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GOVERNMENT OF THE REPUBLIC OF LITHUANIA

RESOLUTION NO 343

ON

THE CONVERGENCE PROGRAMME OF LITHUANIA OF 2013

23 April 2013

Vilnius

Acting pursuant to Article 7 of 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 policies (OJ 2004, Special Edition, Chapter 10, Volume 1, p. 84), as last amended by Council Regulation (EC) No 1175/2011 of 16 November 2011 (OJ 2011 L, 306, p. 12), which lays down a multilateral surveillance procedure of the European Union Member States carried out in the form of stability and convergence programmes, the Government of the Republic of Lithuania has r e s o l v e d :

1. To approve the Convergence Programme of Lithuania for 2013 (as appended);

2. To charge the Ministry of Finance with the task of submitting the Convergence Programme of Lithuania for 2013 to the European Commission.

Prime Minister Algirdas Butkevičius

Minister of Finance Rimantas Šadžius

APPROVED BY
Resolution No 343 of 23 April 2013
of the Government of the Republic of
Lithuania

CONVERGENCE PROGRAMME OF LITHUANIA FOR 2013

CHAPTER I. FINANCIAL POLICY OVERVIEW

1. The Convergence Programme of Lithuania for 2013 (hereinafter referred to as “the Programme”) projects the economic policy outlined in the Programme of the Sixteenth Government of the Republic of Lithuania approved by Resolution No XII-51 of the Seimas of the Republic of Lithuania of 13 December 2012 (*Valstybės žinios* (Official Gazette) No 149-7630, 2012) (hereinafter referred to as “the Programme of the Government”) as well as in the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2013 (*Valstybės žinios* (Official Gazette) No 153-7823, 2012).

2. The Programme is oriented towards the development of implementing measures for specific short-term (nearest term) and mid-term objectives, namely:

2.1. To implement a budgetary policy ensuring economic growth, increase of employment, and reduction of unemployment, poverty and social exclusion and enabling an increase in real wages in the country. To swiftly improve the conditions for business and investment.

2.2. To ensure financial sustainability of the national economy and achieve a consistent growth in public funds’ revenues, while curbing smuggling and shadow economy and strengthening the fight against corruption.

2.3. To use the resources of European Union (hereinafter referred to as “EU”) assistance efficiently and rationally in order to enhance the country’s competitiveness and raise the living standards.

2.4. To cut the debt of the State Social Insurance Fund and, with economic recovery, to raise the pensions and other social benefits in a consistent fashion. To address energy problems and to modify the science and education policy.

2.5. To continue the implementation of the economic policy commitments of the exchange rate mechanism II (hereinafter referred to as “ERM II”) and, in the medium term, to achieve sustainable compliance to the criteria set out in the Treaty on the Functioning of the European Union (OJ 2010 C 83, p. 1), as well as to prepare for the adoption of the euro.

3. The Programme gives an overview of recent economic developments in Lithuania, a projection of a medium-term budgetary policy, an assessment of factors of economic development and fiscal risk, the quality of government finances, and a description of Lithuania’s readiness to overcome the effects of the ageing population. The guidelines for Lithuania’s structural reforms are laid down in the Programme of the Government, while the progress of implementing the structural reform measures is described in the National Reform

Programme 2013. When implementing the structural reforms envisaged in the Programme of the Government, priority will be given to measures that would enable effective reduction of dependence of the Lithuanian economy on imports of energy resources from third countries without losing productivity. This should reduce the risk of the structural current account deficit (hereinafter referred to as “CAD”) and preserve for Lithuanian residents the potential of national revenues to promote domestic consumption and to provide credits for investment.

4. The Programme examines and assesses environmental conditions for the achievement of the economic policy goals. The Programme has been based on assumptions concerning the euro exchange rate, as well as the prices of oil and other raw materials relied upon by the European Commission when preparing the winter forecast 2013.

5. In implementing the Law of the Republic of Lithuania on Fiscal Discipline (*Valstybės žinios* (Official Gazette) No 120-4881, 2007), after 2012 the general government balance indicator will be further improved by approximately one percentage point of the GDP on an annual basis. In order to minimise the effects of pro-cyclical consolidation on economic development, a new Medium Term Objective to keep structural deficit within 1% of the GDP has been set.

CHAPTER II. ECONOMIC OUTLOOK

SECTION I. ASSUMPTIONS FOR THE PROJECTIONS

6. The key assumptions for the external economic environment, while implementing the EU fiscal surveillance procedure and seeking to ensure comparability of economic forecasts of the EU Member States, correspond to the assumptions on the euro exchange rate and prices of oil and other raw materials, which were used by the European Commission when updating the scenario for the winter forecast 2013.

Table 1. Key assumptions

Indicator	2012	2013	2014	2015	2016
Short-term interest rates (annual average)	1.0	0.8	1.0	1.3	1.6
Long-term interest rates (annual average)	4.8	5.0	5.3	5.6	5.8
USD/EUR exchange rate (euro area and ERM II countries)	1.28	1.35	1.35	1.35	1.35
Nominal effective exchange rate	0.8	0	0	0	0
Exchange rate vis-à-vis the euro (annual average) (for countries not in euro area or ERM II)	N.A.	N.A.	N.A.	N.A.	N.A.
World GDP growth (excl. EU), %	3.9	4.0	4.5	4.5	4.5
EU GDP growth, %	-0.3	0.1	1.6	1.6	1.6
Growth of relevant foreign markets, %	-0.3	0.1	1.6	1.6	1.6
World import growth (excl. EU). %	4.0	4.2	6.0	6.0	6.0
Oil prices (Brent, USD/barrel)	111.8	113.7	106.4	106.4	106.4

Sources: Ministry of Finance, Bank of Lithuania, European Commission (2013 winter forecast)

Lithuania’s prospects for export markets in the EU represent the key assumption of the economic development scenario. It was also assumed that in 2013–2016 the Eurozone's fiscal stability risk will be brought under control.

The economic development scenario providing for a sustainable potential growth of the economy depends on the speed of implementation of structural reforms, falling interest rates, and the growth of investments up to the multi-annual average.

SECTION II. THE MONETARY AND EXCHANGE RATE POLICY

7. Lithuania’s monetary policy is being developed under the conditions of a fixed exchange rate. Such an exchange rate regime increases confidence in Lithuania’s economic policy and together with a competitive economic environment allows pursuing relative long-term price stability. Openness of the economy, relative flexibility of prices and wages, exchange rate importance for price stability are those features of the Lithuanian economy that contribute to the successful application of the fixed exchange rate strategy.

Upon becoming an EU Member State, Lithuania undertook to replace the litas with the euro in the future. Lithuania has been participating in the ERM II since 28 June 2004, by implementing a unilateral commitment to maintain a fixed exchange rate regime and a fixed national currency exchange rate vis-à-vis the euro.

Lithuania’s monetary and exchange rate policy goals remain unchanged. Lithuania has been participating in the ERM II by maintaining a strictly fixed litas exchange rate vis-à-vis the euro in accordance with the previously established exchange rate, and intends to join the euro area as soon as the convergence criteria are met. The Bank of Lithuania maintains the level of institutional preparation, which under favourable macroeconomic conditions will ensure a smooth and rapid currency changeover.

Bearing in mind the urgent priority of the Government of the Republic of Lithuania (hereinafter referred to as “the Government”) identified in the Programme of the Government, namely the country’s preparedness for the introduction of the European common currency and full membership in the Eurozone as soon as that becomes possible based on the established convergence criteria, Government Resolution No 178 of 27 February 2013 on the coordination of actions for the preparation of Euro introduction in the Republic of Lithuania (*Valstybės žinios* (Official Gazette) No 23-1120, 2013) was adopted. To ensure smooth introduction of the euro in the country, preparation for this step will be coordinated at the highest level of the Government. The Resolution has established a management scheme allocating the duties and responsibilities to institutions. In the course of preparation for the introduction of the common European currency in Lithuania, workgroups will examine, within their competence, the possibilities of assisting business in the preparation process as well protecting consumers from possible abusive practices and will address other relevant issues. One of the key priorities is adequate public awareness promotion. In implementing the said Resolution, the drafting of amendments to the National Euro Introduction Plan and the Strategy for Raising Public Awareness of Euro Introduction and for Communication, approved by Government Resolution No 1050 of 29 September 2005 (*Valstybės žinios* (Official Gazette) No 117-4235, 2005; No 49-1898, 2007) as well as of the Plan of Implementing Measures for the National Euro Introduction Plan has begun.

SECTION III. OVERVIEW OF ERM II IMPLEMENTATION

8. The Government of the Republic of Lithuania must pursue an economic policy in line with the commitments made on 28 June 2004, when it joined ERM II.

With the aim to ensure a balanced growth in loans in the country, the Bank of Lithuania undertook several measures. First of all, the Responsible Lending Regulations, approved by Resolution No 03-144 of the Board of the Bank of Lithuania 1 September 2011 (*Valstybės žinios* (Official Gazette) No 111-5262, 2011), laying down the principles for the assessment of bank risks and the assumed risks, came into force in 2011. The legal act establishes loan-to-value ratios, debt service-to-income ratios, and the loan maturity date. Furthermore, it ensures that clients receive sufficient and comparable information regarding conditions of the loan before signing the agreement. In addition, the Responsible Lending Regulations impose more stringent restrictions on foreign currency lending. Should the growth in loans shows signs of economy overheating or lack of crediting, the Bank of Lithuania is entitled to change the rates of loan-to-value ratios and of debt service-to-income ratios to tighten or loosen the credit standards, as appropriate.

In order to ensure effective joint supervision of the financial sector, the functions of the authorities responsible for the supervision of insurance and securities have been delegated to the Bank of Lithuania. This new unit is in charge of strengthening the management of systematic risk, client education and client complaint hearing.

In recent years, the economic environment became different from the one that prevailed at the time of joining ERM II, which makes the obligations as regards speedier implementation of structural reforms a priority. Reforms in the fields of pensions, education, and health care systems will be pursued further. Other implementing measures for structural reform will be specified in the National Reform Programme 2013.

SECTION IV. ECONOMIC CYCLE AND MEDIUM-TERM ECONOMIC DEVELOPMENT SCENARIO

The real sector

9. Although the remarkable development in 2011 was followed by a slower growth period in the Lithuanian economy in 2012, when the GDP increased by 3.6%, the Lithuanian economy has proved resistant to negative external and internal factors and has remained one of the fastest-growing economies across the EU. This economic growth owes to the

expanding production, record-high cereal harvests, rapid development of export, and consumption. The positive impact of domestic demand was less significant in 2012: the growth in household consumption expenditure lost steam, and domestic investment began shrinking as of the second quarter of 2012. A record-high agricultural harvest affected net export in the second half of 2012. Other influences, such as the ability to compete internationally or a slower growth in domestic demand, were felt throughout the year. The declining domestic demand had negative effects on import because of a slower growth in the demand for means of production and final goods. The competitiveness of enterprises, as a factor of export development, was positively affected by a change in production costs – the productivity increase was practically matched by the rise in wages. In Lithuania, this allowed enterprises to capture larger market shares, as export grew faster compared to the demand in the main foreign trade partners.

In 2012, growth in gross value added was the most remarkable in the sectors of agriculture, forestry and fisheries (8.6%), information and communications (7%), trade, transport, accommodation and catering services (6.3%) and manufacturing (6%) After a more active period in 2011, the construction sector suffered yet another recession in 2012, as the value added generated in this sector dropped by 5% year on year.

In 2012, compared to 2011, export of goods and services grew faster than import (11.2% and 5.6%, respectively) and therefore net export positive contributed to GDP growth. Lithuania’s economy has preserved its competitiveness; therefore the scope of export growth in 2013–2016 should be close to that of the multi-annual average export growth.

Lithuania’s economic agents have postponed their investment plans due to the uncertain economic development prospects of the Eurozone and therefore investments in gross fixed capital formation contracted by 2.5% in 2012 (the decline was the most severe, at 7.7%, in the fourth quarter). Businesses’ reluctance to invest was probably preconditioned by their belief that their production capacity were sufficient despite the fact that the utilisation thereof exceeded the long-term level. Financial difficulties probably played a minor role in discouraging investment, as most of the investment projects in 2012 were financed from companies’ own funds. The improving financial situation of companies is reflected by both the profit figures that grew with every quarter as well as their deposit balances in financial institutions, which hit historic heights at the end of 2012. Thus it can be expected that in 2013–2016 the recovery of the external environment, favourable borrowing conditions, better economic prospects compared with other EU Member States, a business-friendly environment as well as the projects initiated by the Government (a new dwelling renovation scheme) will encourage Lithuanian entrepreneurs to expand their industrial capacities (72% of which are now in use) and expand investments.

