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Assessment of the 2014 national reform programme and convergence programme for LITHUANIA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Lithuania's 2014 national reform programme and delivering a Council opinion on Lithuania's 2014 convergence programme

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CONTENTS

EXECUTIVE SUMMARY

Lithuania's economy is expected to continue its positive performance in 2014 with real GDP projected to reach 3.3%, at 2013 levels, according to the European Commission 2014 spring forecast. With unemployment set out to fall further to 10.6 % this year, confidence is expected to remain high, further strengthening investment and private consumption.

Overall, Lithuania has made some progress in addressing the country-specific recommendations issued in 2013. Final laws setting out the comprehensive reform of state-owned enterprises were drafted in 2013 and early 2014. A number of measures relating to pensions accumulation and social assistance have been adopted. Steps have been taken to accelerate housing renovation with the aim of increasing energy efficiency. Only limited progress has been made in reviewing the tax system and Lithuania continues to have one of the lowest tax-to-GDP ratios in the EU. The country still faces challenges relating to the sustainability of its public finances in the medium term, although its deficit is forecast to remain below 3% of GDP.

To further stimulate economic growth and secure adequate financing going forward, Lithuania will need to continue improving productivity, growth and competitiveness without losing sight of social concerns, in particular high unemployment and poverty. The national reform programme and the convergence programme appropriately address most of the challenges which have been identified in this staff working document. However, some issues are not comprehensively tackled and certain measures could be defined in a more detailed and ambitious manner. The following fields have been identified as particular challenges for Lithuania:

- **Fiscal sustainability**: Lithuania's fiscal performance has improved since the crisis but progress towards the fiscal medium-term objective is set to remain insufficient. Consolidation has been largely driven by cuts in expenditure, but possibilities in this area seem to be exhausted. Fiscal buffers could help to better protect the economy against external shocks. Tax revenue is to a large extent dependent on indirect and labour taxation while the percentage of revenue contributed by environmental taxation remains low. There are some risks to the sustainability of the current pension system as it does not adequately take into account the effects of an ageing society.
- **Labour market**: structural and long-term unemployment remain at high levels. Youth unemployment has fallen somewhat but remains high. There are signs of skills mismatches and a lack of flexibility in the institutional set-up of the labour market. In the medium term it is crucial to ensure a supply of qualified labour.
- **Education and research**: despite the high percentage of population with tertiary-level education, Lithuania faces skills mismatches. Apprenticeship schemes are not widely used and the uptake of vocational education and training and career guidance could be improved. Lithuania's performance in research and innovation remains poor in comparison with the EU average, which may have repercussions for long-term growth prospects.
- **Social cohesion**: The proportion of people at risk of poverty and social exclusion in Lithuania remains among the highest in the EU. Monetary poverty among specific groups has increased, as has the proportion of the population classed as severely materially deprived, both of which are a serious concern. At the same time, the average level of health remains among the worst in the EU, as evidenced by the low life expectancy for men.

- **Energy**: connections with EU neighbours remain underdeveloped, limiting competition and cementing Lithuania's energy dependence. Although several projects are being implemented to improve the situation, it will still be some time before they are finalised. Furthermore, Lithuania remains one of the most energy-intensive economies in the EU, further exacerbating its need for energy imports. Improvements to energy efficiency are therefore of major importance, both in the housing and transport sectors. At the current rate of progress, greenhouse gas emission reduction targets are likely to be missed.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Lithuania. On the basis of these recommendations, the Council of the European Union adopted six CSRs in the form of a Council Recommendation in July 2013. These CSRs related to public finances, pensions, the labour market, poverty and social exclusion, state-owned enterprises (SOEs), energy efficiency and infrastructure. This staff working document (SWD) assesses the current level of progress in implementing these recommendations in Lithuania.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014 (AGS)[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary common understanding of the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 16 Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission Communication.[3]

On the basis of the 2013 Council Recommendation, the AGS and the AMR, Lithuania presented her national reform programme (NRP) on 15 April 2014 and her convergence programme on 23 April 2014. These programmes provide detailed information on progress made since July 2013 and on the government's plans. The information contained in these programmes provides the basis for the assessment made in this SWD.

As in previous instances, the programmes submitted underwent a consultation process involving an inter-institutional working group comprising representatives of ministries, the Bank of Lithuania and the statistical office. Social and economic partners and public organisations representing different interest groups were invited to submit proposals for consideration in the national reform programme. The final document was discussed in the national parliament and approved by the government on 31 March 2014.

2. ECONOMIC SITUATION AND OUTLOOK

Economic Situation

In 2013 and early 2014, growth and employment in Lithuania remained strong despite a challenging external environment and continued fiscal consolidation. Domestic demand became the main driver of growth, supported by both a significant rise in household consumption and an increase in private and public investment, and final GDP growth reached

[1] COM(2013) 800 final
[2] COM(2013) 790 final
[3] Apart from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

3.3% in 2013. Net exports became increasingly negative, driven in particular by lower exports of energy products and to a lesser extent by the comparatively weaker harvest in 2013 than in 2012. Inflation (as measured by the harmonised index of consumer prices) fell further to 1.2% in 2013, mainly driven by slower growth of energy and food prices on the world market. Employment continued to grow, albeit at a slower pace, and the unemployment rate decreased further to 11.8% (from 13.2% in 2012). While low-skilled people in particular continue to struggle to find work, there is also evidence suggesting labour shortages in some sectors.

Economic Outlook

According to the Commission 2014 spring forecast, strong domestic demand is expected to support sustained GDP growth going forward. Lithuania's GDP is expected to grow by 3.3% in 2014 with growth accelerating to 3.7% in 2015. The composition of growth is forecast to remain similar, with increasingly negative net exports compensated by strong domestic demand. The growth in credit is expected to pick up gradually thus further encouraging private investment. Inflation is forecast to remain subdued at 1.0% in 2014, mirroring the continued stagnation of commodity prices, and is expected to increase moderately to 1.8% in 2015. Unemployment is expected to continue falling, reaching predicted levels of 10.6% in 2014 and 9.7% in 2015, in line with economic growth.

The convergence programme and the NRP share the same economic outlook. Growth is expected to average 4.0% over the period 2014-2017, further reducing unemployment to 6.5%. While the overall scenario is broadly in line with the Commission's 2014 spring forecast, GDP growth rates and projected reductions in unemployment seem somewhat optimistic.

The macroeconomic scenario set out in the convergence programme does not include a quantification of the impact of structural reforms.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

In its 2014 convergence programme, Lithuania is planning to continue improving its fiscal position and to make progress towards the medium term budgetary objective (MTO). The new programme maintains the MTO of a structural general government deficit of 1% of GDP, which reflects the objectives of the Stability and Growth Pact. The programme foresees reaching the MTO in 2015 with planned annual progress of at least 0.5% of GDP in structural terms on the basis of the (recalculated) structural balance[4]. However, according to the Commission 2014 spring forecast the annual progress towards the MTO in 2014 amounts to only 0.2% before increasing to 0.6% in 2015, thus the MTO is not expected to be reached by 2015[5]. The planned nominal consolidation path in the 2014 convergence programme is slower than presented in the previous programme despite a better than planned 2013 general government deficit, while keeping the objective to reach a nominal surplus in 2016.

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

[5] The difference is the result of a divergent path in potential growth rates over the programme period as estimated by the programme and the Commission. The convergence programme also classifies some measures as one-off, contrary to the Commission.

Lithuania made some progress in implementing the fiscal CSR, in particular with respect to deficit reduction. Lithuania's general government deficit was at 2.2% of GDP in 2013 after 3.2% of GDP a year before. The 2013 deficit outcome was better than the revised budgetary target of 2.9% of GDP and the initial 2013 convergence programme target of 2.5% of GDP. Progress was in large part due to expenditure restraint and supported by solid economic growth, in particular unexpected underspending at central government level and unplanned additional non-tax revenue coming from land sales. Overall, tax revenues met 2013 budget plans with a strong collection of direct taxes compensating a shortfall in indirect tax revenues. An improving labour market led to a smaller than planned deficit of the social insurance fund. Local governments recorded a smaller deficit than planned. The structural deficit decreased from 2.9% of GDP in 2012 to 2.1% in 2013 according to the Commission 2014 spring forecast.

The 2014 convergence programme continues to restrict expenditure growth and targets a fiscal deficit of 1.9% of GDP in 2014. While the general public sector wage freeze has been extended to 2014, the government had to revert parts of previous public wage cuts following a Constitutional Court ruling in autumn 2013. The government has also reverted cuts of state and other specific pensions with effect in 2014. The reduced VAT rates have been extended. In addition, the increase in the non-taxable personal income allowance is expected to result in lower tax revenues in 2014. Higher excise duties on cigarettes and alcohol to become effective in spring 2014 are only expected to partially compensate extended and new tax exemptions. Thus, the new discretionary fiscal measures are set to increase the general government deficit in 2014. The authorities also take into account sizable additional revenues from improved tax compliance, in particular for indirect taxes in 2014. However, previous experience indicates that these efforts result rather in small revenue improvements. Taking these reservations into account, the Commission 2014 spring forecast predicts a more moderate improvement in the general government budget balance to 2.1% of GDP. The Commission estimates a decline in the structural deficit from 2.1% of GDP in 2013 to 1.9% of GDP in 2014, whereas the (recalculated) structural deficit of the programme is set to shrink to 1.6% of GDP in 2014.

The fiscal improvement is expected to continue in 2015 at a faster pace both in nominal and structural terms. In the absence of significant policy measures, the Commission expects the general government deficit to narrow to 1.6% of GDP in 2015 compared with a programme target of 0.9% of GDP. The revenue-to-GDP ratio in the 2014 convergence programme is projected to stay at 32.3% in 2014 and 32% 2015 and the expenditure-to-GDP ratio is expected to fall from 34.2% to 32.9% of GDP in the same years. These developments are broadly in line with the Commission 2014 spring forecast, which expects marginally lower revenue- and slightly higher expenditure-to-GDP ratios. The Commission estimates a decline in the structural deficit to 1.3% in 2015, whereas the (recalculated) structural deficit of the programme is set to shrink to 0.8% of GDP in 2015. The measurable difference between Commission's estimate and the (recalculated) structural deficit is mainly due to the Commission's assumption that no further policy measures are undertaken.

The envisaged improvement in the fiscal position over the programme period is largely driven by restraint in expenditure growth and robust economic growth. While the Law on Fiscal Discipline limits expenditure growth, the programme does not define specific revenue measures, which might be required to offset the end of temporary expenditure freezes. In addition, pressure to increase public wages as well as social benefits after an extended period of restraint might require recourse to revenue measures to be able to reach the programme's fiscal targets until 2017.

