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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Lithuania

{SWD(2025) 215 final}

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Lithuania

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the

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1 OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency.

(4) On 14 May 2021, Lithuania submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 28 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Lithuania[5], which was amended under Article 18(2) on 9 November 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Lithuania has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

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3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

4 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa. eu/eli/reg/2023/435/oj).

5 Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania (10477/2021).

6 Council Implementing Decision of 23 November 2023 amending the Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania (14637/2023).

(5) On [date] the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Lithuania[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, the Commission adopted an opinion on the 2025 draft budgetary plan of Lithuania. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which did not identify Lithuania as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

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7 Council Recommendation of [8 July] 2025 endorsing the medium-term fiscal-structural plan of Lithuania, [Please complete: OJ C/2025/616/xxx, [dd.mm].2025].

8 Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj)

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Lithuania. It assessed Lithuania's progress in addressing the relevant country-specific recommendations and took stock of Lithuania's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Lithuania is facing. It also assessed Lithuania's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On [date] 2025 the Council recommended the following maximum growth rates of net expenditure for Lithuania: 6.1% in 2025, 5.2% in 2026, 4.8% in 2027, 4.5% in 2028, and 4.3% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to 2024 of 6.1% in 2025, 11.6% in 2026, 17.0% in 2027, 22.3% in 2028, and 27.5% in 2029. On 30 April 2025 Lithuania also submitted its Annual Progress Report[9], on relevant fiscal outturn data and projections and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Lithuania's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending. This proposal was welcomed by the European Council of 6 March 2025. Following the request of Lithuania on 2 May 2025, on [date] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Lithuania to deviate from, and exceed, the recommended maximum growth rates of net expenditure[10].

(13) Based on data validated by Eurostat [11], Lithuania' general government deficit increased from 0.7% of GDP in 2023 to 1.3% in 2024, while the general government debt increased from 37.3% of GDP at the end of 2023 to 38.2% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 10.7% in 2024. In the Annual Progress Report, Lithuania estimates the net expenditure growth in 2024 at 10.5%. Based on the Commission's

9 The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

10 Council recommendation allowing Lithuania to deviate from, and exceed, the recommended net expenditure path (Activation of the national escape clause), [Please complete:OJ C/2025/609, x.x.2025].

11 Eurostat-Euro Indicators, 22.4.2025.

estimates, the fiscal stance[12], which includes both nationally and EU financed expenditure, was expansionary, by 1.6% of GDP, in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Lithuania expects real GDP growth at 2.8% in 2025 and 1.5% in 2026, while HICP inflation is projected at 3.3% in 2025 and 2.4% in 2026. The Commission Spring 2025 Forecast projects real GDP to grow by 2.8% in 2025 and 3.1% in 2026, and HICP inflation to stand at 2.6% in 2025 and 1.2% in 2026.

(15) In the Annual Progress Report, the general government deficit is expected to increase to 2.8% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 42.4% by the end of 2025. These developments correspond to net expenditure growth of 9.9% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 2.3% of GDP in 2025. The increase of the deficit in 2025 reflects mainly increasing government spending on social benefits, public investments, intermediate consumption, compensation of employees and interest expenditure. According to the Commission’s calculations, these developments correspond to net expenditure growth of 9.0% in 2025. These lower projections of net expenditure growth than in the Annual Progress Report and the difference between the general government balance projected by the Commission and Lithuania are due to a lower projected general government expenditure on intermediate consumption and investment in the Commission 2025 spring forecast. Based on the Commission’s estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 1.7% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 41.2% by the end of 2025, according to the Commission’s 2025 spring forecast. The increase of the debt-to-GDP ratio in 2025 mainly reflects the budget deficit, as well as stock-flow adjustments.

(16) General government expenditure amounting to 1.2% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2025, compared to 0.5% of GDP in 2024, according to the Commission 2025 spring forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Lithuania.