A slower growth in real household incomes in 2012 put a break on the growth of household consumption expenditure. Household consumption was additionally suppressed by the fact that households paid more to cover their obligations to financial institutions than they received in the form of interest on deposits kept in those institutions. Nevertheless, this suppressive effect was overshadowed by a positive impact owing to the fact that the balance of consumer and other (except housing) loans in 2012 did not decrease as much as it had done in 2011. Another positive impact on household consumption came from the lessening of saving incentives due to the improvement of households' financial situation. It should be noted, based on consumers' opinion surveys, that in the second half of 2012 the financial situation of households received the best evaluation since the start of economic recession.

Private sector indebtedness has limited and will continue to limit consumption funding opportunities, yet the growing income and private deposits will enable moderate growth of private consumption in 2013: inflation recently has been higher than the interest rates on deposits, which serves as a stimulus for consumption and not for saving for the future. Public sector consumption will remain moderate due to the need to further consolidate public finances.

Although the outlook of EU economic growth remains uncertain, the economic government policy followed by the European Central Bank and the EU Member promises that the period of 2012–2015 will see continued formation of favourable conditions for the growth of Lithuania's economy.

Table 2. Macroeconomic indicators

Indicator	ESA* code	Indicator value in 2012, million LTL	Change, %				
			2012	2013	2014	2015	2016
Real GDP	B1*g	83 637.5	3.6	3.0	3.4	4.3	4.0
Nominal GDP	B1*g	113 188.8	6.4	5.5	6.4	7.8	7.8
Components of real GDP							
Private consumption expenditure + NPISHs	P.3	52 051.3	4.7	2.0	5.5	5.7	6.1
Government consumption expenditure	P.3	13 496.8	0.7	5.1	-1.7	0.0	0.5
Gross fixed capital formation	P.51	16 245.3	-2.5	5.4	10.5	7.1	3.3
Changes in inventories and net acquisition of valuables (% of GDP)	P.52+P.53	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Exports of goods and services	P.6	69 675.9	11.2	14.2	8.1	6.9	3.3
Imports of goods and services	P.7	65 868.4	5.6	14.8	10.0	7.7	4.1
Contributions to real GDP growth, %							
Final domestic demand		–	-0.5	3.4	5.1	5.1	4.8
Changes in inventories and net acquisition of valuables	P.52+P.53	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Balance of goods and services	B.11	–	4.2	-0.4	-1.7	-0.8	-0.8

Sources: Statistics Lithuania, Ministry of Finance
* European System of Accounts.

Inflation

10. Average annual inflation, calculated in accordance with the Harmonised Index of Consumer Prices (hereinafter referred to as HICP), amounted to 3.2% in 2012 and was almost one percentage point lower than in 2011 (4.1%). The main factor behind the decrease in average annual inflation in 2012 was a slower growth (and even a decrease for some goods) of prices primarily in relation to external factors. Major influences include the fact that the growth in the prices of food was 2.5 times slower year on year as a result of good grain harvests and more consumer-friendly global prices of food commodities; that as a result of a slower increase in oil prices the growth of prices for transportation goods and services was twice as slow; and that a slight drop in the prices of natural gas resulted in a slower growth in the prices of the goods and services in the group of housing, water, electricity, gas and other fuels.

The administered prices and the prices of food, including beverages and tobacco, each accounted for one third of the inflation. Among food products, the greatest influences on inflation were the rising prices of meat and dairy products as well as tobacco price increases that resulted from higher excise duties. About a half of the impact of administered prices came from heat, component with the biggest weight in this group of products, the price of which went up by more than one tenth in 2012. The rise in administered prices in 2012 also owes to the growing prices of gas (in the middle of 2012, the natural gas price for household consumers jumped by more than one fifth) as well as passenger carriage by road and electricity. Growth in the prices of market services was stimulated by increasing prices of restaurant and cafe services, which experienced a certain delayed effect caused by the changes in food prices. External factors aside, core inflation (excluding the prices of unprocessed food and energy) in 2012 was insignificant and stable: the average annual core inflation amounted to 2.4 per cent and its change did not exceed half a percentage point. It could be said, therefore, that last year the country achieved price stability.

Various price indicator developments in 2012 were advantageous to consumers. Producers influenced consumer prices modestly and the annual increase in producer prices on the domestic market went down in 2012. The growth in import prices towards the end of 2012 was also much less significant than in the beginning of the year. In 2013, inflation will be somewhat affected by the adopted tax decisions. At the beginning of the year, several new value-added tax (VAT) concessions (for passenger carriage, press etc) came into force, while certain excise duties were increased (as of January – for gasoline due to the end of Lithuania’s transitional period as well as for smoking tobacco due to the entry into effect in the EU of new minimum excise rates for this product; as of March – for cigarettes in order to gradually reach the EU excise rate, for cigars and cigarillos so as to avoid a possible replacement effect for cigarettes). From the start of 2013, the minimum monthly wage was raised to LTL 1 000 (by 17.6%), with possible effects on inflation, as the growing company costs may have a certain impact on prices.

It is expected that in the medium term consumption recovery will be moderate, the effect of external factors, such as the prices of food commodities and energy, will be limited, while the average annual inflation will amount to 2.4–3.2%. The inflation deceleration processes, which began in 2011, are expected to end in 2013. A moderate growth in inflation is likely in 2014–2016, to be followed by upward trends in labour demand and wages. Nevertheless, a small risk remains that the price of oil will grow more rapidly than predicted in the European Commission's assumptions due to various unforeseen factors (such as possible disruptions of international oil supply or geopolitical conflicts), which would have a negative impact on the prices of various goods and services in Lithuania. Moreover, due to the constant growth in the global demand for food, the prices of food commodities and products could decline only in the case of favourable natural conditions for harvests. Therefore, rising food commodity prices are also associated with the risk of higher inflation in the medium term. The impact of the prices of food commodities and energy on inflation would be stronger in Lithuania, compared to developed countries, due to a bigger share in the consumer's basket related to these prices.

Although the pace of export growth in 2013 is likely to be similar to that a year ago, the increase of the minimum monthly wage this year will result in a more substantial growth of wages compared to the year 2012. Subsequently, as the demand for labour will continue growing in the country, while the supply of workforce will be slightly decreasing, the wages will grow even faster. Wages are expected to increase by 5–6.5% in the 2013–2016 period.

Table 3. Price indicators

Indicator	ESA code	Indicator value in 2012	Change, %				
			2012	2013	2014	2015	2016
1. GDP deflator		135.3	2.7	2.4	2.9	3.4	3.6
2. Private consumption deflator		140.2	3.3	2.5	2.9	3.0	3.6
3. HICP* (average annual)		103.2	3.2	2.4	2.8	3.2	3.2
4. Public consumption deflator		148.8	-1.0	3.0	3.0	4.0	3.0
5. Investment deflator		136.3	2.7	2.5	2.7	2.7	2.7
6. Export price deflator (goods and services)		142.9	3.5	-0.9	1.7	2.0	2.0
7. Import price deflator (goods and services)		139.6	4.2	-0.8	1.6	1.7	1.7

Sources: Statistics Lithuania, Ministry of Finance
*HICP – Harmonised Index of Consumer Prices.

Labour Market

11. In 2012, Lithuania ranked second among EU Member States according the pace of unemployment rate reduction. Having dropped by a 2.5 percentage points (to 15.3%) in 2011, unemployment kept declining at the same speed in 2012 and averaged 13.2%, 2.1 percentage points below the 2011 level. This resulted from a 1.8% rise in employed population and a 13.7% decline in the number of unemployed persons.

In 2012, the rate of employment for residents in the age group 15–64 amounted to 62.2% and increased by 1.9 percentage points as against the previous year. One of the reasons for the rise in employment was the rising number of job vacancies, which averaged 10.5 thousand in 2012, a 7% improvement year on year. The most sizeable growth in employment against the year 2011 was recorded in the manufacturing sector, where the employed population increased by an average of 8.7 thousand persons (4.5% growth), in transport and storage – by an average of 4.1 thousand persons (4.5% growth), in information and communications – by an average of 3.9 thousand persons (15.2% growth), in professional, scientific and technical activities – by an average of 3.7 thousand persons (8% growth), and in construction – by an average of 3.6 thousand persons (4.2% growth). If we compare the second half of 2012 against the second half of 2011, the growth in employment was faster than that which would result from a comparison between the first half-year periods of the respective years, and this promises that the rapid improvement of the labour market situation will continue in 2013.

Optimism concerning employment growth and unemployment decline is also inspired by the improvement, albeit slow, of the results obtained by surveys on business concerning the projected number of employees for the next 2–3 months, the increasingly favourable consumer opinions on the anticipated changes in the number of unemployed people over the next 12 months, as demonstrated by consumer opinion surveys, and the long-term unemployment figures that have been declining for nearly two years in a row (labour force surveys show that in the fourth quarter of 2012 the number of people that had been out of job for a year or longer totalled 87.3 thousand, i.e. was 37.6% smaller than two years before, when long-term unemployment figures were the highest since the second quarter of 2002).

Table 4. Labour market indicators

Indicator	ESA code	Indicator value in 2012	Change, %				
			2012	2013	2014	2015	2016
1. Employment, persons (thou)		1 278.5	1.8	0.6	0.6	0.6	0.3
2. Employment, hours worked		2 373 709	-6.7	–	–	–	–
3. Unemployment rate (%)*		13.2	–	11.5	10.5	9.8	9.1

Indicator	ESA code	Indicator value in 2012	Change, %				
			2012	2013	2014	2015	2016
4. Labour productivity (real GDP per employed person), thou LTL		79.7	4.9	2.4	2.8	3.7	3.6
5. Labour productivity, hours worked (real added value per actual hour worked), LTL		42.9	14.1	–	–	–	–
6. Compensations of employees, million LTL	D.1	44 070.7	5.0	5.7	5.8	6.4	6.9
7. Compensation per employee, LTL		34 470.6	3.2	5.0	5.2	5.8	6.5

Sources: Statistics Lithuania, Ministry of Finance
* Indicator value is given.

Despite the economic recovery and the relatively fast decline in unemployment, it will remain substantial in the medium term. The unemployment rate is expected to decline to 11.5% in 2013 and should amount to 10.5%, 9.8% and 9.1% in 2004–2016, respectively.

SECTION V. BALANCE OF PAYMENTS OF LITHUANIA

12. In 2012, the current account balance fluctuated a great deal due to one-off factors. A large current account deficit, which accumulated in quarter 1 (10.7 per cent of the GDP, i.e. the largest since 2009), in quarter 2 was replaced by a surplus of 5.1 per cent of the GDP. Such changes were mostly determined by non-systemic factors – a part of transfers of the EU Structural Funds, which were planned for quarter 1, were late (due to an investigation conducted by the European Commission), while in quarter 2 the company ORLEN Lietuva underwent overhaul, therefore, foreign trade flows were clearly redistributed. In quarter 3, the current account was better balanced (its deficit stood at 1 per cent of the GDP). In quarter 4, due to a foreign trade surplus and a significantly smaller income deficit, a surplus of the current account balance of 3.3 per cent of the GDP was recorded. In the entire year 2012, the current account deficit made up LTL 0.6 billion, or 0.5 per cent of the GDP.

The year 2012 saw intense development of the nominal export of goods (its annual growth amounted to 14.5 per cent), though it was affected by a weakening foreign demand, which partially demonstrated good competitiveness of Lithuanian exporters. Still, at the start of the year, the development of export was considerably weak (12 per cent in quarter 1 and 4 per cent in quarter 2) due to unfavourable development of both re-export and of export of products of Lithuanian origin. The former was particularly affected by the previous year's base of transport vehicles export (which was a result of changes in customs duties in certain countries of the Commonwealth of Independent States), and the latter – by the said overhaul of the company ORLEN Lietuva due to which, in quarter 2, the export of products of Lithuanian origin was even lower than a year before. In the second half of the year, trends changed and export started increasing (it constituted 16.4 per cent in quarter 3 and 24.7 per cent in quarter 4): the increased domestic demand in the markets of the Commonwealth of Independent States and the diminishing base effect of transport vehicles export had a favourable impact on re-export, while the re-established operation of the oil refining industry and the export of the harvest of products of agriculture determined lively export of products of Lithuanian origin. The year 2012 was particularly favourable to Lithuania's farmers: the harvest of grain crops alone was higher, by a quarter, than a year before, while due to high global food prices, in the second half of the year, their nominal export value was higher more than twice.

