

APPROVED

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NATIONAL REFORM PROGRAMME 2019

CHAPTER I

SUMMARY

1. In 2018, the Lithuanian economy grew and the gap of its gross domestic product (GDP) per capita from the European Union (EU) average decreased. In the last few years the country's economy has experienced a rather fast growth due to its business-friendly environment, growing domestic consumption and foreign demand, resilient financial system and stable public finances. However, different social groups and regions experience different results of this quick economic development. Decreasing population and labour force creates pressure in the labour market and social security system.

2. In 2018, the Republic of Lithuania started to implement structural changes in the fields of education, healthcare, reduction of shadow economy, innovation, social security (pensions) and tax regulation. The goal of the reforms is to achieve better results in said fields in terms of quality, thus increasing the country's competitiveness, increasing the efficiency of the use of public resources, and enhancing the long-term sustainability of public finances. The National Reform Programme (NRP) presents detailed information on the implementation of these and other reforms.

3. The greatest progress was made in improving tax compliance and the structure of the tax and social benefit system, as well as in seeking to reduce poverty and income inequality and solving the issue of the sustainability and adequacy of pensions.

4. In EC staff working document No. SWD (2019) 1014 "Country Report. Lithuania 2019" issued on 27 February 2019 by the European Commission (EC) (hereinafter – the Country Report), the poverty and income inequality indicators do not reflect the full progress because the statistics currently used by the EU usually cover the 2016-2017 results.

5. In order to reduce the risk of poverty and social exclusion, the following actions to improve employment relationship and increase employment income and social benefits were successfully implemented in 2018, the legal basis for which had been created in 2017 and whose effect on poverty indicators will be reflected only in the next few years: indexing of social security pensions, introduced child benefit, the introduced amount of minimum consumption needs was linked to

social benefits in 2019, the state-supported income increased by 20 percent – from 102 to 122 euros. In 2018, expenditure for financial social assistance which is one of the most important measures to protect the most vulnerable groups of citizens and reduce the consequences of poverty and social exclusion increased by 115.7 percent (from 168.10 million euros to 362.55 million euros). The average monthly amount of social benefits per capita in 2018 compared to 2017 increased by 23.5 percent (from 65.5 to 80.9 euros). As noted in the Country Report, the ongoing structural reforms are the first steps in reducing income inequality.

6. Although the birth rate is slightly increasing and reaches the EU average, the demographic situation of the Republic of Lithuania is still difficult. Therefore, in 2018 a lot of attention was paid to creating a favourable environment for creating families and increasing the birth rate: the child benefit was increased by 67 percent (from 30.02 to 50.15 euros), on average approximately 492,970 children received the monthly benefit in 2018, financial incentives to purchase the first residence in the country's regions were introduced, and public services were being further developed.

7. After increasing the social security basic pension in 2017, the average retirement pension in December 2017 compared to the same month in 2016 increased by 12.4 percent (from 255.40 to 287.09 euros). In 2018, the social security pensions were indexed and increased by 6.94 percent. As a result, the average retirement pension grew from 287.09 euros in 2017 to 319.40 euros in December 2018 (in total by almost 25 percent). It should be noted that, in pursuit of making pensions more adequate, those recipients of social security retirement pensions and lost-working-capacity pensions (except for the lost-working-capacity pensions that are paid when a person loses less than 60 percent of his/her working capacity) whose pensions (pension amount) amounted to less than 95 percent of the 2019 amount of minimum consumption needs will receive additional payments from the state budget.

8. After the Republic of Lithuania implemented measures to reduce the price of medicines, the surcharge per prescription decreased by 1.9 euros already within less than a year in 2018. During 2018, the amount of surcharges the patients paid for the medicines and medical help decreased by around 27 percent – from 55 to 44 million euros (the patients saved around 15 million euros). Compensation was introduced for additional 45 types of medicines that had not been compensated before. In order to increase the accessibility of health services, in 2018 the Government initiated salary increases for healthcare professionals. As of 2016, the average salary of the physicians working in public healthcare institutions increased by 307 euro (20 percent), while that of nurses increased by 179 euros (23 percent).

9. The implementation of the healthcare structural reform allowed residents to visit doctors more quickly (by the end of 2018, 89 percent of individuals visited family doctor within 7 days from making an appointment).

10. According to the data received in 2018, around 0.5 percent fewer greenhouse gas (GHG) emissions were emitted into the atmosphere in Lithuania in 2016 compared to 2015. Most of them were emitted by the energy sector (29 percent), transport (27 percent), agriculture (22 percent), industry (16 percent). To achieve further progress in this field, renovation of apartment buildings continued in 2018. It is planned that this should reduce the GHG emissions by 55.1 tonnes of CO₂ equivalent.

11. The total amount of saved final energy in 2016 (2,045 GWh) exceeded the target (463 GWh) by 4 times and already reached the target for 2020 (2,000 GWh). Such an amount was saved due to successfully implemented apartment building renovation programme. In implementing the Government's strategic project, 224 apartment buildings were renovated in 2018. Now these buildings consume 50-70 percent less heat than before the renovation.

12. To prevent future shortage of teachers, the aim is to attract young people to this profession. In 2018, an introduction of a new teacher salary model was started (completed stage I), 3 national teacher training centres were established, new teacher training programmes were created, and a new teacher internship model (mandatory in the first year of teaching) was being developed and tested.