(17) General government defence expenditure in Lithuania amounted to 1.8% of GDP in 2021, 2.1% in 2022, and 2.5% in 2023[13]. According to the Commission 2025 spring forecast, expenditure on defence is projected at 2.8% of GDP in 2024 and 3.2% of GDP in 2025. This corresponds to an increase of 1.4 percentage points of GDP compared to 2021. The period when the national escape clause is activated (2025-2028) allows Lithuania to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(18) According to the Commission 2025 spring forecast, net expenditure in Lithuania is projected to grow by 9.0% in 2025. Based on the Commission 2025 spring forecast,

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[12] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[13] Eurostat, government expenditure by classification of functions of government (COFOG).

the net expenditure growth of Lithuania in 2025 is projected to be above the recommended maximum growth rate, corresponding to a deviation[14] of 1.0% of GDP in 2025. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

(19) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission 2025 spring forecast projects a government deficit of 2.3% of GDP in 2026. These developments correspond to net expenditure growth of 5.8% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be neutral in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 43.9% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the negative general government balance and stock flow adjustments.

Key policy challenges

(20) Government spending on public services and social protection in Lithuania remains among the lowest in the EU, limiting timely and equal access to healthcare, social protection, and high-quality public administration services. In 2023, spending on social protection was at 14.0% of GDP, almost six percentage points lower than the EU average of 19.8% in 2023. Additionally, the efficiency of social protection spending, particularly on sickness and disability policies, appears to be limited. In 2023, Lithuania allocated 3.7% of its GDP to sickness and disability payments and measures, the fourth highest rate in the EU. However, despite similar disability prevalence (27.4% of Lithuania's total population in 2023 vs. 26.8% in the EU), Lithuania had the third highest at-risk-of-poverty rate for people with disabilities in the EU in 2023. Another critically underfunded policy area is healthcare, receiving the sixth lowest general government funding in the EU, amounting to 5.3% of GDP compared to the EU average of 7.4% in 2023. Inadequate financial resources for healthcare result in high levels of unmet needs for patients and in particular for low-income groups, a strong reliance on out-of-pocket payments and the inability to offer competitive salaries and conditions to healthcare professionals. General public services (such as general state and municipality administration services), is also underfunded receiving the third lowest level of funding in the EU in 2023 (3.4% of GDP, compared to the EU average of 6.0%).

(21) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Lithuania's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Lithuania to accelerate the implementation of reforms and investments by addressing relevant challenges, such as limited cooperation among national, regional and local authorities. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders

[14]

remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(22) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Lithuania. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Lithuania is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Lithuania continues to face challenges, including those relating to enhancing competitiveness, economic and social resilience and combatting regional disparities, addressing poverty and social exclusion, enhancing healthcare, labour market integration of disadvantaged groups, as well as skills supply, especially given its location on the Union's eastern border. In accordance with Article 18 of Regulation (EU) 2021/1060, Lithuania is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[15] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(23) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU programme supporting investments in priority areas. Lithuania could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Lithuania faces several additional challenges related improving access to finance for small and medium-sized enterprises (SMEs), stimulating regional development, boosting energy efficiency and renewable energy uptake, strengthening social protection and healthcare systems, and addressing disparities in education and job-market-relevant skills.

(25) Lithuania's economic growth is constrained by restrictive lending conditions and limited use of external finance, with increased geopolitical risks in the region also contributing to these negative effects. The Lithuanian banking sector is highly concentrated, lending rates are high and collateral requirements stringent. As of 2024, 13.7% of firms remained finance-constrained, reflected in a low bank loans-to-GDP ratio of 33.5%, compared to the EU average of 74.5%. Additionally, the Lithuanian capital markets are still underdeveloped, characterised by limited depth, activity and liquidity. By end-2024, equity market capitalisation was 5.9% of GDP, significantly below the EU average of 69.3%, as for their external funding, which is already limited, businesses continue to rely on bank intermediation rather than attracting funding

15 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

through stock and bond issuance. This reliance on traditional banking limits investment opportunities and reduces interest from investors. Despite some promise in the venture capital sector, with start-ups raising EUR 292 million in 2023, private equity investments remain below EU standards.