The development of the nominal import of goods, in 2012, was slower than that of export. Due to decreased domestic demand, the growth of import was lowest compared with the last three years (9.9 per cent). At the beginning of the year, fluctuating demand for raw materials by the oil refining industry determined an especially uneven development of import – in quarter 1, import grew 13.7 per cent year on year, while in quarter 2, it decreased year on year (though, it decreased only by 1 per cent). Later in the year, the development of import was more stable – in quarters 3 and 4, import grew 13.1 and 13.8 per cent respectively. Compared with the year before, both import of consumer goods and import of investment goods markedly decreased, which showed reserved expectations of consumers and the business as they were especially affected by uncertainty resulting from the intensified euro-zone crisis.

In 2012, just as in earlier years, a positive impact on the current account balance was exercised by current transfers, which consisted primarily of assistance from EU Structural Funds and remittances to Lithuania by emigrants. The current transfers from EU funds increased by LTL 551.9 million (17.9 per cent), while remittances by individuals from foreign countries decreased by LTL 409.3 million (10.3 per cent) year on year. The common surplus of the current transfer balance deceased by LTL 317.6 million (8.6 per cent). The service balance changed in a different manner – its surplus during the period in question increased by 25.2 per cent, primarily due to the improvement of transportation (in particular, road transportation) service export and travel service balance, which, possibly, reflects the growth of the incoming tourism.

As usual, the impact of the income deficit on the current account balance was negative, however, in 2012, it decreased by 5.6 per cent.

The capital account, reflecting EU Structural Fund capital transfers, in 2012, had a surplus of LTL 2.5 billion, thus, compared with the 2011 balance, it was lower by 5.3 per cent.

The overall foreign debt decreased from 77.8 per cent of the GDP in 2011 to 75.6 per cent of the GDP in 2012.

The general government sector, in 2012, borrowed externally especially actively because of the need to re-finance previous debts, cover the general government deficit and accumulate, in advance, funds to repay large debts at the beginning of 2013. In the medium term, the current account balance should remain negative: weak foreign demand in 2013 is expected to slow down the recovery of the national economy, therefore, domestic demand – in particular, investment – will gain even greater importance for the development of the national economy, while import will see faster growth than export.

Table 5. Sectoral balances

Indicator	ESA code	% of GDP				
		2012	2013	2014	2015	2016
1. Net lending/borrowing vis-à-vis the rest of the world	B.9N	0.9	0.2	-1.4	-1.8	-2.2
of which:						
balance of goods and services		0.6	0.2	-1.2	-1.6	-2.0
balance of primary income and transfers*		-1.8	-1.7	-1.7	-1.7	-1.7
capital account*		2.1	1.7	1.5	1.5	1.5
2. Net lending/borrowing of the private sector		4.1	2.7	0.1	-1.3	-2.7
3. Net lending/borrowing of general government	B.9N	-3.2	-2.5	-1.5	-0.5	0.5
4. Statistical discrepancy		0	0	0	0	0

*Sources: Ministry of Finance, Bank of Lithuania**

SECTION VI. RISK-RELATED ASPECTS OF ECONOMIC DEVELOPMENT

13. The major concern for the Lithuanian economy and its financial institutions is the imbalance of the public and financial sectors of European countries, while the prospect of Lithuanian export markets in the EU continues to represent the main risk factor in terms of changes in the economic development scenario. So far, there are doubts as to whether all EU Member States which are undergoing the debt crisis will implement structural reforms and overcome the crisis successfully. There is a risk that due to increasing problems in the euro zone the banking sector credit risk may suddenly increase, which would have an adverse effect on financial stability.

Whether or not the economic development scenario introduced in the Programme will come true also depends on the following assumptions: the use of EU assistance in 2013 will grow as expected; long-term interest rates on loans in the national currency will remain in a sustainable fashion at a level acceptable to investors in industrial capacities as well as consumers (this assumption is equivalent to the continuous accumulation of national reserves for the stabilisation of the general government debt); timely measures to neutralise the risk of structural current account deficit will be implemented.

Unstable external environment may increase the interest on new loans, with a downward effect on investment and consumption. A faster-than-expected growth in oil prices may also have a negative impact on economic development.

The abovementioned risks should be managed by giving priority to measures that allow effective reduction of dependency of Lithuania’s economy on energy resources imported from third countries when implementing structural reforms foreseen in the Programme of the Government.

Divergence from the plans for the use of EU support funds would correct the growth of the GDP to such an extent that the correction makes up half of the used funds.

There is still positive risk as well that allows hope that the pace of economy development will be more rapid than foreseen in the economy development scenario if trust of the EU business sector will increase more rapidly than suggested in the European Commission winter forecast 2013. The current account deficit worsening risk may be mitigated by a more rapid export growth than that stipulated in the economic development scenario.

CHAPTER III. PUBLIC FINANCES

SECTION I. STRATEGY FOR FINANCIAL POLICY

14. The main aim of 2012–2016 activities of the Government is Lithuania’s economic growth. This aim can be reached by conducting active investment and taxation policy geared towards job creation and, therefore, also towards reduction of emigration. A tool of such policy is economic-priority-based investment strategy. Investment first of all should be aimed at the increase and development of efficiency of industry as the economy’s driving force. The small and medium-sized business should recover. The state will stick to fiscal and budgetary discipline and at the same time will actively work to ensure that the borrowed funds are not “eaten” but used to increase the state’s revenue.

Having reduced in 2012 the general government deficit to 3.2 per cent of the GDP, the general government finances will be consolidated further seeking to achieve a new Medium Term Objective. Taking into account the multiannual negative output gap and promoting economic growth, a more modest Medium Term Objective is established, namely, to achieve that the structural deficit is not higher than 1 per cent of the GDP. Conditions will be created for the general government deficit to consistently decline by a percentage point of the GDP in 2013–2015, reaching in 2016 a surplus of 0.5 per cent of the GDP as provided for in the Law on Fiscal Discipline of the Republic of Lithuania.

15. Bearing in mind that the country’s macroeconomic stability is a safeguard for the growth of the living standard, the budgetary policy will be cautious and will ensure strict control of the public finance system and long-term sustainability of general government finances. With the aim to further consolidate public finances, the following priorities of the medium-term macroeconomic policy are established:

15.1. to align the current fiscal policy with the priorities of social policy;

15.2. to encourage the continuation of the launched energy reforms;

15.3. in order to ensure long-term sustainability of general government finances, to continue implementing the reforms of the pension system and the health system as well as other structural reforms provided for in the Government programme;

15.4. to create favourable conditions for the improvement of labour efficiency, improve competitiveness of the economy, attract more foreign direct investment, and successfully implement EU cohesion policies;

15.5. to boost confidence in the long-term sustainability of general government finances and fiscal discipline norms that ensure long-term economic development; follow the rule that under suitable economic conditions a stabilisation reserve would be regularly accumulated using a part of state property privatisation funds, taxation and other revenue; establish the procedure for the use of the stabilisation reserve funds considering the status of the economic cycle;

15.6. to enhance medium-term planning framework of the State Budget of the Republic of Lithuania (hereinafter referred to as “the State Budget”); manage state finances in a more efficient manner, use the accounting data of public sector finances based on the accumulation principle;

15.7. to base saving of the State Budget expenditure on concrete priorities; for certain areas, the State Budget expenditure should not be reduced, however, funds should be used more efficiently; having restored sustainable economic growth, according to the priorities increase financing for areas which ensure the provision of lacking services for the population and which create new jobs;

15.8. in a comprehensive fashion, to review the taxation system focusing in particular on taxation of labour income and privileged VAT tariffs; possible changes should be planned in such a manner as to ensure that they do not slow the decrease of the general government deficit;

15.9. to curb shadow business, strengthen the fight against corruption; increase the State Budget revenue by applying strict measures for the reduction of shadow economy; focus on the fight against smuggling, for that purpose, review the legislation, as appropriate, reform relevant state institutions, and create an effective incentives system for officers.

16. With a view to maintaining confidence in the principles of the currency board arrangement, Lithuania will, in the area of fiscal policy, continue to provide favourable conditions for improving labour efficiency, encourage investment, create a favourable business environment, and ensure effective use of public funds allocated for investment. Any additional general government revenue or unspent planned expenditure will be used for the achievement of the balance targets in the general government sector and for measures aimed at ensuring long-term sustainability of general government finances.

Measures planned for 2013–2016 to achieve the structural general government budgetary targets

17. According to the updated economic development scenario, there is no risk of non-achievement of the nominal general government budgetary targets for 2013–2016 resulting from economic development and no additional measures are provided for the management of such risk.

18. The following measures are planned for the achievement of the structural general government budgetary targets during 2013–2016 as indicated in line 10 of Table 9:

18.1. to improve tax administration and reduce the scale of shadow economy;

18.2. to increase the excise tariff on cigarettes (aiming to meet the minimum tariffs stipulated in EU acquis);

18.3. to continue the reduction of public expenditure and/or change the applicable taxes when that is necessary to compensate for the loss of revenue resulting from the tax reform or to maintain the deficit decline trends if the expenditure grows more rapidly than the economic potential.

SECTION II. IMPLEMENTATION OF COUNCIL RECOMMENDATIONS WITH A VIEW TO BRINGING AN END TO THE SITUATION OF EXCESSIVE GENERAL GOVERNMENT DEFICIT

19. EU Council Recommendation of 16 February 2010, with a view to keeping the general government deficit below 3 per cent of the GDP in 2012, urges Lithuania to ensure an average annual fiscal effort of at least 2.25 per cent of the GDP over the period of 2010-2012, notably by containing primary current expenditure, adopt the additional measures necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than expected. Lithuania is recommended to enhance the medium-term budgetary framework, including by strengthening fiscal governance and transparency and reinforcing expenditure discipline and by introducing necessary forward-looking elements and mechanisms to avoid pro-cyclicality.

In 2012, Lithuania continued fiscal consolidation in compliance with the excessive deficit procedure. Compared with the year 2011, the general government deficit decreased by LTL 2.2 billion (2.3 percentage points of the GDP). Instead of the expected general government deficit of 3 percent of the GDP for 2012, as specified in the Lithuanian Convergence Programme for 2012, approved by Resolution No 446 of 25 April 2012 of the Government (*Valstybės žinios* (Official Gazette) No 50-2453, 2012), a deficit totalling 3.2 per cent of the GDP was achieved. First, municipalities spent 0.2 per cent of the GDP of the revenue exceeding the plan. Second, the state received dividends from the private company Visaginas Nuclear Power Plant in the amount of 0.3 per cent of the GDP, however, the

Department of Statistics of Lithuania applied the test of superdividends and stated that the planned dividends were not revenue.

Drafting of the Law of the Republic of Lithuania on the Approval of Financial Indicators of the Public Budget and Municipal Budgets of 2013 was based on the attitude that expenses, compared to 2012, may not increase, except for the inevitable cases and cases when immediate or strategic challenges must be met.

Pursuant to Resolution No 447 of the Government of 25 April 2012 on the preliminary main indicators of the national budget of the Republic of Lithuania in 2013–2015 (*Valstybės žinios* (Official Gazette) No 50-2454, 2012), the maximum limits of appropriations (for expenditure and acquisition of assets) for 2013 were calculated for the State Budget appropriation managers with regard to the appropriations approved by the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2012 (apart from EU and other international financial support, contributions from the revenues of budgetary institutions to the State Budget as well as part of tax revenues and other funds envisaged by laws and other legislative acts for programme funding) minus the appropriations for the programmes and/or programme measures which were completed in 2012.

Thus the 2013 State Budget appropriations have been planned to be no higher than in 2012 (except for certain areas where public expenditure will increase: debt management – about LTL 148 million, contributions to the EU budget – LTL 138 million, and Lithuania’s presidency over the EU Council – LTL 136 million) minus the funds of the programmes completed in 2012. In order to provide for additional LTL 61.8 million of the State Budget expenditure necessary due to the increase of the minimum monthly wage to LTL 1,000 as of 1 January 2013, the 2013 State Budget appropriations have been reduced to ensure that the overall increase of the State Budget expenditure is in compliance with the Law on Fiscal Discipline of the Republic of Lithuania, i.e. the 2013 State Budget appropriations, apart from EU assistance funds, compared with 2012, would increase by LTL 224 million.

The Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2013 restricts the right of appropriation managers to assume financial obligations:

the estimate of a programme of the appropriation manager funded from a specific part of State Budget tax revenues the specific uses and designation of which are defined in the said law and/or in a resolution of the Government may not exceed 85 per cent of the approved amount; the programme’s estimate for the remaining amount shall be updated in October 2013 with the approval of the Ministry of Finance, which evaluates the data on the collection of three-quarter tax revenues from which the programme is financed as well as the amount envisaged to be collected in a year;

the Ministry of the Environment for the 2013 payments from the Special Programme on Climate Change may not use more funds than actually paid in 2013.