The projected consolidation path is subject to a number of risks, especially if Lithuania's economic growth evolves less dynamically than expected. The growth prospects of this small open economy depend considerably on the development of its main trading partners. The authorities' commitment to imbed fiscal discipline rules in constitutional law and their intention to start accumulation of fiscal reserves are steps in the right direction, but implementation is still outstanding. The constitutional court ruled that some cuts in pensions and public wages undertaken during the crisis were not in line with the constitution and repayments would be required. Accordingly, the Lithuanian government has submitted a draft law on the compensation of some pensions to parliament. If enacted, this would increase the 2014 deficit by 0.4 pp of GDP. No decision has been taken on when and how to compensate the remaining pensions as well as the cuts in public wages, thus the 2015 deficit may be higher than currently projected.

Fiscal framework

In 2013, Lithuania received a CSR concerning the strengthening the fiscal framework. The country was in particular invited to secure enforceable and binding expenditure ceilings within the medium-term framework. While some draft laws have been discussed in relation to the transposition of the Fiscal Compact into national legislation, none has been fully finalised to date. Thus, no progress has been recorded in addressing this CSR.

Lithuania's medium-term budgetary framework specifies general government revenues and expenditure for three years. These multiannual targets appear to be non-binding however and the framework does not make a clear connection between the medium-term targets and the annual budgets. The framework also includes fiscal rules applicable specifically to central and local levels of government. At central level, the government has to respect a limit on net borrowing and take into account revenue and expenditure rules relating to 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 included in the 2007 law on fiscal discipline links expenditure ceilings to revenues. It has exerted a disciplinary effect on expenditure in the planning of the 2013 and 2014 budgets, as it precluded use of an escape clause based on low economic growth which had previously been available. The objectives set by this law are to achieve a balanced budget in the medium term and sustainability of government expenditure in the long term, but it stops short of establishing a binding medium-term expenditure framework. The 2014 fiscal deficit target was revised upwards despite the fact that the country outperformed its 2013 target. Local government deficits are limited by yearly limits on their net borrowing, supplemented by obligations to decrease arrears. Amendments to laws governing the national budget, which aim to implement inter alia Council Directive 2011/85/EU on requirements for budgetary frameworks and to target a balanced or surplus position over the cycle, were in full force for the first time for the 2014 budget planning and execution process. These amendments extend the government's accountability for the implementation of multiannual fiscal targets.

The ratification of the intergovernmental Treaty on Stability, Coordination and Governance in the economic and monetary union marks a step forward in Lithuania's work on the reform of budget planning and execution. A draft legislative package featuring the constitutional law on the sustainability of general government sector finances, in accordance with the Treaty's requirements, has been finalised. It aims to elevate the structural budget-balance rule to constitutional level and reinforce the binding character of the medium-term framework. The transposition of the Treaty into national law would furthermore support existing legislation, in particular the law on fiscal discipline adopted in 2007. It is expected that the National Audit Office will be tasked with the functions of an independent fiscal council. If the fiscal council is to be set up as an entity within the National Audit Office, it should be granted independent status and supported by provisions guaranteeing its autonomous functioning. Its legal independence will be strengthened. The national central bank is to support the National Audit Office by providing macro-economic expertise. The government submitted the legislative package to parliament with discussions expected to be concluded during the 2014 spring session.

Long-term sustainability

Government debt (39.4% of GDP in 2013 and expected to rise to 41.4% in 2015) is below the 60% of GDP Treaty threshold and projected to rise by 2030 although remaining below the reference value. However, the full implementation of the convergence programme would put debt on a decreasing path by 2030.

Lithuania appears to face low fiscal sustainability risks in the medium-term. The medium-term sustainability gap[6], showing the adjustment effort up to 2020 required to bring debt ratios to 60% of GDP in 2030, is at -1.0% of GDP, primarily related to the low level of government debt (41.4% of GDP in 2015). In the long-term, Lithuania appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 3.8 pp. of GDP over the very long run, in particular due to the pension component. The long-term sustainability gap[7] shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 4.3% of GDP.

Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for Lithuania to further contain age-related expenditure[8] growth to contribute to the sustainability of public finances in the medium/long term.

Tax system

In 2013, Lithuania received a CSR on reviewing the tax system. The authorities were invited to consider increasing the taxes least detrimental to growth, such as recurrent property and environmental taxation, including by introducing car taxation, while continuing to reinforce tax compliance. Overall, only limited progress has been recorded in addressing the CSR.

Lithuania's tax-to-GDP ratio remains the lowest in the EU, at 27.2% of GDP in 2012. In terms of revenue structure, Lithuania relies to an equal extent on indirect taxes and social

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[6] See Table 5. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year until 2020 after the last year covered by the 2014 spring forecast (year 2015) is required (indicating a cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[7] See Table 5. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

[8] Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits. See the 2012 Ageing Report for details.

security contributions[9] while direct taxes accounted for just 18% of total taxation (4.9% of GDP), the lowest proportion in any EU country. Taxes on capital are also considerably lower than the weighted average for the EU (3.8% compared to 8.2%). Given the comparatively low level of taxation, Lithuania has scope to strengthen its fiscal sustainability by means of measures to increase revenue. Although Lithuania's fiscal performance has improved in 2013, supplementary cuts to expenditure offer only limited potential for further progress towards the medium-term objective. An increase in fiscal revenues could play an important role in further improving Lithuania's fiscal balance and strengthening fiscal buffers giving the economy more room to react to adverse external shocks. This increase in revenue could be achieved by means of further improvements in tax compliance, and by raising additional revenues from those taxes considered less detrimental to growth such as property and environmental taxation, which are currently at very low levels. In addition to facilitating fiscal consolidation, increased revenue could also be used to rebalance taxation by alleviating the tax burden on low income earners. Such measures could potentially have positive effects on employment.

The results achieved by a working group on tax reform set up by the government in early 2013 were limited and no major changes to the tax system were introduced. Instead, only minor amendments were made to the tax code. These included adjustments of capital taxation, an increase in the non-taxable income allowance and higher excise duties for tobacco and alcohol. Overall, however, these measures will have a negative effect on revenues. More far-reaching proposals on the design of taxes and social contributions were not considered and the activities of the tax reform group were suspended in summer 2013. Debates at political level on progressive personal income taxation, car taxation and an extension of the scope of immovable property taxation have been inconclusive.

Recurrent property taxation continues to contribute a relatively small amount to tax revenue despite the broadening of the tax base in 2012.[10] Although higher tax rates and a market-based system for the assessment of property values have been introduced, the current structure of the immovable property tax continued to be characterised by numerous exemptions which undermine its efficiency. No additional measures were taken to address the 2013 CSRs.

Environmental taxes offer another possible option for increasing revenue, in a way which has a less distortive effect on the economy, while at the same time addressing environmental objectives and reducing the currently high level of energy dependency. In 2012, environmental taxes raised revenues of just 1.7% of GDP, the second lowest level in the EU (at EU level environmental taxes raised revenues of 2.4% of GDP). This is in particular due to the very low level of transport taxes and lower-than-average excise duties on energy products. Furthermore, the implicit tax rate on energy is less than half the EU average. There seems therefore to be ample scope for an increase in environmental taxation, with beneficial effects both for public finances and the environment, while at the same time reducing the country's high energy dependency. As Lithuania is one of only two Member States without any form of car taxation or road use tax for passenger vehicles,[11] consideration could be given to an annual circulation tax for passenger cars. Given the very high proportion of municipal waste currently sent to landfill, there would be potential for a landfill tax, as is currently being discussed in parliament**.**

Lithuania continues to face challenges in terms of tax compliance, in particular regarding indirect taxation. In accordance with the 2013 recommendation, some progress has been made to strengthen tax enforcement. A recent study covering all EU Member

[9] 11.4% of GDP and 41.9% of total taxation and 11 % of GDP and 40.4 % of total taxation respectively.
[10] In 2012 they accounted for only 0.3% of GDP (EU: 1.5%) and remained broadly stable in 2013.
[11] The other being Estonia.

States[12] confirms however that there is a high level of non-compliance and non-collection of VAT in Lithuania. Indeed, the VAT gap — the difference between the theoretical VAT revenues according to the law and the actual revenues — is more than twice the EU average.[13] The 'undercollection' of indirect taxes in 2013[14] seems to confirm the importance of further strengthening tax compliance measures, given in particular Lithuania's strong reliance on VAT and excise duties for overall tax revenue. There is also further scope to improve VAT collection, focusing on trading activities prone to tax avoidance.[15] The state tax inspectorate has continued to implement the 2013-14 tax compliance action plan which focuses on the most common tax evasion practices and measures to improve voluntary compliance. While a new tax compliance strategy for 2014-17 and a new action plan for 2014-15 have been approved, a thorough evaluation of the effectiveness of past measures could help in designing future policies.

3.2. Financial sector

The Lithuanian banking sector remains stable, due in part to continued strict supervision by the Bank of Lithuania. Scandinavian banks dominate the financial sector with a market share of around 90%. The years 2012 and 2013 saw the well-managed closure of two domestic banks and several credit unions, without any negative impact on confidence in the Lithuanian banking sector.

While banks continue to deleverage, the pace has slowed considerably, with the loan-to-deposit ratio now approaching 115% having reached a peak of 160% in 2009. Capital adequacy remains comfortably above the required minimum threshold, with the banking sector's overall capital adequacy ratio at 17.6%. Banks' liquidity ratios are at a level of around 40%. The proportion of non-performing loans continues to fall, reaching 11% in late 2013. At the same time, impaired loans accounted for 4% of loan capital. Profitability has returned meanwhile and the overall business outlook for the banking sector seems positive.

Credit growth in 2013 remained sluggish as a result of subdued demand and the strict lending conditions imposed by major banks. According to the latest data for 2013, the value of commercial loans increased by around 2% compared to the previous year. Demand for credit was dampened by uncertainty about the external economic environment, particularly in the euro area, as well as the experience of the recent domestic economic and financial crisis. In addition, many companies still have sufficient reserves to finance investment without needing to obtain credit. The largest banks continue to focus their business on large companies and major economic centres with lower risk profiles, to the detriment of smaller companies that may experience difficulties in gaining access to credit. Many SMEs received external funding with supplementary conditions, indicating they had to pledge additional assets or provide additional personal or state guarantees or guarantees from guarantor institutions. In future, when demand for credit has picked up, it will be crucial to ensure access to credit in particular for SMEs and in rural areas. In view of this, the effective use of EU funds is critical and the government can benefit from the experience gained during the last programming period, when it implemented several measures to promote access to finance for SMEs, including the provision of risk capital and credit for investment.