13. To ensure the accessibility of high-quality educational services to all individuals, a lot of attention was paid to learning earlier – this is very important to improve the academic achievements. It should be noted that in 2018 the accessibility to pre-school education improved. More 5-year-old children started to attend pre-school education groups – over 2,000 5-year-olds attended them in 2018, i.e. three times more than in 2017 (716 children). The accessibility of informal education to children in 2018 increased by almost 8 percentage points (to 60 percent). In collaboration with the Ministry of Culture of the Republic of Lithuania, financing of the cultural and art programmes for 1-4 grade pupils was introduced.

1.4. It should be noted that from 2016 to 2018 all academic areas saw an increase in the number of pupils with higher academic achievements. The results of the national maturity examinations also show improving achievements of school graduates. 16.8 percent of the national maturity examinations in 2018 were passed with a higher achievement level (compared to 13.7 percent in 2016). The currently implemented measures for improving the quality of general education as well as improving academic achievement evaluation system should help to further improve the learning results of pupils.

15. There was a significant increase in students learning under new or updated modular vocational training programmes that are in line with regional needs and designed for shaping practical skills (26.6 percent in 2017 vs. 45.7 percent in 2018). Reorganisation of vocational training institutions was started and improvement of the vocational training content and process was

underway – it is expected that the achieved results will help the students of the vocational training institutions to better prepare for entering the labour market.

16. To ensure high quality of education and studies as well as international competitiveness, the university network was being reorganised: in 2018, resolutions (necessary legislation) were made regarding the reorganisation of specific universities and solutions were found for distribution of necessary financial support (60 million euros) after the reorganisation in order to merge the participating universities and optimise their internal structure, as well as for distribution of the state budget funds (16.9 million euros) to increase the salaries of lecturers and researchers (which on average increased by 20 percent).

17. A lot of attention was further paid to making the operations of state-owned enterprises (SOEs) more transparent and increasing the public's return on investment from these SOEs. The completed strategic project already had clear results: in 2018 compared to 2017 the number of SOEs decreased by 43.5 percent; as of 31 December 2018, the collegial supervisory and management bodies of SOEs had 106 independent members. These changes are some of the important steps that improve company management and implement the recommendations of Lithuania's membership in the Organisation for Economic Cooperation and Development (OECD).

18. According to the Doing Business 2019 report published by the World Bank in 2018 (hereinafter – the DB report), the Republic of Lithuania achieved the highest ranking in its history – it ranked 14th among 190 countries and is among the top countries in the world in terms of favourable business conditions. The Republic of Lithuania ranked 4th among EU member states.

19. According to the European Innovation Scoreboard issued by the EC in 2018, during the 2010-2017 period the growth of the Republic of Lithuania's innovation activities was the fastest, amounting to 20.1 percent (the average growth of innovativeness of EU countries was 5.8 percent).

20. In terms of nominal figures, business expenditure on research and development (R&D) in 2017 compared to 2010 doubled from 64.6 million euros to 132.3 million euros, but when compared against GDP the change in the expenditure was not very big. In order to fully utilize Lithuania's capacity for innovation and implement Council Recommendation No. 2018/C 320/14 of 13 July 2018 on the 2018 National Reform Programme of Lithuania and a Council opinion on the 2018 Stability Programme of Lithuania (hereinafter – Recommendation), the Government prepared an innovation reform that will significantly change the country's innovation ecosystem. The basis for the reform is the Law on Technologies and Innovation and amendments to the Law on Higher Education and Research adopted on 30 June 2018, that establish the structure of the technology and innovation system and the institutions making and implementing the technology and innovation policy. After implementing the reform, businesses will have more favourable conditions to receive

funding to improve their products, while researchers will be interested in earning additional income by carrying out business orders.

21. The breakthrough in attracting investments continued in 2018. The actual number of new foreign direct investment (FDI) projects of high added value (67 projects) was 18 projects higher than in 2017. In implementing new FDI projects of high added value, 4,779 potential jobs were created in 2018. This was a result of successful attraction of investors and establishment of companies each of which will employ over 200 employees in the Republic of Lithuania. According to IBM's Global Location Trends 2018 report, in terms of jobs per million inhabitants to be created by FDI projects, the Republic of Lithuania ranks 2nd in the world (it ranked 15th last year and 10th in 2016).

22. New Lithuanian-owned venture capital funds were launched in 2018. All of them contributed to an increase in total amount of investment in startups. The Republic of Lithuania seems to be becoming a startup incubator – an increasing number of foreign companies wishes to start their businesses in the Republic of Lithuania. In 2018, 140 startups were established here, i.e. 43.8 percent more than in 2017. These startups attracted a record total investment of 183 million euros in 2018 compared to 24.6 million euros in 2017.

23. In order to improve tax administration and reduce the shadow economy, measures of voluntary disclosure of taxable income, tax payment motivation and intolerance for tax evaders were established which resulted in 11 percent increase in income indication in tax declarations. Also, residents started to use the new possibility of recovering their expenditure on home and car repairs and nurse services through reduction of the personal income tax (in February 2019, 5 times more applications for personal income tax recovery were filed than in the previous month).

24. In implementing the Recommendation on the reduction of labour taxation and in order to reduce the shadow economy in the area of employment relationship, the state social security contributions paid by the employer and employee were merged, the main part of pensions was set to be funded from the state budget, a ceiling for state social security contributions (except for the compulsory health insurance) was introduced, and the state social security contribution tariff was reduced.