In case the State Budget revenue plan is not implemented, the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2013 obliges the Government to submit, by 1 June 2013, to the Seimas of the Republic of Lithuania the Draft Law Amending the Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2013 to make sure that the general government deficit does not exceed 3 per cent of the projected 2013 GDP.

Ensuring publicity and transparency of the composition of the State Budget, the information related to the 2013 State Budget is published on the website of the Ministry of Finance.

A great deal of attention is paid and is envisaged to be paid to the improvement of tax collection and fight against tax evasion. For that purpose, the plan is to implement preventive measures (one of such preventive measures is the right granted to the tax administrator to restrict, for a certain period, settlement in cash for persons who have committed certain tax violations) and measures aimed at promotion of voluntary payment of taxes (having simplified tax calculation, declaration and payment, and having introduced a modern consultation system) as well as to make practical work of law enforcement and control institutions more efficient by establishing concrete measures according to the riskiest areas in terms of tax administration and focusing on the cooperation of the control institutions. More attention will also be given to areas which mostly affect the scale of shadow economy, i.e. the fight against smuggling, VAT fraud and illegal employment as well as excise control; appropriate measures have been prepared and are implemented. To reduce shadow economy aspects related to the payment of work pay, which has not been registered in official accounting, and to illegal employment as well as the adverse impact of those aspects on the State Budget revenue, the State Tax Inspectorate conducts a wide-scale targeted programme covering measures with regard to selection, monitoring and control of risky tax payers, and measures aimed at encouraging the general public, associated business structures and employees themselves to actively contribute to the reduction of shadow economy. These efforts resulted in positive outcome already in 2012: in 2012, the national budget revenue collection target was implemented by 100.7 per cent, the revenue received exceeded that of 2011 by 8.1 per cent.

The State Budget planning and execution system reform is ongoing; the reform is closely connected with the transposition into national law of the provisions of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ 2011 L 306, p. 41). Currently the Ministry of Finance is preparing certain legislative drafts to be submitted to the Government.

Pursuant to the Law on Fiscal Discipline of the Republic of Lithuania, the Government in its Resolution No 1282 of 24 October 2012 (*Valstybės žinios* (Official Gazette) No 125-6273, 2012) adopted the Conclusion concerning the compliance of the Draft Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2013 with the recommendation of the Council of the European

Union and, together with the EU Council recommendation, submitted it for consideration to the Seimas of the Republic of Lithuania. These documents have already been considered by the committees of the Seimas of the Republic of Lithuania.

SECTION III. STATE BUDGET IMPACT ON MEDIUM-TERM GENERAL GOVERNMENT BUDGETARY TARGETS

20. The general government finance structure in 2013-2016, compared to 2012, will undergo major changes due to restricted increases in the expenditure for wages, intermediate consumption and social benefits: expenditure will grow slower than the nominal GDP. Currently no data is available on the new financial perspective and its implementation plans; thus, based on the assumption, it is likely that in 2014-2020 the multi-annual financial perspective will repeat the multi-annual trends, and the GDP part comprised of the gross capital in 2014 will be approximately 1 percentage point of GDP lower than in 2015–2016. As wages and other taxable bases will rise faster in 2015, the necessary conditions for an increase in labour compensation and intermediate consumption in general government will emerge.

21. In the programme, the general government finance projections essentially change due to expenditure growth restrictions as set forth in the Law of the Republic of Lithuania on Fiscal Discipline, 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 policies (OJ special edition, chapter 10, volume 01, 2004, p. 84) and Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ, special edicion, chapter 10, volume 01, 2004, p. 89), (hereinafter – EU Stability and Growth Pact).

Table 6. General government indicators (S13), 2012–2016*

Indicator	ESA code	Value of indicator in 2012 (LTL million)	Percentage of GDP				
			2012	2013	2014	2015	2016
1. General government	S.13	-3 666.2	-3.2	-2.5	-1.5	-0.5	0.5
2. Central government	S.1311	-1 401.1	-1.2	-0.8	-0.3	0.0	0.9
3. State government	S.1312	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
4. Local government	S.1313	-282.8	-0.2	-0.2	-0.1	-0.1	-0.1
5. Social security funds	S.1314	-1 982.3	-1.8	-1.5	-1.0	-0.4	-0.3
General government (S13)							
6. Total revenue	TR	37 229.9	32.9	32.2	32.2	31.5	31.1
7. Total expenditure	TE	40 896.1	36.1	34.7	33.7	32.0	30.6
8. Net lending/borrowing	EDP B.9	-3 666.2	-3.2	-2.5	-1.5	-0.5	0.5
9. Interest expenditure	EDP D.41	2 074.4	1.8	1.9	1.9	1.8	1.7
10. Primary balance		-1 591.8	-1.4	-0.6	0.4	1.3	2.2
11. One-off and other temporary measures			0.5	0.2	0.3	0.3	0.2

Indicator	ESA code	Value of indicator in 2012 (LTL million)	Percentage of GDP				
			2012	2013	2014	2015	2016
Revenue							
12. Total taxes (12=12a+12b+12c)		18 175.5	16.1	16.1	16.2	16.2	16.1
12a. Taxes on production and imports	D.2	12 620.8	11.2	11.2	11.3	11.2	11.1
12b. Current taxes on income, wealth, etc.	D.5	5 550.6	4.9	4.9	4.9	4.9	5.0
12c. Capital taxes	D.91	4.1	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	12 846.8	11.3	11.4	11.3	11.2	11.1
14. Property income	D.4	626.8	0.6	0.6	0.6	0.6	0.6
15. Other		5 580.8	4.9	4.0	4.0	3.6	3.3
16=6. Total revenue	TR	37 229.9	32.9	32.2	32.2	31.5	31.1
Tax burden (D.2+D.5+D.61+D.91-D.995)		30 973.6	27.4	27.5	27.5	27.3	27.1
Expenditure							
17. Compensation of employees + intermediate consumption	D.1+P.2	16 791.8	14.8	15.4	14.7	14.3	13.8
17a. Compensation of employees	D.1	10 917.6	9.6	9.7	9.3	9.1	8.8
17b. Intermediate consumption	P.2	5 874.2	5.2	5.6	5.4	5.2	5.1
18. Social payments (18=18a+18b)		15 684.0	13.9	13.3	12.6	12.1	11.7
of which unemployment social insurance benefits	D621+D.624	234.7	0.2	0.1	0.1	0.1	0.1
18a. Social transfers in kind	D.6311, D.63121, D.63131	1 941.4	1.7	1.8	1.7	1.7	1.6
18b. Social transfers other than in kind	D.62	13 742.5	12.1	11.5	10.9	10.5	10.1
19=9. Interest expenditure	EDP D.41	2 074.4	1.8	1.9	1.9	1.8	1.7
20. Subsidies	D.3	360.3	0.3	0.3	0.3	0.3	0.2
21. Gross fixed capital formation	P.51	4 376.1	3.9	2.9	3.2	2.6	2.2
22. Other		1 609.6	1.4	0.9	1.0	0.9	0.8
23=7. Total expenditure	TE	40 896.1	36.1	34.7	33.7	32.0	30.6
Government consumption (nominal)	P.3	19 941.63	17.6	18.0	17.2	16.6	15.9

Sources: Lithuanian Department of Statistics, Ministry of Finance

* Due to rounding, the sum of revenue and expenditure components may be different from the amounts given under “total revenue” and “total expenditure”.

Table 7. General government revenue, 2012-2016

Indicator	Value of indicator in 2012 (LTL million)	Percentage of GDP				
		2012	2013	2014	2015	2016
1. Total revenue at unchanged policies	37 229.9	32.9	32.2	32.2	31.5	31.1
2. Total expenditure at unchanged policies	40 896.1	36.1	34.7	33.7	32.0	30.6

Sources: Lithuanian Department of Statistics, Ministry of Finance

Table 8. Amounts to be excluded from the expenditure benchmark

	Value of indicator in 2012 (LTL million)	Percentage of GDP				
		2012	2013	2014	2015	2016
1. Expenditure on EU programmes fully matched by EU funds revenue	4 821.0	4.3	4.3	4.1	3.9	3.2
2. Cyclical unemployment benefit expenditure	68.5	0.06	-0.01	-0.06	-0.09	-0.12
3. Effect of discretionary revenue measures	125	0.11	-0.04	0.02	0.03	0.03
4. Revenue increases mandated by law	0	0	0	0	0	0

Sources: Lithuanian Department of Statistics, Ministry of Agriculture, Ministry of Finance

In 2012, the non-discretionary changes in unemployment benefit expenditure accounted for LTL 68.5 million or 0.06% of GDP. Unemployment benefits will stabilise in the medium term as a result of a more favourable situation in the labour market. To evaluate cyclical unemployment benefit expenditure, the structural unemployment level in Lithuania, calculated by the European Commission, was used. When comparing the structural unemployment level for 2013–2016 with the unemployment level projected for 2013–2016, a cyclical unemployment benefit component was taken into consideration. In terms of the classification of state functions (code CG1005), unemployment benefit projections for 2013–2016 were calculated according to the multiannual average ratio between unemployment benefits and the GDP.

In the medium term, the general government revenue (as a percentage of GDP) will be subject to decline due to the declining absorption of the EU structural funds support: in 2016 the revenue will be the lowest, accounting for 31.1% of GDP. The GDP share of revenue from indirect taxes will be stable at about 11.1–11.3% of GDP. Revenue from direct taxes will also be stable at about 4.9–5% of GDP.

An ongoing pension reform will allow preparations to reduce the general government debt envisaged for 2060. The reform is elaborated in paragraph 46 of the programme.

The share of tax revenues allocated in 2012 for the implementation of the pension reform and transferred to private pension funds approximately accounted for 0.3% of GDP.

Interest expenditure as a share of GDP stood at 1.8% of GDP in 2012. In 2016, the interest expenditure will drop to 1.7% of GDP.

Gross fixed capital formation will slow down owing to the expiring Financial Framework 2007–2013 and subsequently, due to formed multiannual trends of absorption of the Multiannual Financial Framework.

Balance of general government subsectors

22. In 2012, the balance of social insurance funds subsector improved by LTL 5.4m, however, it was similar to the deficit of the previous year, i.e. 1.8% of GDP.

The local government subsector deficit in 2012 accounted for 0.2% of GDP.

In 2012, the deficit of social insurance funds subsector accounted for 54.1% of the deficit of general government subsector. A declining deficit of the central government and social insurance funds subsector in 2013-2016 will have to result in the reduction of the total general government deficit in the medium term.

The data provided in Table 9 show that, as a result of applied rule of restricted increases in the expenditure, set forth in the Law on Fiscal Discipline of the Republic of Lithuania, in 2013–2016 the average annual structural government deficit will shrink by around 0.8% of GDP.

SECTION IV. STRUCTURAL GENERAL GOVERNMENT DEFICIT AND CONTINUITY OF FISCAL POLICY

23. In 2013, the structural general government deficit will decline by 1 percentage point of GDP, standing at 1.9% of GDP. The planned structural government balance indicator for 2012 was estimated negative, at – 2.9% of GDP, and, due to the application of the rule of restricted increases in the expenditure, set forth in the Law on Fiscal Discipline of the Republic of Lithuania as well as the measures increasing structural revenues, the balance will improve in 2016, standing at 0.2% of GDP surplus. The implementation of these plans requires continued decisive efforts to speed up structural reforms.

Estimates of the output gap

24. The GDP cycle was estimated by applying the Hodrick Prescot (HP) filter approach. The estimated projections indicate that in the period 2013-2015 output gap will be negative. In 2013, the output gap will be 2.8%, 2.2% in 2014, 0.9% in 2015, and 0.1% in 2016.

However, owing to short time-series and structural shocks under the Hodrick Prescot filter approach or under the production function approach (using NAIRU), the estimate of Lithuania’s output gap is not absolutely accurate. Conclusions obtained under the production function approach (based on the NAIRU conception) are, for the time being, not acceptable owing to short time-series, a lack of reliable data and a multitude of structural breaks. The NAIRU approach ignores “structural shocks”. First, the rapid growth of construction during 2006–2007 significantly contributed to the cyclical reduction of unemployment, which, under the NAIRU approach, might be treated as permanent. Second, the European single labour market will affect cyclical fluctuations of employment: integration will reduce cyclical unemployment as a part of the unemployed are likely to emigrate. Cyclical unemployment might develop into permanent reduction of labour force, however currently there is no reliable method for its estimation.