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[12] Study to quantify and analyse the VAT gap in the EU27 Member States: Final Report (2013), TAXUD/2012/DE/316.
[13] In 2011 the VAT gap was estimated to be 4.4% of GDP in Lithuania compared to 2.1% at the EU level.
[14] VAT and revenue from excise duties were 4% and 2%, respectively, below the expected amounts.
[15] See also the recent European Commission report on VAT collection and control procedures, COM(2014) 69 final.

The banking sector supervisor handled the resolution of the domestic banks Snoras (2012) and Ukio (2013) very effectively. Currently, new legislation is prepared with technical assistance from the IMF, to address repeated stability issues relating to credit unions (around 3% of financial sector). In addition, the Bank of Lithuania has started preparations for joining the banking union and the single supervisory mechanism.

3.3. Labour market[16], education and social policies

Positive economic developments in Lithuania were reflected in the improving labour market situation in 2013. Unemployment remains high, however, in particular among the low-skilled. Persistent structural and long-term unemployment, as well as large geographical differences in joblessness, are a particular concern. Lithuania's unemployment rate stood at 11.8% in 2013, down from 13.3% in 2012, while long-term unemployment fell to 5.0% (from 6.5% in 2012).[17] Youth unemployment fell from 26.7% to 21.9%. In the same period, labour market participation increased to 69.9% (from 68.7% in 2012), a level still below the national Europe 2020 target of 72.8%. Whilst signs of a tightening labour market are beginning to show, with evidence of skill mismatches and labour shortages in some sectors, no major acceleration of wage growth has been observed to date. Devising active labour market policies (ALMPs) of sufficient scope and quality, whose effects reach the intended target groups, continues to be a challenge. Although Lithuania is performing well relative to the Europe 2020 education targets, participation in lifelong learning is low and the reform of vocational education and training is only at an early stage. The proportion of the population at risk of poverty and social exclusion remains high at 32.5% in 2012, above the national target for 2020 and pre-crisis levels. There is still significant work to be done to achieve long-term sustainability of the pension system. The main priorities in this area are a reform of the first pension pillar, aligning the pensionable age with life expectancy and ensuring the employability of older workers.

In 2013, Lithuania received CSRs relating to pensions, the labour market, and poverty and social exclusion. The authorities were invited to tackle high unemployment rates with particular consideration to be given to the difficulties faced by the low-skilled, long-term unemployed and young people. The measures recommended included improving the scope and efficiency of ALMPs, improving the quality of apprenticeship schemes, tackling skills mismatches and increasing the flexibility of labour legislation where appropriate. In addition, the authorities were urged to introduce a comprehensive reform of the pension system, aligning the statutory retirement age with life expectancy and establishing clear rules for pension indexation. They were also invited to target poverty and social exclusion by inter alia further strengthening the links between cash social assistance reforms and activation measures.

Labour Market and Education

Despite some progress having been made, devising ALMPs of sufficient scope and quality, whose effects reach the intended target group, continues to be a challenge. The re-integration into the workforce of low-skilled people and those with disabilities remains a particular issue. The national employment strategy for 2014–20, adopted in September 2013, aims to reduce long-term unemployment to 3.5% and to increase the proportion of unemployed people benefiting from ALMPs to 50%. Although some ALMPs have been

[16] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.
[17] The proportion of people unemployed for more than 24 months as a percentage of the active population increased from 0.7 % in 2008 to 4.2 % in 2012 and is significantly above the EU average (2.6 %).

revised, the coverage of ALMPs has not increased considerably and remains below 20%. While the new voucher system helped to increase the number of unemployed people following vocational training courses and may be effective in supporting them to find jobs,[18] its employer-oriented nature may disadvantage those distant from the labour market who would require more investments from companies. In addition, the training delivered may not be of sufficiently high quality to give participants the skills they need to return to work, as quality assurance is vague and is not regulated. The proportion of participants in the total ALMP package undertaking public work has decreased from 72% to 65%, but a further reduction could be considered, as the measure provides only income support and does not improve employability. Overall, some progress has been made in response to the CSR related to improving ALMPs.

No significant steps have been taken to increase the flexibility of labour legislation. Regulations relating to individual dismissals and working time remain relatively restrictive, potentially affecting business activity. Also, existing rules appear to be not always strictly enforced, which may be creating variable conditions within the labour market. Conditions could be improved by reviewing current legislation, with the aim of improving labour market flexibility while at the same time ensuring better enforcement of the new rules. In addition, a strengthened framework for and wider application of collective agreements may help to increase labour market flexibility via sector- or firm-specific agreements, as these can establish less strict conditions than are provided for in the labour code.

Box 1. The delivery of a Youth Guarantee[19] (YG) in Lithuania

The most important challenges to deliver a YG in Lithuania are:

- Underdeveloped partnership with employers' organisations, trade unions and youth organisations in the design of the YG, while for the implementation and monitoring of the interventions a network of 15 partners is established.
- Better outreach and registration of NEETs who are not jobseekers, including the foreseen special database for non-registered NEETs
- Lack of a comprehensive analysis of existing schemes, including subsidised employment and entrepreneurship schemes, and of the support needs of the different sub-populations within the group of NEET, to better target the YG and thus increase its effectiveness.
- Quality apprenticeship places remain insufficient and should provide recognised qualifications.

Skills mismatches, exacerbated by the low adult participation rate in lifelong learning, are increasingly leading to labour shortages in certain sectors and are limiting the flexibility of the labour force. While Lithuania has one of the highest rates of tertiary education attainment (51.3% in 2013, compared to the overall EU rate of 36.6%), career guidance for prospective students and the relevance of higher education in general are areas which continue to pose problems. The Lithuanian authorities have increased funding for maths, science and technology studies, reduced the number of higher education institutions, revised curricula and introduced systems for their external evaluation. Furthermore, a graduate career monitoring system is being established. Limited progress has been made

[18] According to national statistics, 95% of those having received vocational training find employment within six months.

[19] Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01): "ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within a period of four months of becoming unemployed or leaving formal education".

however in adapting study programmes and higher education systems to labour market needs. Greater cooperation with employers, modernising curricula and increasing opportunities for work-based learning could address some of the issues faced at present. The rate of adult participation in lifelong learning meanwhile remains one of the lowest in the EU (at 5.6% in 2013, compared to the overall EU rate of 10.7%). While some measures are to be adopted in 2014[20], their implementation and effect will need to be closely monitored going forward. Overall, some progress can be observed in implementing the CSR in the area of skills mismatches.

Low enrolment in vocational education and training and apprenticeship schemes remains a problem. Vocational education and training remains relatively unpopular in Lithuania, with only 28.4% of all secondary education students enrolling in this type of training. At the same time, employment rates amongst those having secondary education are unsatisfactory.[21] The training is perceived as being too theoretical and not sufficiently closely linked to labour market needs. This issue is likely to acquire increasing importance as employment in jobs requiring a 'medium-level qualification' is forecast to increase faster in Lithuania than in the EU as a whole.[22] In late 2013, Lithuania started preparing legislative changes to clarify the concept and status of apprenticeships and work based learning, to create effective schemes for financing these types of training, to promote cooperation between employers and institutions offering vocational education and training and to provide incentives for employers to take on apprentices. If implemented, these measures would be a positive step towards addressing issues in this area, and ought to be prioritised. The measures implemented to date are inadequate and overall there has been limited progress made in addressing this CSR.

Although Lithuania has outperformed its Europe 2020 education targets for early school leaving, enrolment rates in formal early-childhood education and care are low[23] and the standard of basic skills achieved is relatively poor.[24] The low level of educational achievement in these areas could be linked to underdeveloped infrastructure as well as low teaching quality, especially in rural areas, caused by a lack of modern methodologies and pedagogical approaches. Accordingly, the difference in education levels between rural and urban children is considerable.[25] Some efforts have been made to increase participation in early-childhood education and care by increasing the provision and accessibility of facilities but it is too soon to assess their impact.[26] While the overall labour market participation of

[20] A new Council of non-formal adult education was established, a specialists qualifications map drafted and a new 2014-2016 action plan on non-formal education is under preparation.

[21] In 2012, the employment rate of people aged 20-34 with secondary education stood at 61.3% (compared to the overall EU rate of 70%) while the employment rate of people with tertiary education stood at 85.3 % (compared to the overall EU rate of 81.6%).

[22] European centre for the development of vocational training (2012) employment change projections for 2020: high qualification (LT: -8.8%, EU: +19.1%), medium qualification (LT: +17.8%, EU: +4.6%), low qualification (LT +5.2%, EU: -20.2%).

[23] Only 7% of children below the age of three were in education in 2012 (compared to 30% at EU level), and 65% of children aged between three and compulsory school age are in education (compared to 83% at EU level).

[24] See the 2012 OECD Programme for International Student Assessment (PISA). Despite improvement since 2009, the proportion of low achievers is higher than the EU average in reading (21.2% compared to the EU average of 17.8%) and maths (26% compared to the EU average of 22.1%) and close to the EU average in science (16.2% compared to the EU average of 16.6%). There is also a large gender gap in reading, with three times more boys than girls classed as low achievers and more boys than girls leaving education early.

[25] According to the PISA 2012 results the difference between children studying in rural and urban areas is estimated to be 57 points in Lithuania, compared to an average of only 25 points in OECD countries.

[26] 54.6% of all children aged one to six are in early-years or pre-school education, but the participation of children in rural areas is three times lower than that of children living in urban areas.

women is above the EU average, formal childcare remains underdeveloped with low enrolment rates and parents have to rely to a large extent on informal care.[27]

Social policies

Lithuania implemented a reform on the accumulation of pensions (second pillar) but has not addressed the indexation of pensions and recommendations to align the pensionable age with life expectancy. The employability of older workers and the uptake of voluntary saving schemes for old age remain an issue. A total of 33% of those who had paid into the pension accumulation scheme under the previous system have chosen to participate in the newly created scheme of pensions, which includes a monetary incentive financed from the state budget designed to encourage saving for old age. Nevertheless, the rapidly ageing population, recent increases in old-age poverty (from 9.7% in 2011 to 18.7% in 2012) and low theoretical replacement rates raise questions as to the sustainability and adequacy of pensions and highlight the need for further reforms. Linking pensionable age to life expectancy would encourage workers to extend their working lives and would improve the sustainability of pensions. A clear and fiscally sustainable indexation rule for pensions could also help to restrict the scope for politically motivated ad-hoc decisions on pension increases and help to tackle old-age poverty. Additional measures to improve the employability of older workers would be beneficial. Of those registered as unemployed, 21% are aged 50 or over. Although some projects specifically targeting older workers have been introduced, the overall effect on employment has to date been negligible, due to the fragmentary nature of the measures and the lack of coordination in implementing them. The national strategy for enhancing employment for 2014–20 aims to increase the employment rate and the average age on leaving the labour force. The targets do not seem ambitious enough however, considering the gradual increase in retirement age adopted in 2012.[28] Overall, while Lithuania has made some progress in reforming the second pillar of pensions, no progress has been made towards a comprehensive pension system reform.