CHAPTER II

INTRODUCTION

25. The NRP summarizes the key structural reforms that are being implemented or are planned to be implemented in order to overcome the major economic and employment challenges by Lithuania as an EU member state participating in the European Semester for economic policy

coordination (hereinafter – European Semester). In pursuit of economic and employment growth, each year member states present their national reform programmes with a list of planned structural reforms to the EC.

26. The NRP lists the actions of the Government of the Republic of Lithuania taken in the implementation of the Recommendation:

26.1. Improve tax compliance and broaden the tax base to sources that are less detrimental to growth. Ensure long-term sustainability of the pension system as well as tackle the issue of pension adequacy.

26.2. Improve the quality and efficiency of the education and teaching system, including adult learning, and better adapt it to the needs of the labour market. Improve the performance of the healthcare system by further shifting the focus from stationary care to outpatient care, enhance disease prevention on the local level (among others), and improve the quality and affordability of care services. Improve the structure of the tax and social benefit system to reduce poverty and income inequality.

26.3. Stimulate productivity growth: increase the effectiveness of public investment, ensure effective coordination of the research and innovation policies of government institutions and correct the drawbacks and inefficiencies of public instruments that support the science and business cooperation.

27. In 2018, an Action Plan of the Implementation of Council Recommendations for Lithuania for 2018-2019 was created and presented together with the Government report for 2018 approved by 27 March 2019 Resolution No. 273 “On submission of the Government report for 2018 to the Seimas of the Republic of Lithuania” of the Government of the Republic of Lithuania.

28. The NRP was drawn up according to 21 November 2018 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank COM(2017) 690 Annual Growth Survey 2019 (hereinafter – Annual Growth Survey) that begins the European Semester 2019 and according to EU-wide priorities: ensuring high-quality investments and directing them to the gaps in the fields of research and innovation, education, teaching, skills and infrastructure; focusing on the reforms that increase productivity growth, integration and institutional quality; ensuring macrofinancial stability and reliable public finances.

29. On 27 February 2019, the EC published a Country Report that includes an overall economic assessment of the Republic of Lithuania, implementation of the Recommendation, implementation of structural reforms, and progress of the implementation of national targets as per 3 March 2010 EC Communication No. COM(2010) 2020 “Europe 2020: the European Union strategy for growth and employment” (hereinafter – the Europe 2020 strategy). According to the

assessment of the implementation progress, this year the progress achieved by the Republic of Lithuania is limited. The main challenges mentioned in the Country Report: reduction of income inequality and poverty, ensuring inclusive growth, increasing investments (especially in the human capital), and increasing productivity and labour supply. The NRP lists the most important actions of the Government to overcome said challenges.

30. The NRP comprises the following parts:

30.1. “The context and scenario of macroeconomic effect” (NRP Chapter III);

30.2. “Policy measures tackling main economic challenges” (NRP Chapter IV);

30.3. Information on the implementation of Europe 2020 targets (NRP Chapter V);

30.4. “Interinstitutional cooperation” (NRP Chapter VI).

CHAPTER III

THE CONTEXT AND SCENARIO OF THE MACROECONOMIC EFFECT

SECTION ONE

MACROECONOMIC OUTLOOK

The economic development scenario for 2019–2022 prepared by the Ministry of Finance of the Republic of Lithuania stipulates that the Lithuanian GDP will grow by an average of 2.4 percent per year in the medium term. Taking into account the established trends of the economic development and changed assumptions of the external environment, the country’s GDP is expected to grow by 2.6 percent in 2019, 2.4 percent in 2020, and 2.3 percent per annum in 2021–2022.

32. The improving financial condition of households and optimistic expectations of consumers have stimulated the growth of household consumption expenditure in recent years. In 2018, it amounted to 3.9 percent. As salary growth exceeds inflation, consumption of households will continue to be rather high. The average annual growth of the consumption expenditure of households during 2019–2022 will be 3.7 percent and it will significantly contribute to the GDP growth. In the medium term, the economic growth will be driven by further increases in the level of investments in the country, which in turn will be driven by the need to modernise and increase the efficiency of companies’ operations, as well as by implementation of the projects funded by the European Fund for Strategic Investments and EU Structural Funds. Gross fixed capital formation expenditure during 2019–2022 could grow around 4.6 percent annually.

33. A slower growth in external demand will have a negative impact on the foreign trade of the Republic of Lithuania. In the medium term, Lithuanian exporters will have to continue to adapt to the changing economic circumstances, continue to invest in order to increase their

competitiveness, manage currency risk, and to implement solutions that reduce production costs and increase operational efficiency. The outlook for exports is optimistic due to remaining strong export diversification and long years of Lithuanian exporters' experience in working in a quickly changing environment. The average annual growth of exports of goods and services in 2019–2022 could be 4.3 percent.

34. The average gross monthly salary in 2018 grew by 9.6 percent (9.4 percent in the private sector and 10.2 percent in the public sector) – this was the highest growth in the last 10 years. Taking into account the trend of the previous years, the average gross monthly salary could grow by 8 percent in 2019 (adjusted for the effect of the tax changes that came into effect as of 2019), 6.4 percent in 2020, 5.8 percent in 2021, and 5.5 percent in 2022.