(26) Planned changes to the second-pillar pension scheme raise risks related to the further development of Lithuanian capital markets. The Lithuanian Ministry of Social Security and Labour has presented a proposal to abolish automatic participant enrolment in the second-pillar pension scheme, thus moving towards an ‘opt-in’ model, and to enable far-reaching withdrawal options with loose conditions. Currently, the Lithuanian second-pillar funds have accumulated around EUR 9.1 billion (11.6% of GDP) in savings, out of which around EUR 1 billion is invested in the national market. An opt-in model combined with other policy actions is likely to reduce the level of savings in Lithuania, which could undermine the development of the capital markets and complicate access to finance.

(27) Lithuania experiences low levels of innovative activity, lagging behind the EU average on different R&I indicators. R&D intensity in Lithuania (around 1% of GDP) is well below the EU average (2.25%), mainly caused by low business investment in R&D, which dipped to 0.44% of GDP in 2023, three times lower than the EU average. Similarly, the number of patent applications is still three times below the EU average. Lithuania’s R&D incentives, including tax deductions and reduced rates, have had limited impact, with low uptake among SMEs. In particular, small and newly set up firms are often not profitable enough to benefit from the incentives or opt to avoid the administrative burden of applying and qualifying for them. There is a need to review and streamline the incentives to make them more attractive and accessible to SMEs, to support private R&D investment.

(28) Lithuania’s rate of public-private scientific co-publications has remained among the lowest in the EU for the past decade, which indicates weak science-business linkages. An important factor is Lithuania’s fragmented science base, with research activities scattered across different universities and many small colleges, which often lack the capacity to participate in business projects. While reorganisation of colleges is ongoing, there are no financial incentives in place for universities to merge and pool resources to increase collaboration in research activities. Such incentives should be ensured to optimise the university network and achieve sufficient scale for scientific excellence, which would in turn facilitate science-business collaborations.

(29) Enrolment in post-secondary education, especially in fields such as engineering and manufacturing, has fallen significantly in the last few years, widening skill gaps. The Lithuanian government has taken steps to address this, but skills mismatches persist, with 76% of firms citing the lack of rightly skilled staff as an obstacle to long-term investment.

(30) Regional disparities persist in Lithuania, exacerbated by diverging labour-productivity trends. Between 2014 and 2024, productivity grew by around 20% in Vilnius and other major urban areas but by only 7% in more remote counties, widening gaps in GDP per capita, innovation and high-skilled employment. The high-tech sector accounts for 10% of total employment in Vilnius, compared with only 2.7% elsewhere. Urban regions attract a highly skilled workforce and high-value-added investment, while the rest of the country remains populated mainly by micro-enterprises in low-performing sectors, limiting productivity spillovers and local tax income, thus making it difficult for remote municipalities to deliver quality healthcare,

education and other public services efficiently. Lithuania has scope to improve regional connectivity, attract investment and strengthen intermunicipal cooperation. Targeted industrial zones, competitive incentives and specialised training programmes have shown to attract foreign investment and generate quality employment. Reviewing the legal and institutional framework for intermunicipal cooperation and clarifying regional strategies – with stronger cooperation among municipalities, central government, education providers and businesses – would help to upgrade the regional economic base, attract strategic investors and improve provision of public services in the regions.

(31) Lithuania remains dependent on imported energy, despite a significant increase in renewable energy production. In 2023, its dependency on fossil fuels imports amounted to 68%, which is higher than the EU average of 58.3%, despite improvements in recent years. In terms of electricity available for final consumption, net imports accounted for 62.4% in 2023, which is the second-highest share in the EU. At the same time, in 2024, the country added 1 724 MW of new generating capacity (+59.6%), driven mainly by solar (+93%) and wind (+42%) energy. As a result, the electricity grid must adapt quickly to accommodate new connections. While Lithuania has made progress in streamlining permitting procedures, the construction of new grid infrastructure – necessary to expand grid capacity and facilitate access – still takes significantly longer than the development of new generation or demand capacity.