The proportion of the population at risk of poverty or social exclusion remains above the national target for 2020. The economic recovery has led to an increase in the median income of the population, not of sufficient magnitude however to improve Lithuania's position relative to other EU countries, with its median income still the third lowest in the EU in 2012. The proportion of the population classed as severely materially deprived increased and is more than double the EU average. The monetary poverty rate for single elderly people, unemployed people and people living in scarcely populated areas rose. The at-risk-of-poverty rate for people with disabilities (52.1%) and the employment gap of 39 percentage points between persons with and without disabilities was one of the highest in the EU in 2012. In addition, elderly women are particularly vulnerable to poverty, with an above-EU-average at-risk-of-poverty rate of 38.8% in 2012, 9.1 pp above that of men in the same age group. The Lithuanian authorities have taken some steps to address these issues. The increase in the personal income tax non-taxable thresholds in 2014, together with the increase in the monthly minimum wage by 25% in 2012-13, is expected to help to reduce poverty. The adoption of an action plan for 2014-20 to improve social inclusion is a positive development. The plan lacks precise information on the main target groups, its budget, the measures being proposed and their implementation, however. The planned cooperation between different ministries, local governments and civil society for implementing the action plan is set out only in vague terms. There is scope for reviewing the adequacy and coverage of unemployment and social

[27] 8% of children under the age of three were enrolled in childcare in 2012 (compared to 28% for EU28)

[28] The targets are an employment rate among older workers of 53.5% in 2020 (compared to 50.5% in 2012) and an effective retirement age of 64 (compared to 62.3 in 2012).

assistance benefits, which remain among the lowest in the EU.[29] Overall, only limited progress has been made in addressing this CSR.

A reform to social assistance benefits piloted in five municipalities has significantly reduced the number of people receiving benefits and thus also overall social expenditure. The effects of the reform on social activation and on poverty reduction are less clear however. Following a pilot project, the management of social benefit schemes has been moved to municipal level as of 2014. This allows municipalities to exercise discretion in granting social benefits, with a view to increasing efficiency. The effects of the reform may require careful monitoring to ensure that there is equal access to social assistance in all municipalities. As municipalities have the right to transfer unused funds allocated to social assistance to other programmes, adverse incentives may arise, which could affect the most vulnerable in society. Only limited progress has been made in extending the coverage of activation measures. While these measures have been extended to recipients of benefits without children, the activation measures continue to be mainly focused on public service employment schemes and employment for socially useful activities and thus have only a limited impact on future employability.

Lithuania is facing challenges in the healthcare sector and performs poorly in measures of population health status relative to the rest of the EU. Despite improvements, the country continues to be ranked last for life expectancy at birth with a life expectancy of 73.4 years in 2012 (compared to an EU average of 79.6 years) and had the highest gender gap between women and men (11.2 years). It also experienced the smallest decline in all causes of mortality between 2003 and 2010 and regional disparities continue to feature strongly. At the current rate of improvement, Lithuania is likely to continue lagging behind its European peers in healthcare indicators. In recent years, Lithuania has implemented several reforms, including a reform of its pharmaceutical policy and a reorganisation of its hospital network. Successful measures were taken to reduce infant mortality and the number of road deaths, although the latter continue to be far above the EU average and further efforts would be welcome.[30] The healthcare system seems to be oriented too strongly towards curative and hospital care however, while policies relating to prevention, primary care and outpatient practices could be strengthened. Going forward, a thorough analysis of the effectiveness of healthcare services, including the underlying causes and factors leading to the current situation, will be essential for developing better targeted healthcare reforms to successfully address the shortcomings of the healthcare provided.

3.4. Structural measures promoting sustainable growth and competitiveness

While competitiveness indicators continued to show improvements in 2013, there is a risk that this trend will come to an end as the labour market tightens. It is therefore essential for Lithuania to safeguard productivity gains over the medium term and to strengthen its growth potential by creating a business environment conducive to investment, research and innovation. Increased energy and resource efficiency and improvements to energy and transport infrastructure could also contribute significantly to growth potential.

In 2013, Lithuania received CSRs relating to SOEs, and improvements to energy efficiency and energy infrastructure, in particular developing the interconnectivity of

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[29] The coverage of unemployment benefits was 21.3% in 2011 and thus the lowest in the EU according to EU SILC data. According to LFS data (2012) the coverage was 10th lowest in the EU. The adequacy of unemployment benefits was 48.7% in 2011 (EU SILC data)

[30] In 2012 Lithuania recorded 99 road fatalities per million inhabitants (compared to an EU average of 56), down from 110 in 2009.

the electricity and gas networks with those in other EU countries. The following sub-sections will analyse the progress made in these areas.

State-owned enterprises

The reform of SOEs is at an advanced stage and final legal acts, obliging all SOEs to provide separate data for commercial and non-commercial functions in their annual reports were approved 2013. The number of independent board members in SOEs remains small. The objective of the reform was to separate regulatory and ownership functions, and commercial and non-commercial functions. Furthermore, the professionalisation of boards, changes to reporting requirements and the introduction of commercial targets have helped to improve the overall performance of companies and the transparency of their operations. During 2013, the governance coordination centre issued four quarterly reports and one annual report on the performance of SOEs. It also provided the government with reports on the preparation and implementation of SOEs' strategic plans. For this year, SOEs were asked to provide separate data on commercial and non-commercial outcomes and a first report detailing this breakdown is envisaged for August this year. Following its publication it will be possible to assess the success of this separation in more detail. Meanwhile, only few independent board members in SOEs have been appointed, due in part to legal constraints on state and municipal enterprises. Legal changes that would allow independent board members to sit on the board of any state-owned enterprise are expected to be passed in parliament during the spring session. This should lead to a further professionalisation of boards and positively influence SOE performance. Once the law is passed, the government plans to detail on how to proceed with the hiring of board members. First results should be known by the end of 2014. All in all there has been substantial progress in addressing this CSR, while the effectiveness of the separation of commercial and non-commercial functions and the professionalisation of boards will have to be assessed once fully implemented.

Energy efficiency

Lithuania has made some progress regarding the energy efficiency of buildings, although further efforts are needed to address fully the CSR. At the beginning of 2014, a number of projects had been finalised, and initial applications for funding have increased considerably further to the implementation of legal measures in early 2013 to accelerate the allocation of finance from the Joint European Support for Sustainable Investment in City Areas (JESSICA) holding fund.[31] Legal changes have simplified loan procedures by allowing municipal administrators to take out loans on behalf of apartment owners and by making provisions for a gradual reduction of heating subsidies should occupants vote against renovation projects in apartment blocks. While the increase in projects is a positive development in itself, further measures to improve energy efficiency are needed. Plans to include municipally owned public buildings in the existing funding structure could lead to a further increase in renovation projects. The use of private funding to finance work on state-owned buildings is still under consideration.

Infrastructure

Despite some progress having been made, the energy infrastructure network in Lithuania needs to be strengthened further by developing additional connections and diversifying supply. A major gas pipeline (Klaipeda-Jurbarkas) was commissioned in 2013 and the liquefied natural gas terminal in Klaipeda is expected to be operational by December

[31] The most recent available information on the JESSICA holding fund shows that the number of approved projects has reached 1 341, of which 1 078 were approved in 2013.

2014. Some progress has been made in developing further connections between the Lithuanian energy network and energy networks of neighbouring Member States. While the construction of electricity lines to Poland and Sweden is expected to be completed by the end of 2015, work on the gas pipeline connecting Lithuania with Poland is not scheduled to start until 2016, with commissioning then taking place in 2019. The constructions of these connections would end Lithuania's energy isolation by diversifying the sources of and routes for transporting energy, as well as the country's energy partners. Further integration of Lithuania's electricity and gas markets with those of Latvia and Estonia, for example by continuing the implementation of the Baltic energy market interconnection plan, would complement the new connections described above. No decision has yet been taken on the construction of the new nuclear power plant in Visaginas. Competition in the domestic market has been strengthened by the liberalisation of gas and electricity markets, but, to date, customers have not made use of their rights to change suppliers.[32] Price regulation was fully removed for small commercial industrial customers at the start of 2013 and is foreseen to be removed for households in 2015. Internal reorganisation and unbundling of state-owned energy companies continued in 2013, but was not however fully implemented in the case of the gas transmission system operator.[33]

Lithuania continues to face significant challenges relating to its transport infrastructure. The use of rail transport as a proportion of total transport in Lithuania has declined in the case of both freight and passenger transport in recent years. The rail network remains underdeveloped and the country is missing a north-south connection. Transport links could be improved by the European gauge railway project Rail Baltic. The project, originally scheduled to be completed by 2023, would connect the Baltic states to a trans-European network via a direct north-south high-speed rail link. Political commitment in the region remains a major concern however, and formal agreement to a joint venture between the Baltic states has therefore been delayed. In addition, the new Lithuanian transport development plan does not list the Rail Baltic project as a priority. While legal barriers to market entry have largely been removed, administrative and technical obstacles continue to hamper competition in this area.

Business environment, R&D and innovation, and the environment

Lithuania is pursuing measures to reduce the administrative burden and improve the business environment. This is expected to produce material effects going forward. The development and implementation of measures to reduce the administrative burden for businesses continued throughout 2013. A screening exercise was introduced to simplify and reduce unnecessary regulation and make it easier to set up businesses, including by enabling the electronic submission of documentation. Following an analysis of the results, draft legal amendments are planned to be submitted to the government this year. Procedures for acquiring land for business purposes have been simplified and electronic submission of applications and environmental action plans has been introduced. Draft amendments to the labour code, which would reduce the administrative burden on employers, were approved by the Lithuanian government and will be discussed in parliament during the spring session. The Lithuanian authorities estimate that, once all pending proposals have been implemented, the exercise will have reduced the overall administrative burden by around a quarter. To date, some progress can be seen in the quicker and simpler process for company registration, achieved by removing capital requirements for small firms and speeding up the process for

[32] The retail electricity market scores 4th lowest in the EU on the rate of supplier switching and on consumers' assessment of the ease of switching according to the 10th Consumer Markets Scoreboard (to be published in June 2014).