35. As qualified labour resources diminish over time, the unemployment rate in the medium term will remain stable at 5.9 percent.

36. As salary growth rate decreases and the price level comes close to the EU average, the prices will not grow as quickly in the country as in the last two years. The average inflation, calculated based on the harmonised index of consumer prices (HICP) methodologically agreed with other EU member states, in 2019 and 2020 will amount to 2.2 percent. In later years of the medium term, the rate should remain close to the short-term inflation rate – 2.1 percent in 2021 and 2 percent in 2022.

SECTION TWO

MACROECONOMIC EFFECT OF STRUCTURAL REFORMS

6 MAJOR REFORMS

In the meeting held by the Prime Minister on 8 January 2018, the Government prioritised six major reforms¹: the structural reform of education, covering the levels of secondary education, vocational education and higher education; health reform, covering levels of all types of treatment, nursing, measures to promote healthy lifestyle; a tax reform aimed at making labour taxation more attractive for creation of job vacancies, promotion of investments and entrepreneurship; reduction of shadow economy allowing submission of measures to promote fair tax payments; a reform of the cumulative pension part that would not encourage shrinkage of the level of overall income protection in old age; innovation reform, which would stimulate investment in innovation, create a major innovation incentive package, consolidate and strengthen the research, development and innovation (R&D&I) system.

¹ 6 major reforms of the Government:

<https://lrv.lt/uploads/main/documents/files/LRV%20%20strukturines%20reformos.pdf>

38. Taking into account the structural reform plan, measures and targets proposed by the Government and individual ministries and using the experience and research of other countries, quantitative evaluation of 6 structural reform measures and respective terms was carried out as ordered by the Ministry of Finance, i.e. the cash flows and human resource flows to be created by the reforms were expressed in numbers and used as initial reform incentives oriented to the macroeconomic model.

39. The results of the macroeconomic modelling carried out during the evaluation² show a rather high positive effect of the analysed reforms on GDP and its components and a significant social impact of the reforms. The permanent effect of most of the reforms (i.e. changes in the structure of key economic flows) and the later secondary effect on the country's economy will also be felt after the analysed period of 2019–2025, thus ensuring further GDP growth. The dynamics of the influence on GDP show that the biggest relative impact will be achieved in around 2025–2027 when the reforms will result in a GDP level that is higher by 2 percent or 1.2 billion euros compared to the GDP level that would be reached without implementing the reforms.

Structural reform of education

40. In 2018, a structural reform of education and its six implementation projects were modelled and started to be implemented. The reform encompasses a comprehensive renewal of the education system, covering all the levels of the system – from preschool to higher education. The targets of the reform are as follows: 10 percent higher achievements of pupils; 50 percent lower differences between the pupil achievements in the rural and urban regions; higher education will be accessible irrespective of the social and economic condition of the applicant; higher quality of the programmes of higher education studies; the supply of the programmes will be optimised and adapted to the needs of the labour market; youth unemployment reduced by a third.

41. In 2019, 300 million euros were allocated for the implementation of the reform. Most of these funds will be allocated to implement the new teacher salary model (66 million euros), also to the salaries of lecturers and researchers and scholarships of PhD students (54 million euros), development of informal education for children (12 million euros), dissemination of research and innovation (1.5 million euros), increasing the internationality of the studies, R&D (3.7 million euros), and the quality model (6.5 million euros). 16 million euros are allocated for school baskets, 11.6 million euros for the prevention of bullying and the same amount for the laboratories and IT,

² Intermediary evaluation of the Operational Programme for EU Structural Funds Investments for 2014–2020: <https://www.esinvesticijos.lt/lt/dokumentai/2014–2020-m-europos-sajungos-fondu-investiciju-veiksmu-programos-tarpinis-vertinimas-vykdomas-vertinimas>.

6.3 million euros – for the educational content and evaluation, 50.9 million euros – for vocational guidance, 56.1 million euros – for the optimisation of the general education schools, universities and vocational training institutions.

Structural reform of healthcare

42. The goal is to improve the quality and accessibility of healthcare services, reduce the time of access to family physicians and specialised physicians, and gradually reduce the share of hospitalization cases that could have been prevented. The set targets are: to have an access to a family physician within 7 days (this will affect 0.5 million residents), to have an access to a specialised physician within 30 days (this will affect 250,000 residents). The aim is to reduce the number of preventable hospitalization cases by a third in 2021 compared to 2016.

43. In ensuring the accessibility to safe and adequate-quality active-treatment stationary services, it is planned to prepare for the reform of the stationary institution network starting with a pilot project in one region, with the help of the experts from the Structural Reform Support Service. After completing the expert service procurement procedures, the work is planned to be started in Q4 of 2019 and continued using the investments from the EU Structural Funds for 2021–2027.

44. Effective development of the long-term nursery service system will enable 25,000 residents tending their family members to return to the labour market or work more hours. During 2019–2022, the number of long-term nursery beds is to be increased by 3300.

45. The public healthcare quality is being improved and the people's health inequalities and mortality from oncological diseases are being reduced, promoting healthy aging. Active prevention of oncological and other diseases in 2019–2021 will be relevant to 110,000 residents. The aim is to increase the duration of likely healthy life of the residents of the Republic of Lithuania by 10 months and to reduce the number of suicides by a third.