(32) Three quarters of Lithuania's building stock was constructed before 1992, leading to low energy efficiency and high energy consumption, primarily driven by heating and cooling needs, which account for 80% of total energy consumption. Despite significant efforts in recent years – including energy-efficiency renovations and fiscal support to reduce household energy costs – energy poverty in Lithuania is still among the highest in the EU, with 18% of households unable to keep their homes adequately warm in 2024, nearly double the EU average of 9.2%. Therefore, there is scope for Lithuania to improve the energy efficiency of homes, which could reduce primary energy consumption and energy poverty. Recently, Lithuania has made efforts to lower the excise duty reductions on fossil fuels, increase excise duties on gas oils, coal, coke and lignite, introduce excise duties on peat for heating, and incorporate a carbon dioxide component into the rates of excise duty on energy products. Nevertheless, it still records sizeable fossil-fuel subsidies without a planned phase-out before 2030. In particular, fossil-fuel subsidies that address neither energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial for industrial competitiveness could be considered a phase-out priority. In Lithuania, fossil-fuel subsidies such as a reduced excise tax on natural gas used for heating by businesses and households and a reduced value added tax rate for heating residential spaces are economically inefficient, perpetuate reliance on fossil fuels and disincentivise electrification in the residential sector.

(33) Lithuania faces ongoing challenges in its transition towards a circular economy. In 2023, the circular material use rate stood at just 3.9% – three times lower than the EU average of 11.8% and among the five lowest rates in the EU. While Lithuania is highly dependent on imported raw materials, their sources are relatively diversified. Nonetheless, the country's material footprint, at 22.7 tonnes per person, is significantly higher than the EU average of 14 tonnes per person, and its industrial production emits roughly one third more greenhouse gases than the EU average (360 g/EUR compared to 270 g/EUR in CO_2 equivalent), despite notable progress

over the past decade. Thus, a transition to a more resource-efficient circular model is warranted.

(34) Lithuania's old and polluting car fleet remains a key contributor to its high greenhouse gas emissions and hampers compliance with air pollution reduction targets. In 2023, 77.1% of private cars were over 10 years old, making the fleet one of the oldest in the EU. At the same time, only 8.2% of newly registered vehicles in 2023 were battery--operated, compared to the EU average of 14.5%, marking a slow transition to zero--emission transport. Lithuania also has some of the lowest fossil-fuel based transport taxes in the EU and is among the few countries without an annual car pollution tax. The absence of such a tax, combined with a slowly developing public charging infrastructure, weakens incentives to shift towards more sustainable, low -emission transport. Meanwhile, public transport remains poorly coordinated and unattractive for both providers and passengers, with the lowest uptake in the EU; in 2022, 92.9% of passenger journeys were made by car. Municipalities are largely left to develop their own transport systems, resulting in uneven development and a lack of intermunicipal and intermodal connectivity, trip planning, and other essential services for passengers.

(35) Lithuania's healthcare system is characterised by a high rate of treatable and preventable mortality, and a life expectancy at birth that is below the EU average. The country's healthcare outcomes are also marked by a higher working-age mortality rate than the EU average, and a significant proportion of the population faces challenges in accessing quality medical services. This is related to the limited range of preventive and primary-level care services. Compared to other EU countries, Lithuania has a lower share of public spending on healthcare, resulting in a disproportionate financial burden on individuals, who cover a significant portion of healthcare costs through out--of--pocket payments, exacerbating socio-economic disparities in health outcomes. Furthermore, the country's healthcare system is affected by a shortage of health workers, particularly in rural areas, where medical deserts and an ageing nursing workforce impact the provision of healthcare services. Lithuania could benefit from: (i) action to attract more health workers to increase their availability; and (ii) investments to strengthen access to primary and preventive care.

(36) The general education system in Lithuania faces persistent challenges, including disparities in student performance between urban and rural areas. Teacher shortages, exacerbated by an ageing workforce, hinder the quality and efficiency of education. As of 2022, nearly 40% of general education teachers were aged 55 or older, which represents the highest proportion in the EU. The attractiveness of the teaching profession remains low due to inadequate wage structures and lack of recognition of prior experience. Revising the wage structure and narrowing urban-rural education gaps could help attract and retain more teachers. At the same time, low labour market relevance of vocational education and training and higher education, as well as fragmentation in the skills forecasting contribute to the formation of the skills mismatches in the labour market. In the 2024 European Investment Bank Investment Survey, 76% of firms cited the unavailability of skilled staff as a long-term barrier to investment.