Table 9. Cyclical developments

Indicator	ESA code	Percentage of GDP				
		2012	2013	2014	2015	2016
1. GDP growth / chain linked volume growth		3.6	3.0	3.4	4.3	4.0
2. Net lending (+)/borrowing (-) of general government	EDP B.9	-3.2	-2.5	-1.5	-0.5	0.5
3. Interest expenditure	EDP D.41	1.8	1.9	1.9	1.8	1.7
4. One-off and other temporary measures		0.53	0.15	0.28	0.26	0.24
5. Potential GDP growth, %		2.5	2.6	2.7	2.8	2.9
contributions:						
- labour		N.A.	N.A.	N.A.	N.A.	N.A.
- capital		N.A.	N.A.	N.A.	N.A.	N.A.
- total factor productivity		N.A.	N.A.	N.A.	N.A.	N.A.
6. Output gap		-3.2	-2.8	-2.2	-0.9	0.1
7. Cyclical budgetary component		-0.8	-0.7	-0.6	-0.2	0.0
8. Cyclically-adjusted balance (2–7)		-2.4	-1.8	-0.9	-0.3	0.5
9. Cyclically-adjusted primary balance (8+3)		-0.6	0.1	0.9	1.5	2.2
10. Structural balance (8-4)		-2.9	-1.9	-1.2	-0.5	0.2

Sources: Department of Statistics, Ministry of Finance

The Hodrick Prescot (HP) filter approach has a disadvantage in that it evens structural changes even when they show an obvious shift in the output. Moreover, this approach suffers from the so-called “end-point bias”. However, the significant 2007–2008 adjustments to the government structural deficit show that the earlier-made reservations had been justifiable. In estimating the government structural deficit, account should be taken of the weaknesses of both methods: neither approach is good enough to assess income received (lost) on a temporary basis as a result of fluctuations in external imbalance. In 2008, the loan increase accounted for a sixth of the income of the private sector as well as general government, therefore, a sudden loss of the foreign credit stimulus and the self-regulation of the external imbalance caused a significant change in the growth of tax bases and the elasticity of taxes with respect to tax bases, though the agreed EU approaches did not show such cyclical income. The risk being realized, the errors of the structural deficit calculated using the two approaches accounted for a few percentage points. For these reasons, there was a sizeable increase in the 2008 estimate of the government structural deficit. Taking into account the practically justifiable reservation due to unreliable methods used to calculate indicator values of government structural deficit, this reservation is retained in the updated programme.

SECTION V. GENERAL GOVERNMENT DEBT LEVELS AND DEVELOPMENTS

25. Taking into account the financial derivative instruments used, the general government debt in 2012 was 40.7% of GDP (38.5% of GDP in 2011). This change in general government debt in 2012, as compared to the level of debt in 2011, was determined by still a deficit financial result of the general government sector, albeit reduced on account of the tight fiscal policy pursued by the Government of the Republic of Lithuania. General government debt increased by LTL 1.7 billion as a result of accumulation of funds in advance for timely redemption of Eurobonds issued in foreign markets in 2003 and supplemented by EUR 1 billion in 2004, which were redeemed in March 2013.

The central government debt structure poses no threat to public finances. At the end of 2012, short-term liabilities (by residual maturity) accounted for 14.1% of the total debt and the average residual maturity of the debt was 5.5 years. The floating interest rate debt, including the impact of financial derivatives, accounted for 1.4% of the total debt. Taking into account financial derivatives, the central government debt is 100% denominated in the litas and the euro

Table 10. General government debt projections

Indicator	Percentage of GDP				
	2012	2013	2014	2015	2016
1. Gross debt as of year-end	40.7	39.7	41.2*	39.6*	34.5
2. Change of gross debt ratio	2.20	-0.96	1.44	-1.62	-5.08
Contributions to changes in gross debt					
3. Primary balance	-1.4	-0.6	0.4	1.3	2.2
4. Interest expenditure	1.8	1.9	1.9	1.8	1.8
5. Stock flow adjustment	0.8	-1.4	2.3	0.9	-1.7
of which:					
difference between cash and accruals	–	–	–	–	–
net accumulation of financial assets of which: privatization revenues	0	0	0	0	0
implicit interest rate on debt (%)	5.6	4.9	5.0	4.7	4.7
Other relevant variables contributing to gross debt	–	–	–	–	–
6. Liquid financial assets	–	–	–	–	–
7. Net debt (7=1-6)	–	–	–	–	–
8. Debt amortization since end of previous year	–	–	–	–	–
9. Percentage of foreign currency denominated debt	–	–	–	–	–
10. Average debt maturity	–	–	–	–	–

Source – Ministry of Finance

*If we disregarded the possible accumulation of funds aimed at the management of the refinancing risk of the Eurobond redemptions, at the end of 2014 the general government debt would stand at 38.5% of GDP, while at the end of 2015 – 37.6% of GDP.

26. In the medium term, the tasks of the Government regarding borrowing and debt management are as follows:

26.1. to seek acceptable risk levels of interest rate, refinancing and exchange rate changes by adhering to established risk limits that are in line with the international practice;

26.2. to implement measures to control the refinancing risk related to redemption of large amount Eurobond issues (equivalent to EUR 1 billion and more), such as buy-back of Government securities (hereinafter, GS), exchange of GS, advance accumulation of financial resources or a combination of the said measures;

26.3. to stop the reduction of domestic debt share in the central government debt;

26.4. to develop and maintain an efficient and liquid domestic GS market;

26.5. taking into account the international practice, to seek to increase the weighted average maturity of domestic debt and the *Macaulay* duration of the domestic securities portfolio;

26.6. when issuing GS, to implement and form liquid bond emissions.

CHAPTER IV. SENSITIVITY ANALYSIS OF BUDGET INDICATORS AND COMPARISON WITH PREVIOUS PLANS

SECTION I. ECONOMIC DEVELOPMENT RISKS AND THEIR IMPLICATIONS FOR GENERAL GOVERNMENT FINANCES

27. A medium-term growth of floating and fixed market interest rates by 1 percentage point would imply an increase of the interest expenditure of new government borrowing in 2013–2016 of LTL 11 million, LTL 71 million, LTL 156 million and LTL 192 million respectively, or about 0.1% of GDP on average.

Taking into account financial derivatives, the central government debt (including interest payments) is 100% denominated in the litas and the euro, the exchange rate changes have no effect on central government interest payments

The economic development scenario, predicting a success in retaining economic growth, depends on the pace of structural reform implementation. The key precondition for the economic development scenario is structural reforms, which reduce energy dependence on mineral fuel. If this precondition fails to hold true, this will create a risk of an increase in import volumes in response to recovery of consumer and business confidence, resulting in a further increase in the CAD by several percentage points of GDP and thus raising the risk premiums and suppressing the growth of GDP potential. In such a case, general government consolidation would have to rely on smaller private sector resources.

However, there is a positive risk of a several-percentage-points faster growth.

The 2013 negative and positive risks of deviations from the central economic development scenario are balanced.

SECTION II. FISCAL RISK

28. The major projected sources of fiscal risk include: deposit insurance, state guarantees, decommissioning of the Ignalina Nuclear Power Plant (hereinafter referred to as Ignalina NPP) and measures to enhance the financial stability of the banking system.

Deposit insurance

29. The Lithuanian deposit insurance system is in compliance with the requirements of EU legislation in this area. The total amount of insured deposits on 31 December 2012 was LTL 41,245.3 million, while the total amount of potential insurance compensations before the said date stood at LTL 29,935.2 million.

30. As of 31 December 2012, the state company “Deposit and Investment Insurance“, which is responsible for the administration of deposit insurance in Lithuania, was indebted to the Ministry of Finance in the amount of LTL 2 251.7 million (after AB Bankas Snoras was declared insolvent on 24 November 2011 by the Bank of Lithuania, an insured event occurred under the Law of the Republic of Lithuania on Insurance of Deposits and Liabilities to Investors (*Valstybės žinios* (Official Gazette) No 65-2635, 2002) and there had not been enough funds accumulated in the Deposit Insurance Fund to pay the insurance compensations, therefore, a loan of LTL 3 265 million was granted by the Government).

31. On 24 January 2013, the Bank of Lithuania recognized the National Credit Union and the credit union “Švyturio taupomoji kasa“ as insolvent and, from 15 February, payment of insurance compensations to depositors of these credit institutions began, totalling LTL 139 million.

32. On 18 February 2013, the Board of the Bank of Lithuanian recognized the AB Ūkio bankas as insolvent and approved the transfer of its assets, rights, transactions and liabilities to another bank seeking to retain the clients‘ trust in the stability and reliability of the banking system, as well as protect the public interests in an alternative way, rather than liquidating the AB Ūkio bankas due to bankruptcy.

Resolution of the Government No 153 of 20 February 2013 “On the Participation of the State Company “Deposit and Investment Insurance“ in the Financing of the Transfer of the Assets, Rights, Transactions and Liabilities of the AB Ūkio bankas“ (*Valstybės žinios* (Official Gazette) No 20-966, 2013) approved the participation of the state company “Deposit and Investment Insurance“ in the financing of the transfer of the assets, rights, transactions and liabilities of the AB Ūkio bankas in the manner established in Article 12^1(2)(2) of the Law of the Republic of Lithuania on Insurance of Deposits and Liabilities to Investors, and for this purpose it was granted, until 1 February 2019, a loan from the funds borrowed on behalf of the state worth up to LTL 800 million with an annual interest rate of 2.801%.

As at 6 March 2013, the debt of the state company “Deposit and Investment Insurance“ to the Ministry of Finance amounted to LTL 3 060.2 million.

Government guarantees

33. The Government-guaranteed loan portfolio at the end of 2012 accounted for about 0,8% of GDP. The guaranteed loan portfolio is expected to remain at an insignificant level.

Table 11. Contingent liabilities

Indicator	% of GDP	
	2012	2013
Government guarantees	0.8	1.2
of which linked to the financial sector	0	–

Source: Ministry of Finance

Decommissioning of the Ignalina NPP

34. The planned amount of expenditure from the Fund for the Decommissioning of the Ignalina NPP for 2012 is LTL 67 943 000 (according to the data provided by the Ministry of Energy, in 2012, the actual costs were LTL 268 000, whereas the remaining amount on 31 December 2012 was LTL 79 398 000. In 2013, the planned amount of expenditure from the Fund is LTL 54 039 000. On 31 December 2013, the remaining amount of the Fund will be LTL 31 722 000. According to the information provided by the Ministry of Energy, in the period 2014–2016, allocations required from the Fund will be respectively LTL 48 970 000, LTL 46 770 00 and LTL 44 170 000. Under the State budget plan 2013, allocations for the administration of the Ignalina Programme in Lithuania total LTL 526 129 000 (of which LTL 500 129 000 are EU assistance and LTL 26 000 000 are co-financed), while the funding received by the appropriations manager in 2012 – LTL 127 094 000 (of which LTL 106 233 000 was EU assistance and LTL 20 861 000 were co-financed).

According to the Strategic Action Plan for 2013–2015 approved by Order No 1-262 of the Minister of Energy of 11 December 2012, the amount to be disbursed for the implementation of this Programme in 2014 is LTL 417 832 100 (of which LTL 27 000 000 will be co-financed) and in 2015 – LTL 397 000 000 (of which LTL 27 000 000 will be co-financed).

Securing of financial stability

35. The Bank of Lithuania and other responsible institutions in honouring their commitments of the Euro Plus Pact in the area of strengthening financial stability implemented a number of measures to reduce financial sector risk. The most important of them are the tighter requirements for credit unions imposed by the Bank of Lithuania in respect of their establishment, activity and risk management, including the development of the procedure for examination of credit union executives, who do meet the established

requirements, application of stricter prudential requirements to credit unions (capital adequacy, liquidity and maximum loan amount); supplementing the legislation of the Bank of Lithuania on public information requirements applicable to credit unions as well as loan assessment rules of credit unions. These amendments of the legal acts of the Bank of Lithuania will allow ensuring a sustainable development of credit union activity and proper management of operational risk and will limit the extent and concentration of the risk undertaken. Steps to be taken in the nearest future include supplementing the minimum loan assessment requirements for credit unions and development of the Provisions for Organization of the Internal Control and Risk Assessment (Management) of Credit Unions.

With a view to increasing financial stability, in 2013, amendments will be made to the Law on the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-1957, 1994) to enable the Bank of Lithuania to undertake macro prudential policy making and enforcement in Lithuania. The aim of macro prudential policy is to contribute to the protection of the stability of the financial system, including strengthening of resilience of the financial system and reduction of the build-up of systemic risk, thus ensuring sustainable contribution of the financial sector to economic growth. The Bank of Lithuania, in shaping and implementing the macro prudential policy, will apply political measures prescribed by legislation that are necessary to achieve the aim of macro prudential policy made and implemented by the Bank of Lithuania and also measures setting requirements applicable to the financial system or individual financial institutions, so as to prevent or reduce the risks to the country‘s financial system.