46. The financial burden for low-income residents will be reduced and the accessibility of healthcare services will be ensured for all social groups by implementing cost-efficient measures for compensating medicines and medical products.

47. The prestige of the doctor and nurse profession is being increased, ensuring sustainable and consistent increases in their salaries. Seeking social dialogue, a collective negotiation agreement was signed, stipulating a commitment to consistently increase the average monthly salary (AMS) of doctors, which should be at least 3 times the AMS in the beginning of the 2nd half of 2020, while that of the nurses should be at least 1.5 times the AMS.

Structural reform of tax regulation

48. Taking into account a tax regulation structural reform introduced by the Government on 16 April 2018, a set of draft laws were created and adopted by the Seimas of the Republic of Lithuania in June 2018. It also established a plan of key taxation changes for 2019–2021, ensuring higher predictability and stability of the tax environment.

49. In order to increase the competitiveness of the labour taxation, amendments to the Law on Personal Income Tax of the Republic of Lithuania were introduced that reduce the tax burden, especially for low- and medium-income residents, by gradually increasing the non-taxable income amount (to 300 euros in 2019, to 400 euros in 2020, and to 500 euros in 2021) and by extending the scope of the non-taxable income amount (up to 2 average monthly salaries (AMS)). Also, as of 2019 an upper limit to the social security contributions applies (in 2019 it is the annual amount equal to 120 times the AMS, which will be reduced further in 2020 (84 times the AMS) and 2021 (60 times the AMS)). Also, as of 2019 a progressive tariff of the personal income tax of 27 percent is applied to employment income exceeding the upper limit of the state social security contributions. Furthermore, the annual share of the income received not from employment or similar activities (except for the cases established in the Law on Personal Income Tax of the Republic of Lithuania, Article 6, Paragraph 1²) that exceeds an amount equal to 120 times the AMS, which applies for calculating the basis of the current year state social security contributions of insured persons, is taxed by a 20 percent tariff of the personal income tax.

50. To simplify and clarify the labour taxation system, allowing the employees to more easily see the tax burden on their income, as of 1 January 2019 the state social security contributions are consolidated (employer's social security contributions are transferred to the employee, the employer pays only the contributions for the insurance against accidents at work, professional diseases and unemployment). At the same time, in order to facilitate the financing of the main part of the pension from the state budget, the part of the social security contributions that covers the main pension was merged with the personal income tax, and the tariffs of the personal income tax and social security contributions were recalculated accordingly.

51. In light of expanding the tax base for the taxes that are less harmful to economic growth and increasing the effect of such taxes on budget income, in 2018 respective amendments to the Law on Excise Duties were adopted by which the excise duty on alcohol was increased by 10 percent and the e-cigarette liquid was subjected to tax as of 2019. Also, during 2019–2021 the excise duties on cigarettes will be increased on average by 6 percent per year, while the excise duty for cigarettes, cigarillos, smoking tobacco and tobacco products will increase by 14 percent per year. Amendments to the Law on Real Estate Tax of the Republic of Lithuania were submitted to the Seimas, proposing to increase the taxation of real estate of natural persons (by taxing second

and subsequent residential real estate objects). At the same time, such taxation would contribute to the regulation of the housing market.

52. In view of the fact that, in implementing the structural reform of tax regulation, substantial changes to tax legislation were implemented in 2018, in 2019 the implementation of the plan of key changes to taxation in 2019–2021, including changes to the personal income tax (increase of the non-taxable income amount), excise duties (increase of tariffs) and upper limits of social security, will be continued. In order to contribute to the increases in human capital, in 2019 additional tax amendments are to be proposed that would promote life-long learning.

Structural reform of the reduction of shadow economy

53. In order to strengthen the fight against the shadow economy and to coordinate the actions of the institutions responsible for public finances and economy more effectively, in 2018 the Cabinet of Ministers set up a new Commission for Co-ordinating the Reduction of Shadow Economy led by the Government Chancellor, which not only coordinates the actions of supervising authorities, but also seeks economic incentives and promotes public awareness of this negative phenomenon.

54. In implementing the structural reform to reduce the shadow economy and improve tax administration, the following measures were put in place to promote voluntary disclosure of taxable income and intolerance against tax offenders: a one-time release of those who pay the “forgotten” taxes from liability (in the period from 1 January to July 1 2019); possibility to reduce the taxable income of a permanent resident of the Republic of Lithuania when his/her expenses incurred during the tax period are amounts paid for the benefit of that resident of the Republic of Lithuania or his/her spouse for decoration and repairs of buildings and other structures (except for the renovation (modernisation) of apartment buildings), provided services of car repairs, care services for underage children (adopted children, foster children for whom permanent care is assigned) younger than 18 years old, when these works are performed and services are provided by a taxpayer registered in the Republic of Lithuania or by a person who must register as a taxpayer; promoting “white” finances by limiting the possibilities for unreliable taxpayers to participate in public procurement and receive support, by making access to bank financing more difficult and setting a longer tax limitation period; simplification of tax procedures, development of electronic services, etc.

55. In order to implement additional measures against tax avoidance and evasion, also taking into account the results of the EU and OECD recommendations as well as transferring and implementing some of the provisions of Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market,

the Law on Corporate Income Tax was supplemented with a general anti-abuse rule (corporate income tax exemptions could not be used for tax advantages when this is the main or one of the main goals of a transaction, economic operation, etc.) and an interest deduction restriction rule. Also, the scope of application of taxation rules for taxable foreign-owned entities was expanded.