[33] A new legal entity was established but control is still in the hands of the vertically integrated company AB Lietuvos Dujos. Final implementation is expected to be completed by the end of October 2014.

registration with the tax authorities. Setting up an online system for applying for construction permits and reducing the documentation required for international trade has helped to speed up the respective processes significantly. Building on recent progress in improving the business environment, administrative burden reduction and the consolidation of business inspection agencies could be pursued further.

The Lithuanian research and innovation (R&I) system continues to be characterised by a low level of private R&I investment and insufficiently targeted public R&D expenditure. After a substantial increase in Lithuania's R&D intensity in 2011, progress slowed in 2012 and the country remains well below its 2020 target.[34] The very low intensity of private R&D remains a major concern, while public R&D intensity has grown in recent years and is close to the EU average.[35] Public R&D has however become excessively reliant on funding from the EU structural funds while national funding has been falling since 2007. It will not be possible to further develop the public research system without increased national support for research institutions.[36] Despite some improvements, the public research system remains insufficiently competitive and connections to businesses activities and international networks are weak. The impact of initiatives relating to the commercialisation of patents and more extensive use of financial engineering on improving public-private collaboration remains modest. The recently launched Innovation Development Programme for 2014-20 aims to promote the development of innovative products and technologies and at fostering public sector innovation. Plans to facilitate public procurement and patenting rules could simplify the purchase of R&D equipment and boost innovative businesses. Nonetheless, there are still considerable weaknesses which need to be addressed. Lithuania needs to ensure that its research infrastructure is used, managed and financed effectively and that the country's science and technology capacity is directed to the areas where it can be of greatest benefit. In this context, the development of a 'smart specialisation' strategy, to be implemented among others through the regional and thematic business clusters known as 'science valleys', remains important. Overall, limited progress has been made in improving the Lithuanian R&I system.

According to the most recent projections, Lithuania is likely to miss its 2020 greenhouse gas emissions reduction target by a significant margin and remains one of the most energy and carbon dioxide intensive economies in the EU. Lithuania has committed itself to limiting the increase in greenhouse gas emissions in sectors not covered by the Emissions Trading Scheme to 15% between 2005 and 2020 but recent estimates suggest that these emissions will rise by 23%. The transport and residential sectors are responsible for the largest proportion of energy consumption. Road transport remains highly energy- and emission-intensive and improving the coverage and quality of public transportation could help in addressing this issue. The absence of car taxation, low excise duties on motor fuel (close to the minimum level set by the Energy Taxation Directive) and the absence of any regulation prohibiting the import of fuel from neighbouring countries outside the EU further reduce incentives to decrease the energy intensity of the transport sector. The renewable energy sector has maintained its position in the energy market, and with energy from renewable sources representing 21.7% of total energy consumption in 2012, Lithuania has almost reached its 2020 renewable energy target. The proportion of electricity generated from renewable sources increased from 4% in 2005 to 11% in 2012. Given that the majority of the technology quotas set by the 2012 renewable energy law have already been fulfilled, Lithuania expects the proportion of energy from renewable sources used in the electricity sector to remain constant until 2020. Investment, including funding from the European

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[34] R&D intensity reached 0.9% of GDP in 2012, while the target for 2020 is 1.9% of GDP.

[35] 0.66 % in 2012, compared to the EU average of 0.74%.

[36] According to the 2014 Innovation Union scoreboard, Lithuania is a 'moderate innovator', ranking 24th in the EU. Additionally, Lithuania ranked last in eco-innovation in the 2012 Eco-innovation scoreboard.

cohesion and investments funds in the 2014-20 period, is now being directed towards measures to increase the proportion of renewable energy used in the heating sector, which stood at 35.5% in 2012.

Preventing and reducing the generation of waste and increasing reuse and recycling could improve the resource efficiency of the Lithuanian economy. In 2012, a majority of municipal waste was sent to landfill sites without being recycled.[37] Although there have been significant improvements, further investment, particularly in infrastructure, will be needed if Lithuania is to reach the 2020 recycling target of 50%. In this context, the currently discussed draft amendment of the law on pollution tax envisaging the introduction of a landfill tax in 2016, is a positive development and will help to encourage resource efficiency in waste management if implemented. In addition, Lithuania could benefit from improving the extended producer responsibility schemes used to ensure the appropriate and sustainable funding of separate collection, sorting and recycling for the main waste streams.

Box 2: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition in the economy and labour market participation. Improvements on these indicators could raise Lithuania's GDP by about 8% in a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Sections 3.1, 3.3 and 3.4, according to which the largest gains would likely stem from a further liberalisation of the energy and transport infrastructure markets as well as increased international integration of these infrastructure networks and a reduction in the numbers of people taking early retirement. In addition, the simulations support the identified need for tax reforms aimed at shifting taxes away from labour.

Table: Structural indicators, targets, and potential GDP effects[38]

[37] 77% of municipal waste was landfilled (compared to an EU average of 33%), while only 18% were recycled (compared to an EU average of 27%).

[38] Final goods sector mark-ups are the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

Reform areas		LT	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.29	0.13	2.6	5.0
Market regulation	Entry costs	2.80	0.13	0.0	0.1
Tax reform	Implicit consumption tax rate	17.5	28.6	0.6	0.8
Skill enhancing reforms*	Share of high-skilled	9.8	10.7	0.0	0.1
	Share of low-skilled	6.7	7.5	0.0	0.0
Labour market reforms	Female non-participation rate (25-54ys):			0.4	0.6
	- low-skilled	35.0	26.4		
	- medium-skilled	14.9	10.5		
	- high-skilled	4.1	4.3		
	Low-skilled male non-participation rate (25-54ys)	31.1	7.7	0.0	0.0
	Elderly non-participation rate (55-64ys):			0.4	1.0
	- low-skilled	20.8	13.4		
	- medium-skilled	10.9	4.8		
	- high-skilled	4.1	3.3		
	ALMP (% of GDP over unemployment share)	2.4	37.4	0.3	0.4
	Benefit replacement rate**	52.5	52.6	0.0	0.0
Total				4.5	7.9

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[39] * The long-run effect of increasing the share of high-skilled population would be 0.8% of GDP and of decreasing the share of low-skilled would be 0.4% ** EU average is set as the benchmark.

3.5. Modernisation of public administration

Lithuania needs to undertake further reforms of public administration in order to increase its efficiency and quality. A number of steps have been taken to try to achieve these aims and a further streamlining of specialised agencies and ongoing improvements to tax administration are declared priorities of the government. Corruption perception indicators remain at persistently high levels. Lithuania's record for awarding funding from the EU funds allocated continues to be one of the best in the EU.

In 2013, Lithuania introduced a partially decentralised selection procedure for civil servants in a move to improve the flexibility and efficiency of public administration. At the same time, the authorities adopted an action plan aiming to ensure the openness and transparency of government processes and to improve the quality and accessibility of public services. Over the 2014-20 period, Lithuania aims to invest EUR 150 million of European funds in improvements to its public administration, an amount comparable with that invested in the previous programming period. In order to further professionalise and streamline the work of business inspection agencies, the government ratified a plan for consolidating agencies according to their specific competencies in February. Working groups were established with the aim of preparing necessary legislative changes and action plans. Further simplification of administrative functions could be achieved by means of improvements to the 'point of single contact', as required under the Services Directive. These include, in particular, updating the information provided to users, making sure that administrative formalities can be completed online (including by users from other Member States) and improving the user-friendliness of the portal.

[39] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4 December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

Efforts might be required to strengthen control mechanisms and increase transparency, including in public procurement and healthcare, as perception indicators hint at corruption levels above the EU average. According to a 2013 Eurobarometer survey, 95% of Lithuanians regard corruption as widespread in their country (compared to an EU average of 76%) and 29% report having been asked or expected to pay a bribe for services received over the past 12 months, the highest share in the EU (the EU average being 4%).[40] The EU anti-corruption report noted in February 2014 that Lithuania had demonstrated its commitment to preventing and combating corruption, including through an extensive legal framework. Nonetheless, relevant provisions for tackling both petty and high-level corruption are not always applied in practice. Anti-corruption institutions are not sufficiently independent or effective. Healthcare remains among the sectors most vulnerable to corruption in Lithuania. The authorities could consider strengthening the Chief Official Ethics Commission and developing additional means of prevention within the scope of the work of contracting authorities, in order to help detect corruption at various stages of procurement, with a focus on local level activities and the healthcare sector.

The current status of EU fund payments to Lithuania is very positive, with 79% of payments already having been made by the Commission. The level of contracting is high, at more than 90% in the European Regional Development Fund and Cohesion Fund programmes, although some sectors, such as R&D and railway networks, are lagging behind. Funding priorities generally mirror the challenges as identified in this SWD. With a total allocation of nearly EUR 6.8 billion over the 2007-13 period and the same due for 2014-20 (not including EUR 365 million allocated under the Connecting Europe facility), Lithuania continues to benefit significantly from the Cohesion Policy as regards innovation and balanced growth.

4. CONCLUSIONS

As a small and open economy, Lithuania is particularly vulnerable to external shocks and relies to a large extent on its export markets. Adverse developments in the international economic environment can thus have a relatively large impact on the economy and public finances. In addition, the country continues to be largely dependent on a single external supplier for its energy, further increasing its vulnerability. In view of this, last year's country-specific recommendations invited Lithuania to increase its resilience to external shocks and prevent the emergence of excessive imbalances by creating additional flexibility in the budget, so that unexpected spending needs could be accommodated without jeopardising financial stability. This could be achieved by strengthening public finances and addressing risks to fiscal sustainability in the pension system. At the same time, the country-specific recommendations invited the Lithuanian authorities to increase their efforts to ensure medium- and long-term productivity growth, in particular through measures relating to the labour market and state-owned enterprises, to tackle poverty and social exclusion and to diversify energy supply and efficiency.

The analysis in this staff working document leads to the conclusion that Lithuania has made some progress in addressing the 2013 country-specific recommendations. While substantial progress has been made in implementing the remaining parts of the reform of state-owned enterprises with all legal acts being passed as planned, challenges in other areas have not yet been addressed. The initial progress made in tackling youth unemployment needs

[40] In Transparency International's 2013 corruption perceptions index, Lithuania ranks 43rd worldwide and 17th among EU countries. The country ranks 19th among EU Member States on control of corruption in the World Bank's 2012 governance indicators.

to be consolidated through the effective implementation of the Youth Guarantee. Further efforts are needed to improve active labour market policies and tackle skills mismatches. Reforms of the second pillar pension schemes are a positive development, but comprehensive pension reform efforts have been lacking. The impact of the reform of cash social assistance on the low-income population is not yet clear. Accordingly, overall, efforts remain too isolated and more comprehensive and determined action is needed to address the outstanding issues outlined in this staff working document. This is particularly true in respect of public finances, where, after a promising start in early 2013, progress has been limited. Legal changes to the scheme for the renovation of apartment blocks introduced in spring 2013 are an encouraging sign and could increase the pace of change as regards improvements to the energy efficiency of housing.