In August 2010, on Lithuania‘s request, the European Commission approved the bank support scheme in accordance with State aid rules and established conditions for the application of support measures. Since, throughout the period 2011–2012, Lithuania has maintained the preparatory conditions for the application of the measures established in the Law of the Republic of Lithuania on Financial Sustainability (*Valstybės žinios* (Official Gazette) No 93-3985, 2009) as well as the compliance of these measures with the State aid rules, the validity of the bank support schemes is extended every half year.

Taking into account the situation in the international and domestic financial markets, the validity of these measures was once again extended until 30 June 2013. If necessary, a decision will be made regarding the reasonableness of further extension of the validity of the measures under the Lithuanian bank support scheme.

SECTION III. COMPARISON WITH PREVIOUS PLAN

36. GDP projections have been revised to reflect the actual figures of 2012 announced by the *Statistics Lithuania* and the emerging trends in economic development.

General government deficit and debt projections have been made according to ESA’95. The 2013 general government budgetary target have been adjusted due to the changes in the economic development scenario.

Table 12. Change in GDP, general government deficit and general government debt projections compared to the Convergence Programme of Lithuania of 2012

Indicator	ESA code	% of GDP				
		2012	2013	2014	2015	2016
1. GDP growth:						
Previous update		2.5	3.7	3.4	4.3	N.A.
Current update		3.6	3.0	3.4	4.3	4,0
Decrease (-) / Increase (+)		1.1	-0.7	0	0	N.A.
2. General government net lending(+)/borrowing(-):	EDP B.9					
Previous update		-3	-2	-1	0	N.A.
Current update		-3.2	-2.5	-1.5	-0,5	0.5
Worsening (-) / Improvement (+)		-0.2	-0.5	-0.5	-0.5	N.A.
3. General government gross debt:						
Previous update		40.2	38.6	36.7	34.9	N.A.
Current update		40.7	39.7	41.2*	39.6*	34.5*
Decrease (-) / Increase (+)		0.5	1.1	4.5	4.7	N.A.

Sources: Department of Statistics, Ministry of Finance.

*Excluding the possible accumulation of funds aimed at reducing the refinancing risk by Eurobond redemption the general government debt at the end of 2014 is projected to be 38.5% of GDP and at the end of 2015 – 37.6% of GDP.

CHAPTER V. QUALITY OF GENERAL GOVERNMENT FINANCES

37. In order to introduce the elements of performance-driven and evidence-based management in the public sector a project “Improvement of Performance Based Management“ has been implemented following successful international practice, resulting in the development and introduction of the key performance-oriented and evidence-based management tools, such as performance monitoring system, programme evaluation and functional review and the system of impact assessment. The initiative is aimed at enhancing the quality of performance and increasing accountability for results of the Government and its subordinate institutions. New IT solutions for performance management and monitoring have been created, along with relevant methodological instruments.

The Ministry of Finance introduced the Monitoring Information System, aimed at helping to ensure a regular performance monitoring of Government-accountable institutions, by enabling automatic delivery of performance data, cross-section analysis, and at any time viewing institutional performance results via a single access point. Since 2012, the Government-accountable institutions report performance information on a quarterly basis to the system, which allows the analysts from the Prime Minister's Office and other institutions to obtain quick access to performance information and subsequently report to their superiors and the Government.

The new programme evaluation and functional review systems provide for reasoned (evidence and analysis-based) management decisions in response to changes: declining financial and human resources, introduction of new IT solutions, and new institutional goals and objectives.

The consistent evaluations carried out since 2012 according to the newly developed methodology for the evaluation of budget programmes encourage a continuous improvement, thus increasing institutional efficiency and effectiveness, responsibility and accountability. The newly created programme evaluation system prompts interest not only in absolute results, but also in regular evaluation of the changing needs of the society and thinking how to improve the performance. Thus, civil servants are able to provide reliable and evidence-based information to decision-makers.

In order to improve public policy making and decision making, to provide public decision making institutions and bodies with possible alternative solutions and their implementation impact, to enable opting for the best solution, it has been established that the impact assessment of draft legislative proposals should also include the cost-benefit or cost effectiveness analysis, enabling to identify optimal implementation costs**.**

To ensure the publicity and transparency of budgeting, the information related to the 2013 budget is published on the website of the Ministry of Finance.

38. Optimization of the management of the resources of the State Social Insurance Fund has been carried out. At the end of 2012, amendments were adopted to the laws regulating state social insurance, specifying that, from 1 January 2014, the maintenance costs of the Lithuanian Labour Exchange and its territorial subdivisions shall be included in the State budget. The amendments provide that although health insurance continues to be one of the forms of social insurance, it is implemented in accordance with the procedure established in the Law of the Republic of Lithuania on Health Insurance (*Valstybės žinios* (Official Gazette) No 55-1287, 1996; No 123-5512, 2002) and, from 1 January 2013, shall not be included in the calculation of the budget of the State Social Insurance Fund. Moreover, according to the amendments, the state social insurance contributions and spending across different types of social insurance, excluding the operational costs of the State Social Insurance Fund and the non-recoverable amounts as well as the amounts of doubtful recoverability, will be annually included in the supplementary tables, together with the Compendium of Reports on Implementation of the Budget of the State Social Insurance Fund; in order to meet the obligations to the insured, interest on loans taken after 1 January 2014, will be covered from the State budget.

39. As a result of fiscal consolidation, a share of public administration expenditure in Lithuania (% of GDP) remains low in comparison with that of the other EU Member States. According to the data provided by the Department of Statistics, public administration expenditure in Lithuania decreased to 37.4% of GDP in 2011 (this indicator was 40.9% of

GDP in 2010). As a result of implementation of the provisions of the Law of the Republic of Lithuania on Fiscal Discipline concerning expenditure restraint, general government expenditure should decline to multiannual levels close to 31.7% of GDP by 2016.

Table 13. General government expenditure by function

Indicator	COFOG Code	% of GDP	
		2011	2016
1. General public services	01	4.5	
2. Defence	02	1.1	
3. Public order and safety	03	1.9	
4. Economic affairs	04	4.0	
5. Environmental protection	05	0.9	
6. Housing and community amenities	06	0.3	
7. Health care	07	5.2	
8. Recreation, culture and religion	08	1	
9. Education	09	5.8	
10. Social protection	10	12.7	
11. Total expenditure		37.4	31.9

Sources: Department of Statistics, Ministry of Finance.

SECTION I. GENERAL GOVERNMENT EXPENDITURE

40. State budget expenditure targets and priorities are defined in a number of policy papers that are interrelated and form a single integrated set. The key national budget expenditure targets and priorities have been set by the Programme of the Government of the Republic of Lithuania. Each year, before drawing up the State budget, the Government of the Republic of Lithuania also drafts a plan of the Government's priority activities for the respective year. According to these priorities, funds are allocated to areas of responsibility of relevant ministers for the implementation of programmes of the institutions and bodies under their charge.

To achieve stabilization of public finances and the optimization of government budget expenditure, no funds will be increased for other expenditure, except the unavoidable one, such as costs of management of increasing debt, contributions to the EU budget, costs related to the Lithuanian Presidency of the Council of the EU. It should be noted that in accordance with the Law on Approval of Financial Indicators of the State Budget of the Republic of Lithuania and of Municipal Budgets of 2013, extra revenues shall be used for the coverage of State budget deficit, while appropriations saved on expenditure shall be first used to cover credit debt. These provisions are strictly complied with and they will be included in the next year's State budget.

SECTION II. GENERAL GOVERNMENT REVENUE

Changes in tax system in 2012

41. Direct taxes: as of 2013, transition to the calculation of the land tax based on the average market value of the land has been completed.

42. Indirect taxes:

42.1. The application of reduced rates of VAT to the supply of central heating and hot water, to the supply of compensated pharmaceuticals and medical aid has been prolonged.

42.2. As of 1 January 2013, reduced VAT rate of 9% applies to services of passenger and baggage transportation over regular routes, newspapers, magazines, other periodicals and the VAT rate of 5% – to means of technical assistance for the disabled and their repair.

42.3. As of 1 January 2013, the excise duty rates have been raised for gasoil, and from 1 March 2013 – for cigarettes, cigars and cigarillos.

43. Tax administration: draft amendments to the Law on Tax Administration (*Valstybės žinios* (Official Gazette) No 63-2243, 2004) have been worked out with a view to reducing the risk of income evasion, justification of assets acquired with fictitious revenue sources, and the risk of tax evasion, to enabling the tax administrator to give instruction to risky taxpayers to settle their accounts on non-cash basis and the obligation to inform the population about significant cash settlements. In addition, the amendments aim to optimize the procedures for postponed payment as regards tax arrears (by instalments), they include measures to prevent failure to declare tax and to encourage timely payment of tax obligations. In order to reduce taxpayers‘ administrative burden a provision has been made to allow the taxpayers exemption from the interest on the taxable loan and certain legal legislative requirements.

CHAPTER VI. SUSTAINABILITY OF GENERAL GOVERNMENT FINANCES

44. Long-term sustainability of public finances represents a problem for all EU countries, aggravated by financial and debt crisis. Due to the economic crisis, the gap between the general government balance indicator and sustainability indicators has widened in many countries, including also Lithuania. To achieve long-term sustainability of public finances, it is extremely important to reduce the general government deficit and debt, to increase employment and to implement the reform of the social security system.

SECTION I. SOCIAL SECURITY SYSTEM REFORM

45. The current social security system of Lithuania suffers not only from long-term effects of the economic crisis (contributions insufficient to match the benefits, rising unemployment, inadequate commitments undertaken in the past), but also from long-term structural problems (inconsistent tax base, ageing society), therefore, on 8 June 2011, the Government of the Republic of Lithuania adopted Resolution No 684 ”On Approval of the

Action Plan for Implementation of the Guidelines of Reform of the State Social Insurance and Pension System". The purpose of reform is to develop a financially sustainable social insurance system, to relate the payment of benefits to the country's economic ability and to achieve a more effective and transparent administration of the pension system.

46. The challenges of the pension system identified in the draft concept of reform of the State social insurance and pension system will be addressed through gradual implementation of these measures:

46.1. From 2012, to begin to increase the retirement age by 4 months every year for women and by 2 months for men until 2026 when the retirement age for both genders reaches 65;

46.2. To change the procedure for the calculation of social insurance pensions, i.e. to gradually introduce the new base pension or national pension which are to be financed from the general taxes;

46.3. To lay down a procedure for determining the amount of pension and pension indexation;

46.4. To include supplemental income (earnings) when calculating pension insurance contributions;

46.5. To encourage residents to participate in II and III pension pillar schemes.

The Guidelines for Reforming State Social Insurance and Pension Scheme (hereinafter, the Guidelines) adopted by Resolution No XI-1410 of the Seimas of the Republic of Lithuania of 24 May 2011 (*Valstybės Žinios* (Official Gazette), No 66-31032011) provide for the long-term goal of social insurance and pension scheme reform, which is to create a more sustainable, secure, transparent, proportionate scheme, ensuring adequate allowances, at the same time transforming the current model of the State social insurance and pension scheme and ensuring proper reward for the lifetime work. To implement the Guidelines, the Government of the Republic of Lithuania adopted, on 8 June 2011, Resolution No 684 (*Valstybės Žinios* (Official Gazette), No 73-3509, 2011), approving the Action Plan for the Implementation of the Guidelines for Reforming State Social Insurance and Pension Scheme. One of the measures under this Plan has been implemented by the Seimas of the Republic of Lithuania by adoption, on 9 June 2011, of the Law Amending Articles 21, 25, 33, 56, 57 and 67 of the Law on State Social Insurance Pensions (*Valstybės Žinios* (Official Gazette), No 77-3723, 2011), providing for a gradual extension of the retirement age for men and women, starting from 2012 (as specified in Paragraph 46.1 of the Programme).