56. The State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania (hereinafter – the STI), using analytical tools to improve the efficiency of tax administration and performing automatic cross-checking of the data of VAT invoice registers provided in the electronic invoice (i.SAF) subsystem, has the possibility to promptly identify mismatches (when the buyer submits an invoice and the seller does not, and vice versa) and inform the taxpayer about them. And in case of identified potentially fraudulent transactions, the STI can perform taxpayer supervision. Monitoring and control actions are initiated based on the analysis of the data of the i.SAF and a subsystem for electronic bills of lading (i.VAZ). In addition, a programme for the inspection of company groups and major taxpayers was initiated.

57. International cooperation between tax administrations was further strengthened by the automatic exchange of information on the accounts opened and funds held in financial institutions. Information about the accounts of the citizens of the Republic of Lithuania opened in other countries and the funds held in these accounts is available from more than 60 countries and territories. There are mutual exchanges of information on binding decisions and pricing and multinational company groups.

58. A comprehensive strategy of taxpayer education and awareness building for 2017–2021 and the plan of its implementation measures are being consistently implemented by the STI; a game of cash register receipts is organised to encourage public involvement in the reduction of shadow economy. By 31 December 2018, 1.97 million receipts were registered in the receipt game. 1.06 million of them were service receipts, and 0.91 million were marketplace receipts. 593 winning receipts of the week and 13 winning receipts of the month were announced. 545 owners of the winning receipts reclaimed their prizes.

59. To promote voluntary tax payment and to simplify tax procedures, the STI introduced i.APS designed for compiling, processing and storing the data of income and expenditure of the persons engaged in individual activities, forming the income and expenditure accounting, making more accurate preliminary declarations of the personal income tax of the persons engaged in individual activities based on the electronic data remotely provided to the STI. Additional 220 million euros of taxes and social security contributions administered by the STI and the State Social Insurance Fund Board (Sodra) under the Ministry of Social Security and Labour (164 million euros from the STI and 56 million euros from Sodra) are planned to be collected in 2019 as a result

of comprehensive measures of the structural reform to reduce the shadow economy and continued targeted improvement of tax administration in the areas that are most at risk.

Structural reform of social security (pensions)

60. Many retirees who receive the lowest pensions in the Republic of Lithuania live in poverty – in 2017, 33.4 percent of the people aged 65 and older was at risk of poverty. In addition, there is a mismatch between the older and the working age population in the country, which shows future trends of poverty among pensioners (currently, there is 3.5 working-age people for every elderly person and in 2050 this ratio will fall to 1.7). Without reforms, a couple of decades later the retirement pension can make up only 34 percent of the previous salary. Now this rate stands at 42 percent.

61. In order to avoid a decrease in the total level of income security for elderly people, a structural reform of social security (pensions) was carried out:

61.1. As of 1 January 2019, Sodra will no longer make transfers to private pension funds. Therefore, the Sodra pension will not decrease for those who are saving for a private pension. People who want save for retirement can transfer 3 percent of their salary (or to consistently increase this contribution), and the state will contribute another 1.5 percent from the gross average monthly salary of the country's employees for the four quarters of the previous year, as published by Statistics Lithuania.

61.2. It is possible to save more than 3 percent of the salary – then a personal income tax relief will apply.

61.3. There is a possibility to refuse to save or to stop the saving once for 12 months.

61.4. Automatic inclusion of working individuals under 40 years of age into the new pension saving system with the option of refusing to participate.

61.5. Pension companies will be required to offer all participants those pension funds that are most suitable according to the participants' age; the service fees are reduced to 0.5 percent of the average annual value of accumulated assets.

61.6. As of 2020, Sodra will be the centralised annuity provider.

62. The basic pension was transferred from Sodra to the state budget. This will allow, if necessary, to finance pensions from other taxes, and the additional part will be paid from Sodra.

Structural reform of innovations

63. Long-term growth of the country's economy and high level of productivity can be ensured by active development of businesses that create innovations. Developing a public innovation system and increasing its efficiency is a major objective which requires the mobilisation of the public and private sectors. According to the data of the Statistics Lithuania, innovative enterprises are about 4.4 times more efficient than non-innovative enterprises, while productivity in the companies that invest in R&D is about 3 times higher than in other enterprises. These two components form a solid base for increasing the international competitiveness of Lithuanian businesses.

64. The measures of the innovation structural reform are focused on the commercialisation of scientific knowledge, incentives to develop new products and attraction of innovative investments. It is expected that the innovation structural reform will increase GDP growth by one-fifth, the salaries will increase by one-sixth, and almost 50 percent of the country's companies and their employees will feel the incentives to create new products. Impact on the country's economic growth was modelled by constructing a causal relationship between the public intervention measures and the components of the impact, using the statistical methods of multi-criteria assessment. The forecasts were made based on the insights and calculations of the Lithuanian Confederation of Industrialists, Knowledge Economy Forum, Association of Business Support in Technology and Innovation, and Vilnius Gediminas Technical University.

65. For more information on the implementation of the structural reform of innovation, see "Stimulating R&D and innovation" in Section IV "Stimulating productivity and growth".