Looking ahead, the authorities have presented their plans in the national reform programme and convergence programme appropriately addressing most of the challenges identified in this staff working document. A broad coherence between the documents can be observed and reference is made to the priorities identified in the 2014 annual growth survey. The national reform programme confirms Lithuania's commitment to address challenges in the areas of the labour market, social policy and pensions, energy efficiency and infrastructure as well as on the reform of state-owned enterprises. Nevertheless, in certain areas planned measures do not address the identified challenges in a comprehensive way, in particular in the fields of social policies and pensions. Moreover, measures are not always ambitious enough and do not reflect the urgency of the issues. The convergence programme demonstrates that the authorities remain committed to fiscally prudent policies going forward. However, deficit reduction plans are not sufficiently underpinned with concrete measures and their realism thus remains difficult to assess. A quantification of the economic impact of structural reforms could help strengthening the relevance of the national reform programme in the future.

OVERVIEW TABLE

2013 commitments	Summary assessment[41]
Country-specific recommendations (CSRs)	
CSR 1	Lithuania has made some progress in addressing CSR 1:
Ensure growth friendly fiscal consolidation and implement the budgetary strategy as planned, pursuing a structural adjustment effort that will enable Lithuania to reach the medium-term objective. Prioritise growth-enhancing expenditure.	• Some progress towards the medium-term objective was made in 2013, while the planned progress for 2014 is low. The budgetary strategy for the last year was roughly implemented, however, planning of tax revenues remains an issue.
Continue to strengthen the fiscal framework, in particular by securing enforceable and binding expenditure ceilings in the medium-term budgetary framework.	• Limited progress in strengthening the fiscal framework, as expenditure ceilings remain insufficiently binding. Legislative changes have not yet been approved.
Review the tax system and consider increasing those taxes that are least detrimental to growth, such as recurrent property and environmental taxation, including introducing car taxation, while continuing to reinforce tax compliance.	• Limited progress in reviewing the tax system. No action was taken on increasing tax revenues and reforming taxation. Some progress was made in improving tax compliance.
CSR 2	Lithuania has made limited progress in addressing CSR 2:
Adopt and implement legislation on a comprehensive pension system reform. Align the statutory retirement age with life expectancy, restrict access to early retirement, establish clear rules for the indexation of pensions, and promote the use of complementary savings schemes	• No progress in implementing a comprehensive pension system reform and aligning statutory retirement age with life expectancy, restricting access to early retirement and establishing clear rules for the indexation of pensions.
while ensuring implementation of ongoing reforms.	• Substantial progress in implementing reform of occupational pension schemes. 33% of insured have decided to participate in the new scheme introduced last year.
Underpin pension reform with measures that promote the employability of older workers.	• Limited progress in promoting the employability of older workers. Some projects have been introduced, the overall effect on employment has been negligible however, due to the fragmentary nature of the measures and the lack of coordination

41 The following categories are used to assess progress in implementing the 2013 country-specific recommendations: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

	in implementing them
CSR 3 Tackle high unemployment amongst low-skilled and long-term by refocusing resources on active labour market policies while improving their coverage and efficiency. Improve the employability of young people, for example through a Youth Guarantee, enhance the implementation and effectiveness of apprenticeship schemes, and address persistent skill mismatches. Review the appropriateness of labour legislation with regard to flexible contractagreements, dismissal provisions and flexible working time arrangements, in consultation with social partners.	Lithuania has made some progress in addressing CSR 3: • Some progress on tackling long-term unemployment. Limited progress on tackling unemployment amongst low-skilled workers. New schemes were introduced, it is however, necessary to increase coverage and targeting of ALMPs. • Substantial progress on employment of young people since specifically targeted measures were taken in early 2013. These should be consolidated by the introduction of a Youth Guarantee. • Some progress on work-based training and on addressing skills mismatch through reforms targeted at consolidating higher education and improving its quality and training courses. Limited progress on apprenticeship schemes. • No progress on reviewing labour legislation and improving social dialogue.
CSR 4 Implement concrete targeted measures to reduce poverty and social exclusion. Continue strengthening the links between the cash social assistance reform and activation measures.	Lithuania has made limited progress in addressing CSR 4: • Limited progress on reducing poverty and social exclusion. The action plan for improving social inclusion is a positive step but it does not make clear how the targets will be achieved. • Limited progress in strengthening the links between reform of social assistance and 'activation measures'. Further action should be taken to extend the coverage of activation measures and to improve the employability of recipients of social benefits.
CSR 5 Complete the implementation of the reform of the State-Owned Enterprises, in particular to ensure separation of ownership and regulatory functions, and closely monitor compliance with the requirements of the reform.	Lithuania has made substantial progress in addressing CSR 5: • The Lithuanian government approved amendments to the transparency guidelines which require SOEs to include separate figures for commercial and non-commercial functions. The separation of commercial from non-commercial functions still needs to be assessed once an initial report is published later this year

	• The separation of ownership and regulatory functions has been completed. • Legal acts allowing for more independent board members on SOE boards are in the process of being drafted. First assessments on their effectiveness should be possible by late 2014.
CSR 6 Step up measures to improve the energy efficiency of buildings, including through removing disincentives and rapid implementation of the holding fund. Promote competition in energy networks by improving interconnectivity with other Member States for both electricity and gas.	Lithuania has made some progress in addressing CSR 6: • Some progress in improving the energy efficiency of buildings. Legislative measures were taken in order to allow funding from the holding fund to be awarded to projects more quickly. • Some progress in promoting competition in energy networks. An important gas pipeline has been commissioned and the liquefied natural gas terminal in Klaipeda is expected to be operational by December 2014. To date, some progress has been made with regard to the new electricity and gas interconnections of Lithuania with neighbouring Member States, but the construction work for these interconnectors is to be finalised respectively by 2015 and 2018/2019 only.

Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
Employment rate target: 72.8%	In 2013, the employment rate was 69.9 %. The number of people in employment continued to grow by 1.6 pp per year. The employment rate stands at 68.5 % (2012), close to the EU average (68.4 %) but still below the national target. Employment has risen by 0.7 pp since the previous quarter (70.6 % in the third quarter of 2013) thus exceeding the EU average (68.8 %) but is still far below the 2007 pre-crisis level (employment rate 72.9 %; unemployment rate 3.8 %).
R&D target: 1.9%	In 2012, limited progress was observed in meeting the R&D intensity target. R&D intensity reached 0.9 % of GDP, of which 0.24 % came from business investment.
Greenhouse gas emissions target: +15% compared to 2005 emissions, ETS (Emissions Trading System) emissions are not covered by this national target	Progress is not sufficient. According to the latest national projections submitted to the Commission, and when existing measures are taken into account, the target is expected to be missed by a margin of 8 pp: +23 % in 2020 compared to 2005. Greenhouse gas emissions from sectors not covered by the Emissions Trading Scheme fell by 2 pp between 2005 and 2012.
Renewable energy target: 23 % **Share of renewable energy in transport sector**: 10 %	The proportion of energy produced from renewable sources in Lithuania reached 21.7 % in 2012, according to latest Eurostat figures. Lithuania is therefore well on track to reach its 2020 renewable energy sources target. Greater efforts are needed to achieve the targeted proportion of energy coming from renewable sources in the transport sector. In 2012, renewable energy contributed 4.8 % of energy consumed.
Energy Efficiency target: 17% reduction in final energy use compared to 2009 level (reduction of 740 ktoe) This implies reaching a 2020 level of 6.49 Mtoe of primary and 4.28 Mtoe of final energy consumption.	Lithuania notified the Commission of the policy measures it plans to adopt to implement Article 7 of the Energy Efficiency Directive (2012/27/EU).
Early school leaving target: <9%	EU and national targets have already been met. The early school leaving rate was 7.4 % in 2011, 6.5 % in 2012, and 6.3 % in 2013, below the national target of 9 % and the EU average (12.7 % in 2012). Some progress has been made over the past year. Significant disparities between girls and boys and rural and urban areas remain.
Tertiary education target: 48.7%	EU and national targets have already been met. The rate of tertiary education attainment was 45.7 % in 2011, 48.7 % in 2012, and 51.3 % in 2013, above the EU average (35.7 % in 2012).
Risk of poverty or social exclusion target: 814000	In 2012 there were 975 000 people at risk of poverty

	or social exclusion (32.5 % of the total population). This is far above the pre-crisis level (28.7 %). In 2010, when the national target was set, 1 109 000 people (33.4 %) were at risk of poverty or social exclusion.