Following the principle, established in the Guidelines, of raising the efficiency of II pillar private pension scheme, and seeking to establish optimal rates of State social insurance pension contribution for social insurance and pension savings, the Seimas of the Republic of Lithuania adopted, on 14 November 2012, the Law Amending Articles 1, 2, 3, 4, 7 and 8 of the Law on Reform of the Pension System (*Valstybės Žinios* (Official Gazette), No 136-6969, 2012). According to the Law, in 2013, the rate of pension contribution has been established at 2.5 per cent, and from 1 January 2014 – at 2 per cent of the participant's income, an additional 1 per cent of participant‘s income, from which State social insurance contributions are calculated, shall be paid to the pension fund, and it shall be paid from the participant‘s funds, and an additional 1 per cent of pension payment, calculated from the average monthly gross wage of the four quarters the country's payroll of the year before the previous year published by the *Statistics Lithuania*, shall be contributed from the State Budget. As of 1 January 2016, the rate of additional contribution to be paid from the participant‘s funds has been established at 2 per cent of the participant's income, from which state social insurance contributions are calculated, while the rate of additional contribution paid for the participant from the State Budget – at 2 per cent of the average monthly gross wage of the four quarters the country's payroll of the year before the previous year published by the *Statistics Lithuania.* As of 1 January 2020, the rate of pension contribution has been established at 3.5 per cent, the rate of additional contribution to be paid from the participant‘s funds – at 2 per cent of the participant's income, from which state social insurance contributions are calculated, while the rate of additional contribution paid for the participant from the State Budget – at 2 per cent of the average monthly gross wage of the four quarters the country's payroll of the year before the previous year published by the *Statistics Lithuania.* Pension accumulation agreements signed in 2013 will be subject to new statutory pension scheme terms. During the transition period from 1 April 2013 to 1 September 2013, pension scheme participants can unilaterally decide to stop participation in the scheme, continue under the previous terms or sign an agreement for participation in pension scheme on new terms. The measures adopted will have an effect on the planned reduction of government debt in 2060 and will encourage private persons to save funds to supplement their old-age pension. Currently, legislative proposals regarding a procedure for calculating social security pensions and implementing principles for indexation mechanism are being worked out.

SECTION II. HEALTH CARE REFORM

47. The purpose of health care is ensuring an overall physical and spiritual well-being of every Lithuanian citizen through accessible, high quality and efficient health care, and through provision of equal opportunities for all residents of the country to obtain necessary medical care as well as the right to choose a doctor and a health care institution. National health care is greatly impacted by economic, social and demographic changes in the country. The population is declining in number, and it is becoming older. Due to decreasing number of working age population, the need for social care services is greater, resulting in higher spending on health care. As the working-age population is declining, it is essential to improve their health, cutting down on days lost due to disease, prolonging working life and reducing premature deaths and disability cases: in an aging society it is important to maintain good health, which has a direct effect on the size of the labour force and productivity. Steps will be taken to run awareness raising campaign and prevention activities for healthier environment, healthy children, prevention of non-communicable and communicable diseases, injuries and accident s, healthy diet, lifestyle and physical activity.

48. The Programme for Stage Three of Restructuring of Health Care Institutions and Services, approved by Resolution No 1654 of the Government of the Republic of Lithuania of 7 December 2009 (*Valstybės žinios* (Official Gazette) No 150-6713, 2009), is being implemented to address the provision of safe, high quality and accessible health care services and efficient use of resources allocated to health care. In 2010-2011, with a view to creating a more efficient network of medical institutions, the number of institutions providing health care services (legal entities) was reduced by 20 – they were merged into larger legal entities in accordance with criteria set out in the Programme for Stage Three of Restructuring of Health Care Institutions and Services (81 individual health care institution reduced to 61). This has led to a reduction of administration and maintenance costs of health care institutions, and redundant projects to improve the efficiency of using investment funds.

One of the major objectives of the Programme for Stage Three of Restructuring of Health Care Institutions and Services to reduce inpatient services and increase out-patient ones has been achieved: compared to 2009, in 2012, inpatient services (preliminary data) came down by 7%, while out-patient went up by 11.7%, more economically-effective services were delivered, they were more acceptable to patients, also saved health care resources and public funds, reduced lines of patients and saved patients' time. In 2012, outpatient specialised consultations increased by 10%, day surgery – by 13% compared to 2009. Day inpatient treatment went up by 43%, emergency and first aid by 9%, compared to 2009. During the reform period, observation services in the district-level hospitals were 79% up against 2009.

To achieve the most efficient national health care system, it has been planned to develop and implement the plan for the next stage in the health system development and hospital network consolidation (the deadline being the second quarter of 2014).

49. As of 1 January 2012, the diagnosis related groups (DRG)-based health care payment system for in-patient services has been introduced nationwide, along with specific measures ensuring smooth transition to the new payment system. All 68 inpatient individual health care facilities have applied a uniform system of attributing costs of active inpatient treatment services to costs groups, related through the DRG method, which enabled the accumulation of more detailed and accurate data, compared to the earlier statistical data about health services provided and other activities of health care facilities, thus providing for an objective comparison between various health care facilities, their services, content of their activities and their efficiency. This method makes it possible to compare Lithuania to other European countries as regards health care.

50. The development of e-health system involved e-projects of the Ministry of Education and Science, such as "Infrastructure development for e-health services and cooperation", "Development of e-service "e-prescription" and "Development of national information system for medical image archiving and exchange, and the related e-services", which have been allocated necessary funding; project funding and administration agreements were signed, thus launching actual project activities. The e-health system will enable a more effective and appropriate provision of health services and make them more accessible: one point

of secure access to the electronic health records for patients and health care professionals, possibility of storing medical images, electronic prescriptions, cooperation possibility among health system participants while exchanging important standardized information.

SECTION III. REFORM OF THE SYSTEM OF EDUCATION AND SCIENCE

51. Pre-school and pre-primary education. The implementation of the measures under the Pre-school and Pre-primary Education Development Programme for 2011–2013, approved by Order No V-350 of the Minister of Education and Science of 1 March 2011 (*Valstybės žinios* (Official Gazette) No 30-1421, 2011), and partial funding, as of 1 January 2011, of the pre-school education according to the Pupil's Basket Calculation (approved by Resolution No 785 of the Government of the Republic of Lithuania of 27 June 2001) (*Valstybės žinios* (Official Gazette) No 57-2040, 2001; No 158-7134, 2009) resulted in 7 per cent higher participation in pre-school programmes in 2011 compared to 2010, and 6.8 per cent higher in 2012 compared to 2011. The number of pre-school establishments went up (due to simplified hygiene requirements for pre-school establishments, and the Description of Cases and the Procedure for Using Buildings (Premises) for Different than the their Original Purpose, approved by the Government, etc.), nearly 6,000 parents of pre-school children were provided with a possibility of educating their children in state, municipal or private establishments under the pre-school programmes.

52. General education and vocational training. The year 2012 witnessed the start of the third stage in the development of the school network. The development of the network of schools of general education was prompted not only by the on-going reform of general education (transfer from a 9-year to a 10-year basic school, formation of the network of gymnasium-type schools intended for all pupils seeking secondary education, and establishment of pre-gymnasiums) but also by the declining number of pupils In the last five years, the number of pupils in municipal schools of general education has decreased by 122 thousand.

To increase access to non-formal education, at the end of 2011 a pupil's basket funding principle was introduced (from EU structural funds project) in 4 municipalities (Panevėžys town, Panevėžys district, Anykščiai district and Klaipėda district) (funded from EU Social Fund and the state budget). Non-formal education providers had been tested for compliance, they were registered in the Registry of Education and Science Institutions, and their programmes got accreditation.

In 2012, the European Social Fund provided funding for the project aimed to improve the system of the examination of achievements in basic and secondary education. A pilot testing was carried out with the Lithuanian language and literature maturity examination. Its outcomes and the statistical analysis of the 2012 maturity examination have served the basis for the development of the assessment criteria for maturity examinations. In 2012, compulsory testing of basic education achievements was introduced (oral and in written testing in the Lithuanian language, written testing in mathematics, testing of an optional ethnic minority language (Russian, Polish, Belarusian, German), by testing pupil's subject-specific and generic competencies. Functional literacy of the Lithuanian language has been foreseen to be tested the eighth grade.

To improve the development and access of education services, as well as the quality of vocational training, sectoral practical training centres are continued to be developed. In 2012, four practical training centres received funding; two of them were officially opened in vocational training schools. 83 competence development programmes for vocational teachers and trainers were developed and accredited. All the vocational training schools have internal quality assurance mechanisms in place.

In 2012, an amendment to the programme of the development of practical training resources was approved, which gave rise to a project of the European Social Fund for the development of apprenticeship forms in the training centres of the labour exchange office.

53. Science and higher education. To have a more accurate projection of the market demand for specific qualifications, in 2012 a professional qualifications map by economic sectors was worked out. A new monitoring and analysis system links the information systems of education management and Lithuanian social insurance Sodra. In the future, it will be a great help in planning publicly-funded places by economic sectors. The Procedure for Allocating State Targeted Funding for Study Programmes, approved by Order No V-2487 of the Minister of Education of 20 December 2011. (*Valstybės žinios* (Official Gazette) No 165-7885, 2011) provides for the targeted study programme funding as of 2012. Specialties, unpopular among entrants, but needed for the state, can get public funding. In this case, the graduate will have to commit working for three years according to the speciality gained, and the employer, if he is a representative of the private sector, has to contribute to the training of the future employee.

Further funding of joint research and business projects in the areas of biotechnologies, information technologies, nanotechnologies, lasers and mechatronics has resulted in the creation of new technologies, submission of new products for commercialization, and submission of patent applications. In 2012, an official expert evaluation of higher education and research institutions' scientific and artistic performance in 2009-2011 was carried out. This served the basis for deciding on the allocations to higher education and research institutions for R&D and artistic activities in 2013. With a view to promoting research in the priority areas of economy which will determine Lithuania's welbeing and competitiveness in the future and which are provided for in the Lithuania's Innovation Strategy for 2010–2020 approved by Resolution No 163 of the Government of the Republic of Lithuania dated 17 February 2010 (*Valstybės žinios* (Official Gazette) No 23-1075, 2010), as well as research in the areas of high-level international high and/or medium-high technologies, a funding model for joint research and business projects aimed at commercialization of research results has been developed.

12 national integrated programmes including the training of leading experts, research and development, and the development of science-intensive business in the priority sectors of the country's economy are currently carried out, along with programmes for integrated research, higher education and business centres (valleys), aimed at the development of research, higher education and knowledge economy clusters of international level, as well as accelerated development of the knowledge society, and reinforced foundations for long-term competitiveness. The implementation of 14 projects of integrated research, higher education and business centres (valleys) involves the development and modernisation of the infrastructure of research and higher education, intended for research and development as well as higher education according to research profiles of the valleys. The infrastructure will enable the development of high technologies and other most promising sectors of research, technologies and business.

SECTION IV. IMPACT OF AGING POPULATION ON GENERAL GOVERNMENT FINANCES

54. Long-term sustainability of general government finances is determined by changes in the demographic structure of the population. The Programme includes an integrated budgetary projection of sustainability of general government finances (hereinafter referred to as the Projection) that makes it possible to assess the impact of demographic developments on the long-term sustainability of the pension system, health system, and education system, and to provide for appropriate actions securing stability of these systems in the future.

The Projection is based on the demographic projection for Lithuania until 2060, done by Eurostat in 2010. According to this Projection, Lithuania's population is to shrink to 2.7 million (from 3.3 million in 2010) or by 19.6% in the period from 2010 to 2060. Moreover, the same period will see a marked decline in the number of children: the number of those aged between 0 and 14 will drop from 15 per cent in 2010 to 12.4 per cent in 2060, those of school age (aged 7–16 years) will drop from 10.6 to 9.8 per cent, and the number of those aged between 15 and 19 – from 8.1 to 5.1 per cent of the total population. The number of the working age population (15–64) will decrease from 68.9 per cent to 55 per cent, whereas the number of elderly people (65+) will increase almost twice – from 16.1 per cent to 31.2 per cent of the total population.

55. Table 14 below gives projections on long-term expenditure of public finances (pensions, health care and education systems) for the period until 2060. The projections have been made under the assumption of non-changing policy post-2016 and on the basis of medium-term economic and employment projections by the Ministry of Finance, done in spring 2013, as well as economic and employment assumptions for 2016-2060 agreed by the Economic Policy Committee in autumn 2011. The projections have been built on the effective Lithuanian national social security legislation.