CHAPTER IV

POLICY MEASURES TACKLING MAIN ECONOMIC CHALLENGES

SECTION ONE

LABOUR MARKET AND SOCIAL POLICY

66. According to the economic development scenario 2019–2022 prepared by the Ministry of Finance, salaries are expected to grow on average by 6.5 percent per year in 2019–2022.

67. In order to ensure effective management of the budgetary institutions implementing the employment support policy and high quality of the labour market services and employment support measures provided by these institutions for job seekers and employers, the operations of the Lithuanian Labour Exchange under the Ministry of Social Security and Labour of the Republic of Lithuania and territorial labour exchanges were optimized – as of 1 October 2018, they became a single legal entity: the Employment Service under the Ministry of Social Security and Labour of the Republic of Lithuania (hereinafter – the Employment Service). After the reform, the assets under

management were reduced by 13 percent, the number of executive staff were reduced by 63 percent, while the number of employees working with clients was increased by 9 percent – this made it possible to reduce the average monthly workload of working with clients by up to 30 percent per employee and provide more personalised services. Training is provided for the employees of the Employment Service with the aim of changing the quality and culture of the provided services. Social partnership is being strengthened to contribute to the development of human resources in the regions. The Employment Service aims to become an institution that helps to form or acquire the necessary competencies and qualifications for jobseekers and provides career planning services.

68. A model of employment and motivation services for unemployed people who receive social support (hereinafter – the Model) was developed. Its goal is to facilitate the transition to employment for those people who were unemployed for a long time; to harmonise the provision of employment promotion and motivation services as well as the provision of financial assistance to the people unemployed for a long time; to ensure co-ordination of the activities of the state and municipal institutions, bodies and / or organisations that provide employment promotion and motivation services and financial support to unemployed people and to promote their cooperation.

69. The model was developed based on the conclusions of the study on the improvement of the compatibility of active labour market policy measures and social assistance in integrating unemployed people into the labour market, which was conducted by the Ministry of Social Security and Labour of the Republic of Lithuania in 2017. The duration of the model's implementation: 1 January to 31 May 2019. Around 35 percent of the people who participated in the model's implementation were expected to return to the labour market.

70. Ministry of Economy and Innovation (until 31 December 2018 – the Ministry of Economy) of the Republic of Lithuania actively supports the development of the competencies of company employees and improvement of their qualification by means of the European Structural Funds. During the 2014–2020 programme period, about 84 million euros are to be allocated from the European Social Fund to improve employees' qualifications. The main supported areas of improving employee qualifications are: training of the employees of foreign investors, development of sectoral competencies, increase of the abilities of employees to work with new technologies, apprenticeship and on-the-job training, improvement of the qualifications of the employees of small and medium-sized enterprises (hereinafter – SMEs), using the “competence voucher” system. Until 31 December 2018, 23,153 individuals were trained under the employee competence improvement measures. The implementation of these measures will continue in 2019 and they will be further improved in the light of the challenges posed by Industry 4.0 and digitisation.

71. On 1 January 2019, the minimum monthly salary was increased by 30 euros – from 400 euros to 430 euros. However, after combining social security contributions of the employer and the employee this amount totals 555 euros. The minimum hourly wage, which now equals 2.45 euros, in 2019 was increased by 18 cents to 2.63 euros, and due to the structural reform of tax regulation grew to 3.39 euros; the basic amount of the salary of the employees of budgetary institutions increased from 132.5 euros to 134.21 euros. After the structural reform of tax regulation, this amount is 173 euros. The basic pension amount is 164.59 euros.

72. Since the beginning of 2018, social security retirement and lost working capacity (disability) pensions have been indexed and their growth equals the average growth of the total wage bill in the country. The pension index ratio is determined by the average change in salaries earned by all employed persons in the country over seven years. According to the data for the first half of 2018, the average retirement pension amounted to 319.35 euros and 337.55 euros if a person has reached the required length of service. In 2018, pensions increased by 6.8 percent. It is forecast that in 2019 pensions will increase by about 7.6 percent. As of August 2018, bigger retirement pensions are paid to those pensioners who have accumulated more than 30 years of service.

73. As of 2019, Law No. XIII-1336 amending Articles 2, 4, 7, 8, 10, 23, 25 and 32 of the Law on State Social Insurance No. I-1336 of the Republic of Lithuania is in force, which sets the upper limit for social security contributions: in 2019, social security contributions will be paid from an amount not exceeding 120 AMS per year. In 2020, the upper limit of the contributions will reach 84 AMS, and in 2021 – 60 AMS.

74. With the help of the EC technical assistance under the EC Structural Reform Support Programme 2017–2020, a model was created for making public pension system projections and long-term forecasts. The study report presents alternative proposals regarding the public pension system reform. After evaluating these proposals and applying the cost-benefit analysis, the created model will determine what research proposals can be implemented to improve the current state pension system.

75. In order to reduce long-term dependence on the social support system (the provision of financial assistance cannot be more attractive than employment), to encourage the recipients of social benefits to find official employment (which would have an impact on reducing the size of the shadow economy), in 2019 an amendment of the Law on Financial Assistance for Low-Income Residents of the Republic of Lithuania came into effect, which extends the term for the right to receive additional social benefits after becoming employed from 6 to 12 months. Around 2 thousand families are estimated to receive the additional social benefits upon employment.