ANNEX

Standard Tables

Table I. Macroeconomic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	4.7	7.8	1.5	6.0	3.7	3.3	3.3	3.7
Output gap [1]	1.7	0.8	0.8	-3.5	-1.3	-0.7	-0.5	-0.4
HICP (annual % change)	8.6	0.9	5.2	4.1	3.2	1.2	1.0	1.8
Domestic demand (annual % change) [2]	6.2	9.0	0.7	5.9	-0.5	3.5	4.0	4.3
Unemployment rate (% of labour force) [3]	11.7	12.8	9.5	15.4	13.4	11.8	10.6	9.7
Gross fixed capital formation (% of GDP)	21.5	21.4	22.4	18.0	16.6	18.3	19.3	20.2
Gross national saving (% of GDP)	12.6	15.1	15.3	17.4	17.2	19.7	18.6	18.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.8**	**-1.7**	**-4.3**	**-5.5**	**-3.2**	**-2.2**	**-2.1**	**-1.6**
Gross debt	**18.4**	**20.8**	**23.5**	**38.3**	**40.5**	**39.4**	**41.8**	**41.4**
Net financial assets	**27.3**	**7.7**	**1.5**	**-19.1**	**-25.0**	**n.a**	**n.a**	**n.a**
Total revenue	36.9	33.2	34.6	33.2	32.7	32.3	32.0	31.7
Total expenditure	41.7	34.9	38.9	38.7	36.0	34.4	34.2	33.3
of which: Interest	1.2	1.2	1.0	1.8	1.8	1.7	1.6	1.5
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.3**	**-2.5**	**1.1**	**4.3**	**6.8**	**n.a**	**n.a**	**n.a**
Net financial assets; non-financial corporations	**-88.7**	**-85.9**	**-99.1**	**-85.6**	**-80.2**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-2.3**	**-2.0**	**1.1**	**0.7**	**0.9**	**n.a**	**n.a**	**n.a**
Gross capital formation	15.7	14.4	14.6	14.5	12.5	n.a	n.a	n.a
Gross operating surplus	24.1	32.4	33.4	38.7	39.3	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**1.7**	**-1.5**	**-1.4**	**0.6**	**-1.5**	**n.a**	**n.a**	**n.a**
Net financial assets	**39.0**	**42.7**	**39.3**	**47.7**	**47.5**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	31.4	31.7	34.4	31.9	31.0	n.a	n.a	n.a
Net property income	11.5	16.8	13.7	15.8	16.1	n.a	n.a	n.a
Current transfers received	11.1	11.4	15.7	16.9	15.1	n.a	n.a	n.a
Gross saving	2.4	1.8	1.4	2.7	0.6	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-9.3**	**-5.7**	**-4.6**	**-0.6**	**1.9**	**2.5**	**1.0**	**0.3**
Net financial assets	**25.4**	**38.1**	**57.9**	**57.6**	**58.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-9.4	-6.3	-7.8	-2.7	0.8	0.6	0.1	-0.4
Net primary income from the rest of the world	-1.9	-1.6	-1.8	-3.7	-3.2	-3.6	-2.2	-2.4
Net capital transactions	0.0	0.5	2.7	3.2	3.0	1.2	1.9	1.8
Tradable sector	53.4	55.9	52.8	56.6	58.7	58.4	n.a	n.a
Non tradable sector	35.0	33.8	37.1	33.3	31.6	31.8	n.a	n.a
of which: Building and construction sector	6.4	6.1	8.0	5.8	5.4	5.9	n.a	n.a
Real effective exchange rate (index, 2000=100)	80.2	93.0	111.4	105.6	103.4	106.1	107.6	108.2
Terms of trade goods and services (index, 2000=100)	85.8	94.5	97.8	96.1	95.4	95.4	95.5	95.5
Market performance of exports (index, 2000=100)	81.6	93.2	108.0	125.8	138.2	150.6	154.3	156.0

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on 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

Source :

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecast

	2013		2014		2015		2016	2017
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	3.3	3.3	3.3	3.4	3.7	4.3	4.0	4.3
Private consumption (% change)	4.8	4.8	3.9	5.0	4.3	5.8	5.1	5.6
Gross fixed capital formation (% change)	12.8	12.8	6.5	9.1	6.9	9.4	4.8	7.7
Exports of goods and services (% change)	9.5	9.5	6.3	6.1	6.6	6.7	5.6	9.3
Imports of goods and services (% change)	9.8	9.8	7.1	7.9	7.4	8.2	6.0	10.2
Contributions to real GDP growth:								
- Final domestic demand	5.5	3.4	3.9	4.9	4.3	5.7	4.5	5.4
- Change in inventories	-2.0	n.a.	0.0	n.a.	0.0	n.a.	n.a.	n.a.
- Net exports	-0.2	-0.2	-0.6	-1.5	-0.6	-1.4	-0.5	-1.1
Output gap[1]	-0.7	-0.6	-0.5	-0.5	-0.4	0.0	1.3	2.9
Employment (% change)	1.3	1.3	1.4	1.5	1.3	1.3	0.8	0.6
Unemployment rate (%)	11.8	n.a.	10.6	10.5	9.7	9.0	7.8	6.5
Labour productivity (% change)	1.9	1.9	1.9	1.9	2.5	3.0	3.2	3.6
HICP inflation (%)	1.2	1.2	1.0	1.0	1.8	2.0	2.5	2.9
GDP deflator (% change)	1.7	1.7	1.6	1.9	2.3	2.5	3.1	3.1
Comp. of employees (per head, % change)	4.8	5.0	3.3	5.8	4.6	6.7	6.4	6.9
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.5	3.8	1.0	0.6	0.3	-1.1	-1.2	-1.9

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the

Source :

Commission 2014 spring forecast (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	Change: 2013-2017
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**32.3**	**32.0**	**32.3**	**31.7**	**32.0**	**31.2**	**31.2**	**-1.1**
of which:								
- Taxes on production and imports	11.0	10.8	11.1	10.7	11.0	10.9	10.8	-0.2
- Current taxes on income, wealth, etc.	5.0	5.0	5.0	5.0	5.1	5.1	5.1	0.1
- Social contributions	11.2	11.3	11.4	11.3	11.6	11.6	11.6	0.4
- Other (residual)	5.0	4.9	4.8	4.8	4.3	3.6	3.7	-1.3
Expenditure	**34.4**	**34.2**	**34.2**	**33.3**	**32.9**	**31.1**	**30.1**	**-4.3**
of which:								
- Primary expenditure	32.7	32.6	32.4	31.8	31.3	29.6	28.7	-4.0
of which:								
Compensation of employees	9.6	9.5	9.6	9.4	9.5	9.6	9.4	-0.2
Intermediate consumption	4.7	4.8	4.7	4.5	4.7	4.7	4.7	0.0
Social payments	13.0	12.7	12.9	12.3	12.4	11.9	11.1	-1.9
Subsidies	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.0
Gross fixed capital formation	3.4	3.4	3.5	3.3	3.1	1.9	1.9	-1.5
Other (residual)	1.6	2.0	1.9	2.0	1.7	1.7	1.5	-0.1
- Interest expenditure	1.7	1.6	1.8	1.5	1.6	1.5	1.4	-0.3
General government balance (GGB)	**-2.2**	**-2.1**	**-1.9**	**-1.6**	**-0.9**	**0.1**	**1.1**	**3.3**
Primary balance	**-0.5**	**-0.6**	**-0.1**	**-0.1**	**0.7**	**1.6**	**2.5**	**3.0**
One-off and other temporary measures	0.2	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	-0.2
GGB excl. one-offs	**-2.3**	**-2.1**	**-1.8**	**-1.4**	**-0.8**	**0.2**	**1.1**	**3.4**
Output gap[2]	-0.7	-0.5	-0.5	-0.4	0.0	1.3	2.9	3.6
Cyclically-adjusted balance[2]	-1.9	-2.0	-1.7	-1.5	-0.9	-0.3	0.2	2.2
Structural balance (SB)[3]	**-2.1**	**-1.9**	**-1.6**	**-1.3**	**-0.8**	**-0.2**	**0.2**	**2.3**
Change in SB	*0.8*	*0.2*	*0.5*	*0.6*	*0.9*	*0.6*	*0.4*	-
Two year average change in SB	*1.1*	*0.5*	*0.6*	*0.4*	*0.7*	*0.7*	*0.5*	-
Structural primary balance[3]	-0.4	-0.3	0.2	0.2	0.8	1.3	1.6	2.1
Change in structural primary balance		*0.1*	*0.6*	*0.6*	*0.7*	*0.5*	*0.3*	-
Expenditure benchmark								
Applicable reference rate[4]	0.76	0.40	0.40	0.40	0.40	n.a.	n.a.	-
Deviation[5] (% GDP)	0.3	-0.6	0.1	-0.1	-0.4	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.r.	-0.1	0.7	-0.3	-0.2	n.a.	n.a.	-

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 Commission services on the basis of the programme scenario using the commonly agreed methodology.

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

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**32.3**	**39.4**	**41.8**	**41.6**	**41.4**	**40.7**	**35.3**	**34.8**
Change in the ratio	4.7	-1.0	2.4	2.2	-0.4	-0.9	-5.4	-0.5
Contributions[2] *:*								
1. Primary balance	**4.3**	**0.5**	**0.6**	**0.1**	**0.1**	**-0.7**	**-1.6**	**-2.5**
2. "Snow-ball" effect	**0.3**	**-0.2**	**-0.3**	**-0.2**	**-0.9**	**-1.1**	**-1.2**	**-1.0**
Of which:								
Interest expenditure	1.5	1.7	1.6	1.8	1.5	1.6	1.5	1.4
Growth effect	-0.3	-1.3	-1.3	-1.3	-1.5	-1.7	-1.5	-1.4
Inflation effect	-0.8	-0.7	-0.6	-0.7	-0.9	-1.0	-1.2	-1.0
3. Stock-flow adjustment	**0.2**	**-1.3**	**2.1**	**2.3**	**0.4**	**0.9**	**-2.6**	**3.1**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual								

	2013	2014		2015		2016	2017
		COM	CP	COM	CP	CP	CP
Gap to the debt benchmark[3,4]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
To be compared to:							
Required adjustment[6]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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, accumulation of financial assets and valuation and other residual effects.

[3]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[4]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[5]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[6]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed –

Source :

Convergence programme (CP); Commission 2014 spring forecast (COM); Commission calculations.

Table V. Sustainability indicators

	2013 scenario	No-policy-change scenario	Convergence programme scenario	2013 scenario	No-policy-change scenario	Convergence programme scenario
S2*	4.7	4.3	3.0	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	1.1	0.5	-0.8	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	3.7	3.8	3.8	1.9	2.0	2.0
of which:						
pensions	2.8	3.1	3.0	0.7	0.8	0.9
healthcare	0.4	0.4	0.4	0.9	0.9	0.8
long-term care	0.7	0.7	0.6	0.6	0.6	0.6
others	-0.3	-0.3	-0.3	-0.4	-0.4	-0.3
S1**	-0.2	-1.0	-2.5	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	0.6	-0.3	-1.2	-0.2	-0.4	-2.0
Debt requirement (DR)	-1.2	-1.2	-1.7	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.4	0.5	0.5	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.26	:		:		
Debt as % of GDP (2013)	39.4			88.9		
Age-related expenditure as % of GDP (2013)	18.1			25.8		

Source *: Commission; 2014 convergence programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