(37) The co-existence of some persistent unemployment with labour shortages in certain sectors, such as health, public administration, transport and finance, also suggests that the current re- and upskilling framework is underperforming. Strengthening adult learning, including for unemployed people, low-skilled people and other vulnerable groups, is essential to addressing skills mismatches and shortages of workers, while the development of green skills supports the Lithuania's green transition. Moreover, in

2023, less than 5% of people registered with the unemployment service took part in state measures to help them find work (active labour market policy measures). This share has been low in Lithuania for years, which is reportedly due to limited interest among unemployed people to participate. Better tailoring of the support on offer to individual needs and other incentives to participate could increase the share of unemployed people covered by active labour market policies.

(38) Income inequality and poverty are still high in Lithuania. Gross income in Lithuania is among the most unequally distributed in the EU, and the effectiveness of the current tax-benefit system to reduce income inequality and poverty lags behind the EU average. As a result, income inequality after tax and benefits was still among the highest in the EU in 2024, and more than a fifth of Lithuania's population living below the at-risk-of-poverty (AROP) threshold. Vulnerable groups, such as unemployed people, people with disabilities and older people (65+), are particularly affected. Despite improvements in pension adequacy, older people continue to face significant poverty risks, with women being particularly affected. The gender gap in old-age poverty in 2024 was substantial, with the AROP rate significantly higher for women compared to men. People with disabilities face one of the highest AROP rates (38.2%; EU average: 20.7%), reflecting their low employment rates, with the disability employment gap in Lithuania being among the highest in the EU. Low adequacy of disability benefits further exacerbates the matter. Social housing also remains underdeveloped, with people waiting for social housing on average between five and six years. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework[16].

(39) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Lithuania, the recommendations (2), (3), (4) and (6) help implement the first euro-area recommendation on competitiveness, while the recommendations (3), (4), (5) and (6) help implement the second euro-area recommendation on resilience, and the recommendations (1) and (5) help implement the third euro-area recommendation on macro-economic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Lithuania take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on [date], while making use of the allowance under the national escape clause for higher defence expenditure. Provide adequate financing for healthcare, social protection and general public services. Improve tax compliance and broaden the tax base to sources less detrimental to growth.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the

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implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Improve access to finance for small and medium-sized enterprises including by stimulating competition in financial services and participation in financial markets and through automatic enrolment in the second-pillar pension scheme. Facilitate investment in R&D and support innovative capacity, including by reviewing and streamlining existing tax incentives for R&D, optimising the university network to foster business-science linkages, and incentivising enrolment in post-secondary education in science, technology, engineering and mathematics (STEM) fields. Address regional disparities by improving the legal and institutional framework to promote intermunicipal cooperation and development of local clusters in order to attract investments to regions, and to improve provision of public services, including the coordination of public transport routes and modes.

4. Further reduce reliance on fossil fuels and imported energy and ensure sufficient capacity in and access to the electricity grid with a view to maintaining a fast pace of deployment of renewable energy. Make buildings more energy efficient to reduce energy poverty, and continue to take action to phase out non-targeted fossil-fuel subsidies notably ones for heating. Increase resource productivity to progress towards a circular economy, by focusing on resource efficiency and the transformation and decarbonisation of industrial production. Increase the uptake of public and sustainable transport.

5. Make the health system more resilient and improve health outcomes by strengthening access to primary and preventive care and increasing the availability of health workers. Address income inequality, poverty and social exclusion by increasing the coverage, adequacy and effectiveness of the social protection system, improving the design of the tax system, improving access to and quality of social housing, and increasing the adequacy of old-age pensions, while maintaining the sustainability of the pension system.

6. Improve the quality, equity and efficiency of the general education system, particularly addressing the urban-rural achievement gap, while increasing the attractiveness of the teaching profession to address persistent shortages and ageing in the workforce. Address the skills mismatch by increasing the labour market relevance of higher education, promoting the acquisition of green skills, improving adult learning including for unemployed people, low-skilled people and other vulnerable groups, and increasing the coverage of active labour market policies through improved incentives to participate.

Done at Brussels,

For the Council
The President