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COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European
Union

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2015
National Reform Programme of Lithuania and delivering a Council opinion
on the 2015 Stability Programme of Lithuania

Delegations will find attached document COM(2015) 264 final.

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Lithuania

and delivering a Council opinion on the 2015 Stability Programme of Lithuania

Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Lithuania

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission²,

Having regard to the resolutions of the European Parliament³,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

¹ OJ L 209, 2.8.1997, p. 1.

² COM(2015) 264.

³ P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

- (2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.
- (3) On 8 July 2014, the Council adopted a recommendation on Lithuania's National Reform Programme for 2014 and delivered its opinion on Lithuania's updated Convergence Programme for 2014.
- (4) On 28 November 2014, the Commission adopted the Annual Growth Survey⁴, marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report⁵, in which it did not identify Lithuania as one of the Member States for which an in-depth review would be carried out.
- (5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.
- (6) On 26 February 2015, the Commission published its 2015 country report for Lithuania⁶. This assessed Lithuania's progress in addressing the country-specific recommendations adopted on 8 July 2014.
- (7) On 13 April 2015, Lithuania submitted its 2015 National Reform Programme and on 30 April 2015 its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (8) Lithuania is currently under the preventive arm of the Stability and Growth Pact. In its Stability Programme, Lithuania has requested the application of the pension reform clause. Lithuania estimates the budgetary costs of the pension reform at 0.1% of GDP in 2016. Subject to a confirmation by Eurostat that the pension reform fulfils the necessary conditions, and taking into account that an appropriate safety margin with respect to the deficit reference value is preserved, the Council is of the opinion that Lithuania could benefit in 2016 from the requested temporary deviation from the required adjustment path towards the medium-term objective. In its 2015 Stability Programme, the government plans to reach a headline deficit of 1.2% of GDP in 2015 and to turn it into a surplus of 0.7% of GDP by 2018. The government intends to remain at the medium-term budgetary objective – a structural deficit of 1% of GDP – throughout the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak in 2015 at 42.2% and to decline to 33.7% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, there is a risk of some deviation from the required adjustment towards the medium-term objective in 2015 because of the 0.3% of GDP excess of

⁴ COM(2014) 902.

⁵ COM(2014) 904.

⁶ SWD(2015) 34 final.

net expenditure growth over the benchmark. For 2015-2016, both the structural balance and expenditure growth significantly deviate from the required adjustment path indicating a risk of a significant deviation in 2016. Therefore, further measures will be needed in both years. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Lithuania will not comply with the provisions of the Stability and Growth Pact. In addition, despite recent progress, the current fiscal framework should be further improved by strengthening its binding character and ensuring full consistency with the EU fiscal provisions. Lithuania's tax revenue is largely dependent on indirect and labour taxation, while the revenue from environmental and wealth taxation remains very low. Lithuania continues to face challenges in the area of tax compliance, in particular in relation to VAT.

- (9) Lithuania is facing a substantial fall in the working-age population, driven by demographics, migration and poor performance of the healthcare system. The persistently low level of participation in life-long learning is not conducive to strengthening human capital, improving employability or increasing productivity. Schools have an above-average rate of low-achievers in basic skills, indicating a need to modernise teacher training and promote continuing professional development. The education and training on offer is not always relevant to the labour market. The proportion of students following vocational education and training programmes in secondary education is low. Lithuania is taking action to improve and extend apprenticeships and work-based learning, but the number and quality of such programmes is still insufficient. The number of hospital beds per capita remains high as compared with the rest of the EU, suggesting there may be imbalances in the provision of healthcare. At the same time, total public investment in the healthcare sector remains low. The reported high frequency of informal payments for healthcare services, together with concerns about corruption in public procurement procedures for medical goods, demonstrate the need to improve the governance of the healthcare system.
- (10) The pension reform measures that have been adopted are not sufficient to address the issue of the medium-term sustainability of the pension system. The statutory retirement age is being gradually increased over the period to 2026, but the pension system does not take into account indicators of life expectancy. Moreover, the rules for the indexation of pensions are unclear. Low participation in voluntary pension savings schemes and the absence of occupational pension schemes create risks for future pension adequacy. The government intends to implement a comprehensive reform of the pension system as part of a wider 'new social model'. This strategy has not yet been finalised and adopted, however, and consultation with social partners must first be concluded. Lithuania introduced financial support measures for the elderly and financial incentives for employing older workers. A comprehensive active ageing strategy is, however, still lacking.
- (11) Over 30 % of Lithuania's population is at risk of poverty. The reform of cash social assistance, combined with the effect of an improved economic situation, led to a considerable fall in expenditure and in the number of recipients of social assistance. Active labour market measures and other services for supporting beneficiaries are still, however, limited.

- (12) Lithuania has made substantial progress on reforming state-owned companies and has enacted legislation to ensure that the reforms have a lasting effect. The government has completed the separation of commercial and non-commercial activities, which are now disclosed in annual reports. The remaining state-owned companies are required to appoint independent board members by the end of September 2015.
- (13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Lithuania's economic policy and published it in the 2015 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Lithuania in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Lithuania but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 3 below.
- (14) In the light of this assessment, the Council has examined Lithuania's Stability Programme, and its opinion⁷ is reflected in particular in recommendation 1 below.
- (15) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Lithuania should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Lithuania take action in 2015 and 2016 to:

1. Avoid deviating from the medium-term objective in 2015 and ensure that the deviation in 2016 is limited to the allowance linked to the systemic pension reform. Broaden the tax base and improve tax compliance.
2. Address the challenge of a shrinking working-age population by improving the labour-market relevance of education, increasing attainment in basic skills, and improving the performance of the healthcare system; reduce the high tax wedge for low income earners by shifting the tax burden to other sources less detrimental to growth.
3. Adopt a comprehensive reform of the pension system that also addresses the challenge of pension adequacy. Improve the coverage and adequacy of unemployment benefits and cash social assistance and improve the employability of those looking for work.

⁷ Under Article 5(2) of Council Regulation (EC) No 1466/97.

Done at Brussels,

*For the Council
The President*