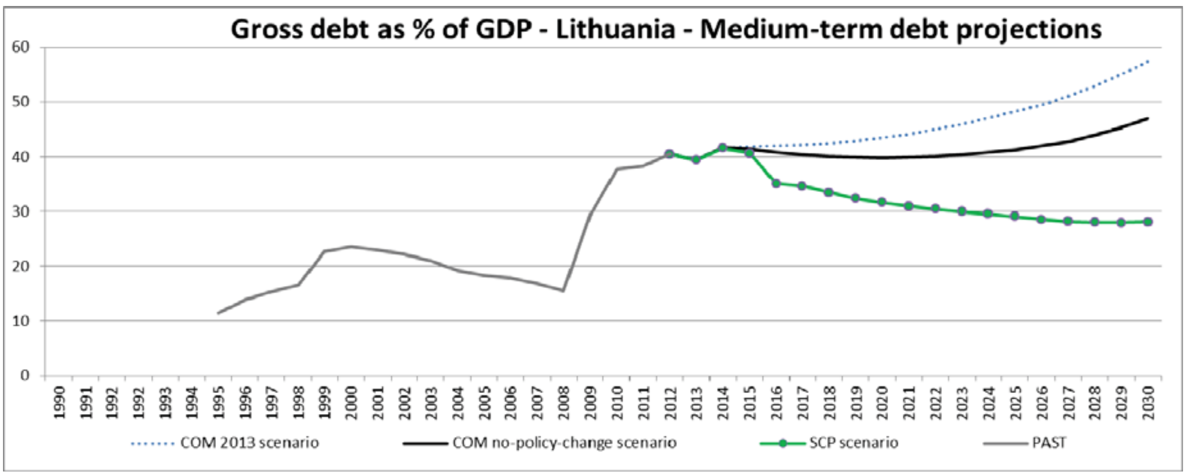

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	29.1	30.0	30.7	28.5	27.4	27.2
Breakdown by economic function (% of GDP)[1]						
Consumption	11.6	10.8	11.3	11.4	11.2	10.8
of which:						
- VAT	7.3	7.6	8.0	7.9	7.9	7.7
- excise duties on tobacco and alcohol	1.2	1.3	1.5	1.5	1.4	1.3
- energy	2.0	1.6	1.5	1.8	1.6	1.6
- other (residual)	1.1	0.3	0.4	0.3	0.3	0.3
Labour employed	14.6	14.4	14.5	13.1	12.5	12.5
Labour non-employed	0.1	0.2	0.3	0.3	0.2	0.1
Capital and business income	2.0	4.1	4.1	3.2	2.9	3.2
Stocks of capital/wealth	0.8	0.6	0.5	0.6	0.6	0.6
p.m. Environmental taxes[2]	2.8	1.8	1.6	1.8	1.7	1.7
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	52.3	55.0	57.9	48.8	51.1	49.8

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 (2014), 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 efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. 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'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	98.2	92.6	79.8	74.1	69.5
Share of assets of the five largest banks (% of total assets)	80.5	78.8	84.7	83.6	-
Foreign ownership of banking system (% of total assets)[5]	83.4	79.6	73.5	72.0	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	24.0	23.3	18.8	14.8	13.7
- capital adequacy ratio (%) [1),3)]	12.9	14.8	14.2	15.7	17.4
- return on equity (%) [1),3),4)]	-59.6	-4.6	17.5	8.9	4.9
Bank loans to the private sector (year-on-year % change)	-8.5	-6.5	-1.1	2.3	-0.8
Lending for house purchase (year-on-year % change)	-0.2	-0.8	0.2	-0.8	0.8
Loan to deposit ratio	169.4	145.8	133.7	126.0	116.0
CB liquidity as % of liabilities	0.0	0.0	0.0	0.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP)	-	-	-	-	-
Private debt (% of GDP)	84.9	75.9	66.2	62.5	-
Gross external debt (% of GDP)					
- Public	20.3	29.0	29.4	35.7	30.2
- Private	23.2	21.3	20.2	18.3	17.9
Long term interest rates spread versus Bund (basis points)*	1078.2	282.3	255.2	333.6	226.2
Credit default swap spreads for sovereign securities (5-year)*	482.5	259.5	234.5	203.1	107.5

Notes:

1) Latest data 2013Q2.

2) 2007 - loans overdue 60 days and more. From 2008 onwards, non-impaired loans overdue more than 60 days plus impaired loans.

3) Compiled according to the FSI compilation guide and therefore may differ from the national definition.

4) After extraordinary items and taxes.

5) Due to methodological differences, the data on foreign ownership differs from the data published by national authorities.

* Measured in basis points.

Source:

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

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	72.0	67.0	64.3	66.9	68.5	69.9
Employment growth (% change from previous year)	-0.7	-6.8	-11.9	0.5	1.8	1.3
Employment rate of women (% of female population aged 20-64)	68.7	67.2	65.0	66.6	67.9	68.6
Employment rate of men (% of male population aged 20-64)	75.6	66.8	63.5	67.2	69.1	71.2
Employment rate of older workers (% of population aged 55-64)	53.0	51.2	48.3	50.2	51.7	53.4
Part-time employment (% of total employment, 15 years and more)	6.8	8.3	8.2	8.9	9.5	9.0
Part-time employment of women (% of women employment, 15 years and more)	8.7	9.5	9.4	10.5	11.3	10.8
Part-time employment of men (% of men employment, 15 years and more)	4.9	6.9	6.8	7.1	7.5	7.1
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	2.4	2.3	2.4	2.7	2.6	2.7
Transitions from temporary to permanent employment	65.5	62.2	46.3	54.8	16.1	:
Unemployment rate[1] (% of labour force, age group 15-74)	5.8	13.8	17.8	15.4	13.4	11.8
Long-term unemployment rate[2] (% of labour force)	1.3	3.3	7.4	8.0	6.6	5.1
Youth unemployment rate (% of youth labour force aged 15-24)	13.3	29.6	35.7	32.6	26.7	21.9
Youth NEET rate (% of population aged 15-24)	8.8	12.1	13.2	11.8	11.2	11.1
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	7.5	8.7	7.9	7.4	6.5	6.3
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	39.9	40.4	43.8	45.7	48.6	51.3
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	1.0	1.0	2.0	1.0	3.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	8.0	9.0	11.0	6.0	5.0	:
Labour productivity per person employed (annual % change)	3.6	-8.6	15.3	5.5	1.9	2.0
Hours worked per person employed (annual % change)	1.6	-2.3	1.1	-1.3	-0.1	1.0
Labour productivity per hour worked (annual % change; constant prices)	1.9	-6.5	14.0	7.0	1.9	1.0
Compensation per employee (annual % change; constant prices)	4.3	-6.7	4.8	0.9	1.1	4.1
Nominal unit labour cost growth (annual % change)	10.4	-1.5	-7.0	0.7	1.9	:
Real unit labour cost growth (annual % change)	0.7	2.0	-9.1	-4.4	-0.7	:

Notes:

[1] 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.

[2] Long-term unemployed are unemployed persons for at least 12 months.

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

Expenditure on social protection benefits (% of GDP)	**2007**	**2008**	**2009**	**2010**	**2011**
Sickness/Health care	4.3	4.6	5.5	4.8	4.5
Invalidity	1.4	1.6	2.1	1.8	1.6
Old age and survivors	6.5	6.9	9.0	8.0	7.2
Family/Children	1.2	1.8	2.8	2.2	1.7
Unemployment	0.4	0.4	0.9	0.8	0.6
Housing and Social exclusion n.e.c.	0.0	0.0	0.0	0.0	0.0
Total	14.0	15.6	20.6	18.3	16.4
of which: means tested benefits	0.2	0.3	0.5	1.0	1.0

Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	27.6	29.6	34.0	33.1	32.5
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	29.4	30.8	35.8	34.6	31.9
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	38.1	35.3	29.8	30.9	35.7
At-Risk-of-Poverty rate[2] (% of total population)	20.0	20.3	20.5	19.2	18.6
Severe Material Deprivation[3] (% of total population)	12.3	15.6	19.9	19.0	19.8
Share of people living in low work intensity households[4] (% of people aged 0-59)	5.1	7.2	9.5	12.7	11.4
In-work at-risk-of poverty rate (% of persons employed)	9.3	10.3	12.6	9.5	7.6
Impact of social transfers (excluding pensions) on reducing poverty	26.5	29.0	34.5	36.4	34.5
Poverty thresholds, expressed in national currency at constant prices[5]	8 163	8 308	6 818	6 449	6 965
Gross disponsable income (households)	71 514	66 155	66 687	69 740	72 364
Relative median poverty risk gap (60% of median equivalised income, age: total)	25.7	23.8	32.6	29.0	22.6

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 household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): 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 (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:

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

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity[1] total economy (annual growth in %)	5.4	-8.6	15.3	5.5	1.9	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	4.7	-3.3	28.3	8.3	2.3	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	1.5	11.3	25.1	-6.1	-1.3	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	7.8	-26.2	32.2	21.6	-10.1	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	7.0	4.8	4.9	5.0	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	210.0	300	300	300	300	300
Time to start a business[3] (days)	26.0	26	22	22	20	7
R&D expenditure (% of GDP)	0.8	0.8	0.8	0.9	0.9	n.a.
Tertiary educational attainment (% of 30-34 years old population)	36.9	40.4	43.8	45.7	48.6	51.3
Total public expenditure on education (% of GDP)	4.9	5.6	5.4	5.2	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	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.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html.

[5] Aggregate ETCR.

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. Green growth

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.50	0.42	0.45	0.36	0.35	0.34
Carbon intensity	kg / €	1.28	1.13	1.09	1.11	1.07	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.24	2.35	1.86	2.01	2.06	n.a.
Waste intensity	kg / €	n.a.	0.29	n.a.	0.29	n.a.	n.a.
Energy balance of trade	% GDP	-2.2%	-5.8%	-4.2%	-7.2%	-7.7%	-8%
Energy weight in HICP	%	14	13	13	14	15	16
Difference between change energy price and inflation	%	1.96	9.1	12.0	6.4	6.9	3.8
Environmental taxes over labour taxes	ratio	15.8%	11.4%	13.7%	14.0%	13.5%	n.a.
Environmental taxes over total taxes	ratio	8.0%	5.5%	7.0%	6.9%	6.6%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.21	0.17	0.17	0.18	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	8.8	8.7	8.1	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.08	0.09	0.10	0.10	0.11
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.03	0.03	0.04	0.05
Public R&D for energy	% GDP	n.a.	0.02%	0.02%	0.02%	0.02%	0.01%
Public R&D for the environment	% GDP	n.a.	0.03%	0.02%	0.00%	0.00%	0.00%
Recycling rate of municipal waste	ratio	2.6%	8.5%	8.5%	12.8%	20.4%	20.4%
Share of GHG emissions covered by ETS*	%	n.a.	24.5%	28.3%	30.3%	25.9%	26.4%
Transport energy intensity	kgoe / €	0.60	0.59	0.52	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.84	1.73	1.54	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	54.1%	57.8%	49.9%	81.8%	81.6%	80.3%
Diversification of oil import sources	HHI	n.a.	0.87	0.94	0.91	0.85	n.a.
Diversification of energy mix	HHI	0.30	0.27	0.28	0.30	0.29	0.29
Share renewable energy in energy mix	%	9.9%	11.0%	12.4%	15.7%	15.1%	16.4%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated 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 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
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 activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption 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 renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
* Commission and EEA.
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 2 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[42]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

[42] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.