
- Additional measures to enhance participation in the labour market, especially for young people, unskilled persons and older workers, and to improve labour market flexibility are necessary.
- The challenge of youth unemployment (above 30%) and low-skilled unemployment became especially evident during the crisis. The government is implementing a
- number of measures to promote youth employment, such as first job subsidies and reduced social security contributions. Nevertheless, activation rates remain too low
- and the financial allocations for active labour market policies could be used more effectively by targeting public works to the most vulnerable.
- Around one third of the Lithuanian population is facing the risk of poverty and longterm exclusion. This is the fourth highest figure in the EU.
- The government has been undertaking an ambitious reform of state-owned enterprises since 2010, aiming to restructure corporate governance, increase transparency and separate ownership and regulatory functions, and increase competition and efficiency. However, the government has postponed some parts of the reform, in particular the separation of commercial and non-commercial activities of state-owned enterprises, and intends to implement them in 2012.
- Further substantial and accelerated efforts are needed to improve energy efficiency of buildings.
- There is scope for shifting taxation towards energy use as revenue from environmental taxes is the third lowest in the EU, while transport taxes are the lowest in the EU. 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.
- The country's energy system infrastructure lacks competition and interconnections and this is a factor that hinders growth. Insufficient interconnections hinder the emergence of competition in energy markets. Concentration remains high (above 90 %) in both the gas and electricity markets.

Recommendations proposed for Lithuania for the period 2012-2013:

Budgetary measures:

- ensure planned progress towards the timely correction of the excessive deficit;
- to this end, fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure; thereafter, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective, including meeting the expenditure benchmark, while minimising cuts in growth-enhancing expenditure;
- consider increasing taxes least detrimental to growth, such as housing and environmental taxation, including car taxation, while reinforcing tax compliance;
- strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework.

Pension system:

- adopt legislation on a comprehensive pension system reform;
- align the statutory retirement age with life expectancy, establish clear rules for the indexation of pensions, and improve complementary savings schemes;
- underpin pension reform with active ageing measures.

Labour market, employment:

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- tackle high unemployment, in particular among youth, low-skilled and long-term unemployed, by focusing resources on active labour market policies while improving their efficiency. enhance the effectiveness of apprenticeship schemes;
- amend the labour legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements;
- increase work incentives and strengthen the links between the social assistance reform and activation measures, in particular for the most vulnerable, to reduce poverty and social exclusion.

State-owned enterprises:

- implement all aspects of the State-Owned Enterprise reform package and in particular ensure a separation of ownership and regulatory functions and a separation of commercial and non-commercial activities;
- install appropriate monitoring tools to assess the effectiveness of the reforms and ensure compliance of all State-Owned Enterprises with the requirements of the reform.

Energy:

- step up measures to improve the energy efficiency of buildings, including through removing disincentives and a rapid implementation of the Holding Fund;
- promote competition in energy networks by improving interconnectivity with EU countries for both electricity and gas.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.