Table 14. Long-term sustainability of general government finances

Indicator	% of GDP						
	2007	2010	2020	2030	2040	2050	2060
1. Total expenditure	34.6	40.9	29.9	30.6	31.4	32.9	34.8
of which: age-related expenditure	17.3	21.1	17.0	17.7	18.6	20.0	21.9
pension expenditure*	6.6	8.6	6.3	7.0	7.9	8.7	9.6
social security pensions	6.6	8.6	6.3	7.0	7.9	8.7	9.6
old-age and early pensions	4.8	6.2	4.5	5.3	6.2	6.9	7.9
other pensions (disability, survivors')	1.8	2.4	1.8	1.8	1.7	1.9	1.7
occupational pensions (in general government)	–	–	–	–	–	–	–
health care	4.8	4.9	4.4	4.5	4.8	5.0	5.2
long-term health care	0.6	1.1	0.9	1.0	1.3	1.7	2.0
education expenditure**	5.2	6.2	5.0	5.0	4.4	4.5	5.0
other age-related expenditure***	0.1	0.4	0.4	0.2	0.1	0.1	0.1
interest expenditure	0.7	1.8	1.4	1.4	1.6	2.1	3.3
2. Total revenue	33.8	33.7	31.1	31.1	31.1	31.1	31.1
of which: property income	0.6	0.6	0.6	0.6	0.6	0.6	0.6
of which: pensions contributions (or relevant social insurance contributions)	6.5	6.9	5.9	6.1	6.1	6.1	6.1
Pension reserve fund assets	2.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
of which: consolidated public pension fund assets*****	1.7	4.1	11.0	24.7	36.9	48.0	55.6
Systemic pension reforms							
Social insurance contributions diverted to the mandatory private scheme	0.9	0.3	1.2	1.3	1.4	1.4	1.4
Pension expenditure paid by the mandatory private scheme	0	0	0	0.2	0.5	0.9	1.5
Assumptions							
Labour productivity growth	5.7	5.8	1.5	2.2	2.2	1.9	1.5
Real GDP growth	9.8	1.4	1.5	1.7	1.7	0.7	0.8
Participation rate males (20–64)	79.9	80.8	81.9	81.4	81.1	80.6	81,4
Participation rate females (20–64)	72.6	76	76.6	78.2	77.8	77.2	78.3
Total participation rate (20–64)	76.1	78.3	79.2	79.8	79.5	78.9	79.9
Unemployment rate	4.3	17.8	16.7	8.6	7.6	7.4	7.3
Population aged 65+ of the total population (beginning of the year)	15.6	16.1	17.7	22.3	25.6	27.8	31.2

Sources: Statistics Lithuania, Ministry of Finance, Ministry of Social Security and Labour, Ministry of Education and Science, Ministry of Health, and Economic Policy Committee

* Pension expenditure has been calculated following the methodology of the European Commission presented in the document "Pension projection exercise: Revised framework and guidelines" (Brussels, 17 June 2011).

** Excluding spending on payments to households and private entities and direct capital spending on education establishments.

*** Unemployment benefits.

**** Contributions for social security pensions, from 2004 and onwards – excluding transfers to private pension funds.

***** Financial assets of the Pension System (Pillar II) accumulated in individual accounts of pension accumulation participants and the annuity funding reserve.

56. Table 14 demonstrates the revenue from social insurance contributions (excluding private pension funds run by pension accumulation companies) and the expenditure pertinent to actual social security pension schemes, i.e. the social insurance pension scheme and the state pension scheme (including social benefits). State pensions (including social benefits) are funded directly from the state budget. As compared to the projections provided in Lithuania's Convergence Programme 2012, approved by Resolution No 446 of the Government of the Republic of Lithuania of 27 April 20112 (*Valstybės žinios* (Official Gazette) No 50-2453, 2012), table 14 shows a decrease of 1.7 percentage points of the GDP in pension spending in 2060 due to the following reasons:

56.1. GDP grew faster than projected for 2012 in the convergence programme; a more rapid growth has been projected for 2016 too;

56.2. as of 1 January 2014, new pension funding arrangements will become effective, providing for a an increased rate of contributions transferrable from the state social insurance funds to Pillar II pension funds; since 2020, the rate will increase to 3.5%, therefore the supplementary part of social insurance old-age pension will decrease more for the individuals that are accumulating in the Pillar II funds, which will result in reduced pension spending.

57. Growing elderly population and declining number of schoolchildren, as well as shrinking working-age population will result in increased government spending (GDP share) on pensions and long-term health care, and decreased spending on education: from 2010 to 2060, pension spending will grow by 1% of the GDP, long-term health care spending by 1.2% of the GDP, while education spending will come down by 1.3% of the GDP. In general, age-related spending is projected to grow by 0.7% of the GDP.

58. Pension spending is likely to grow the fastest, though it will be mitigated by the pension reform launched in 2004, and the subsystem of voluntary pension accumulation (Pillar II of the state social insurance pension scheme) providing for a part of mandatory state social insurance contributions to be shifted to private pension funds. Growing spending for pensions will be tamed by an increased rate of contributions to Pillar II pension funds, making 3.5% as of 2020. In 2012, 1 067 thousand people accumulated pensions in private pension funds. 18.6 thousand new pension accumulation contracts were signed in 2012. However, due to high migration and unemployment, no contributions were transferred to 23.8% of the pension accumulation accounts. In 2013, those saving for pensions in pillar II private pension funds will have to decide whether to continue accruing pensions in pillar II funds, which will most likely result in the changing number of those whose contributions are transferred to the pension funds.

59. In 2013–2016, payments for pensions reform transferred to private pension funds will account for, on average, 0.45 per cent of the GDP. In order to ensure that there are enough funds to meet the current obligations of the State Social Insurance Fund budget, the pension accumulation rate has been reduced to 1.5 per cent in 2012, and in order to compensate for the reduction, in 2013, this rate has been increased to 2.5 per cent. In the 2014–2060 projection of

pension expenditure, the pension accumulation rate will be 2 per cent, and it will be 3.5 per cent as of 2020. Based on the pension spending projections, it is held that in 2014-2015 contributions will increase by 1 per cent of the salary, and 1 per cent of the average salary of the penultimate year will be contributed to the pension account from the state budget. From 2016, both personal as well as the state budget contributions to pension funds will increase to 2 per cent. In the long term, contributions transferred to private pension funds (including contributions transferred from the state social security funds, as well as additional personal and state budget contributions) every year will make up about 1.2 per cent of the GDP, which will be 0.7 per cent of GDP higher than provided in the Lithuanian convergence programme 2012. In 2060, the pension fund assets will amount to 55.6 per cent, and the increased contribution rate to private pension funds to be transferred from the state social insurance funds, as well as additional personal and state budget contributions will be 38.2 per cent of GDP higher than projected in Convergence 2012. In 2060, benefits paid from private pension funds will amount to 1.5 per cent of GDP and that will make it 1 percentage point higher than anticipated in the Convergence 2012.

60. From 2012, following the enactment of Articles 19, 24 and 56 of the Law Amending the Law on State Social Insurance Pensions (*Valstybės žinios* (Official Gazette) No 154-7928, 2012), the supplementary part of the state social insurance pension is calculated taking into account individual all pension social insurance period and the insured income received only from 1 January 1994. If an individual finds it more appropriate, he may continue with the same formula for the calculation of the additional share of the pension, which allows measuring revenues from 1984 to 1993. The new calculation shall apply to persons who will have their pensions awarded from 1 January 2013 for the first time or renewed, following at least one year of working experience. It is expected to increase the State Social Insurance Fund budget expenditure by 40 m (0.035 per cent of GDP).).

61. Due to the current demographic developments, shrinking population and falling number of schoolchildren, the years between 2010 and 2060 will see a decrease in children aged between 0 and 14 by 130 596, or 26.3 per cent, and in teenagers aged 15 to 19 – by 98 982, or 42.3 per cent; the projected education expenditure will come down from 6.2 per cent of the GDP in 2010 to 5 per cent of the GDP in 2060.

62. In 2010-2060, the total general government spending will decrease by 6.1 percentage points of the GDP, from 40.9% of the GDP in 2010 to 34.8% of the GDP in 2060. Of which, non-age-related spending, which was fixed and held constant from 2017, will come down by 6.9 percentage points of the GDP. Public revenues will decrease by 2.6 percentage points of the GDP: from 33.7% of the GDP in 2010 to 31.1% of the GDP in 2060.

CHAPTER VII. INSTITUTIONAL FEATURES FOR THE IMPROVEMENT OF GOVERNMENT FINANCES

63. The plan is to:

63.1. Reform state budget planning and execution with a view to preventing political cycles of the economy.

63.2. Continue the accounting reform in the public sector with a view to achieving higher transparency in the management of public finances, and a more efficient use of public resources.

63.3. Develop the public sector statistics, and provide for analysis and evaluation of the efficiency of the management of public finances by the general public.

63.4. Through taxation policies and structural reforms, as well as in close cooperation with the Bank of Lithuania, vigorously undertake measures to prevent potential overheating or recession of the economy.

CHAPTER VIII. ASSESSMENT OF CONSISTENCY OF LITHUANIA'S CONVERGENCE PROGRAMME 2013 WITH THE NATIONAL REFORMS PROGRAMME

64. The direct impact of the measures of the draft National Reforms Programme on the budget balance has been fully taken into account in calculating government sector financial indicators covered in the Programme. The impact of the structural reforms on the budget is illustrated by Table 15, which shows the data related to the 2012 reform allocations and year-on-year developments from 2013.

Table 15. Direct impact of major structural reforms on general government finances (increased spending or decreased revenues (+); decreased spending or increased revenues (-)

Major measures of structural reforms[1]	Spending/ revenue category (according to ESA'95)	2012		2013		2014		2015		2016	
		LTL million	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)*	GDP %
Education reform[2]	intermediate consumption and gross fixed capital formation, revenues from direct and indirect taxes, subsidies	813.9	0.72	38.2	0.03	-102.0	-0.08	-387.4	-0.28	-342.2	-0.23
Innovations export[3], renewables, equal opportunities, youth policy, agriculture development measures	intermediate consumption and gross fixed capital formation	278.7	0.25	21.2	0.02	36.9	0.03	-176.9	-0.13	-87.6	-0.06
Health reform[4]	intermediate consumption	110.3	0.10	-36.5	-0.03	-18.0	-0.01	2.6	0.00	N.A.	N.A.

Major measures of structural reforms[1]	Spending/ revenue category (according to ESA'95)	2012		2013		2014		2015		2016	
		LTL million	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)	GDP %	Difference (LTL million)*	GDP %
	and gross fixed capital formation										
Tax reform [5]	revenues from direct and indirect taxes	-95.0	-0.08	0.0	0.00	0.0	0.00	-20.0	-0.01	-20.0	-0.01
	revenues from direct and indirect taxes	-30.0	-0.03	44.0	0,04	-20.8	-0.02	-22.4	-0.02	-22.8	-0.02
Environment (modernisation of apartment houses); water supply, renovation of waste water management systems, development, building of waste management system	intermediate consumption	529.8	0.47	-131.9	-0.11	84.0	0.07	-204.0	-0.15	-263.0	-0.18
Investment in R&D, industry, ensuring structural conditions for growth, better energy efficiency measures, greater competitiveness	intermediate consumption and gross fixed capital formation	799.4	0.71	-149.7	-0.13	-135.3	-0.11	-206.5	-0.15	-300.8	-0.20
Upgrading or building new transport and communications network[6]	gross fixed capital formation	917.3	0.81	403.0	0.34	-128.9	-0.10	8.7	0.01	-60.0	-0.04
Active labour market policy measures	intermediate consumption	163.4	0.14	-27.8	-0.02	54.4	0.04	10.0	0.01	0.0	0.00
Increasing housing accessibility to socially vulnerable groups	intermediate consumption	22.7	0.02	0.0	0.00	42.1	0.03	1.4	0.00	2.0	0.00
Overall direct impact on the state budget		3510.6	3.10	160.7	0.13	-187.6	-0.15	-994.5	-0.73	1094.4	-074
Total spending on pensions reform		290.8	0.26	217.1	0.18	123.9	0.10	30.2	0.02	241.2	0.16

Sources: Ministry of Finance, Ministry of Education and Science, Ministry of Health, Ministry of Economy, Ministry of the Environment, Ministry of Transport and Communications, Ministry of Agriculture, Ministry of Energy, Ministry of Social Security and Labour

* Difference in allocations against previous year. State or EU funding, or state and EU funding (in case of co-financing).

[1] Measures under the National Reforms Programme.

[2] Lithuania's Innovation Strategy for 2010–2020; Pre-school Education Programme and the Pre-primary Education Programme Development for 2011-2013, Programme for the Implementation of the State Education Strategy (2003-2012 and 2013-2022 project); National Programme for Vocational Guidance in Education (2010-2014); National Programme for Higher Education (2007-2013), Strategy for Ensuring Life-long Learning (2008-2016), Information society development programme for 2011-2019 (2011-2019), Programme for the Promotion of the International Dimension in Higher Education (2011-2016), Programme for the Development of the Resources of Practical Vocational Training (2010-2014)

[3] Lithuania's Innovation Strategy for 2010–2020; 2009–2013 Strategy for the Development of Export of the Republic of Lithuania; National Strategy for Sustainable Development, National Action Plan for Renewable Resources, National Strategy for the Implementation of the Framework Convention on Climate Change by 2012, National Programme on Equal Opportunities for Women and Men for 2010-2014, National Youth Policy Development programme for 2011-2019.

[4] Development Programme for the Continuity of the Health Care Reform, Streamlining Medical Infrastructure and Introducing e-health System for 2009-2015.

[5] Amendments to the Lithuanian legislation related to taxation modifications – according to the latest information provided in the Programme.

[6] Lithuania's Long-term (until 2025) Transport Strategy, Lithuania's Programme for the Development of the Information Society in 2011–2019.