76. On 12 February 2019, a new version of the Law on State Support to Acquire or Rent Housing of the Republic of Lithuania was adopted, extending the Social Housing Fund which

allows municipalities to purchase social housing rental services in the market. This facilitates access to the support to acquire or rent housing – the income levels that determine the right of individuals and families to social housing, compensation of a portion of housing rent, and support to acquire housing are increased by 20 percent. The law will come into force on 1 September 2019.

77. On 1 September 2018, Law on the Financial Incentive for Young Families Acquiring a First Home No. XIII-1281 of the Republic of Lithuania entered into force. It stipulates that young families are eligible for financial incentive, where both spouses or one parent raising a child are not over 35 years of age and have declared their place of residence in the Republic of Lithuania or are accounted as non-residents. The financial incentive is given to young families to acquire and/or build a first home. The amount of the mortgage, based on which the subsidy for a young family is calculated, may not exceed 87,000 euros. The amount of the subsidy also depends on the number of family members (from 15 percent for families without children receive up to 30 percent for families raising three or more children). Up to 15 percent of the mortgage amount can be given to acquire a land plot on which a young family intends to build a house. To this date, 244 young families have used the financial incentive to acquire a first home.

78. On 1 January 2019, an amendment to the Law on Targeted Compensations of the Republic of Lithuania came into force, which reduced the gap between the amounts of targeted compensation of expenses on nursing care and assistance for the disabled. New amounts of targeted compensations:

78.1. persons with a special need of first-level permanent nursing receive a benefit of 296.4 euros, and those in need of the second-level nursing receive a benefit of 216.6 euros;

78.2. persons with a special need of first-level permanent care (assistance) receive a benefit of 125.4 euros, and those in need of the second-level care (assistance) receive a benefit of 68.4 euros.

79. There is an option to replace the targeted compensations with services if the person for whom the compensation is intended or his/her relatives use the targeted compensation not according to its purpose, or if the person receiving the targeted compensation so requests.

80. In 2019, with the help of experts from the World Bank and World Health Organization, a project reforming the disability identification system in the Republic of Lithuania will be launched. The project is expected to end in Q1 2021. The new disability identification system is to be launched in the Republic of Lithuania on 1 July 2021.

81. In July 2019 July, a family card system will be introduced It is intended for large families with 3 or more children and for families providing care for (nursing) a disabled person. The family card will include a wide range of goods and services that will be available to the family card holders on more favourable and beneficial terms.

82. In order to increase the accessibility of social services, in 2018 the infrastructure of stationary and non-stationary social services was being further developed, and integrated assistance at home (nursing and social care) was provided. Comprehensive family services were provided in all municipalities.

83. As of Q2 2018, the first stage of personal assistant services was launched – pilot projects for people with mental disabilities were started (about 50 persons participated in the projects). As of Q3 2019, the second stage of personal assistant services will be launched – pilot projects for people with physical and/or complex disabilities will be started (about 150–200 persons will participate in the projects).

84. In order to create a system of integrated services that would enable every child, disabled person or his/her family (guardians, carers) to receive required individualised services and assistance in the community, the 2014–2020 action plan for the transition from institutional care to family and community-based services for the disabled and children deprived of parental care is being implemented, as approved by 14 February 2014 Order No. A1-83 “On the approval of 2014–2020 action plan for the transition from institutional care to family and community-based services for the disabled and children deprived of parental care” of the Minister of Social Security and Labour.

85. In 2018, integrated services were started to be provided for pregnant women and single mothers raising children under 3 years of age (it is a pilot service with accommodation service).

86. During 2019–2022, projects for the development of infrastructure for community-based child care homes and day care centres, financed by from EU funds, will be implemented.

SECTION TWO

DEMOGRAPHIC CHALLENGES

87. On 20 September 2018, the Seimas adopted Resolution No. XIII-1484 approving the Strategy for the Demographic, Migration, and Integration Policy for 2018–2030 (hereinafter – the Strategy).

88. The aim of the strategy is to systematically address the country’s demographic challenges, increase fertility rates, reduce emigration, promote return migration and improve the quality of life for elderly people. The strategy analyses the current situation and identifies the main problems: population decline, changes in the age structure of the population, the decline in the number of children and the increasing share of elderly people. Taking into account the current situation, the main goal set in the Strategy is to ensure a positive change of the population and a proportionate age structure of the population. Other goals are: to create a family-friendly environment, to ensure the

management of migration flows according to the needs of the country, and to provide opportunities for older people to integrate into society. There are also targets set for achieving these goals.

89. It is expected that the implementation of the Strategy will create a family friendly environment in the Republic of Lithuania (developed flexible forms of employment, created, developed and accessible high-quality childcare and education services, developed financial incentives for families raising children, opportunities for families to choose housing), also the number of families will increase, they will have more children, a culture of respect for each other will be more predominant in the families, families will be able to better overcome and solve emerging psychological and social problems, feel greater responsibility for creating their own well-being, maintaining and educating their children. Also, equal rights for men and women will be better ensured, including opportunities in the public life and family, favourable physical activity conditions for people of all ages will be created, activities that help to protect family health will be consistently implemented and strengthened, developing healthy lifestyle and behavioural skills in families.

90. It is also planned that the implementation of the Strategy will reduce emigration from Lithuania, develop a system of attracting human resources, including a smooth integration of immigrating people into the Lithuanian society, create good conditions for working and living, strong communities, low inequality, high trust in state institutions, and positive interpersonal relationships.

91. Older people will be more respected, their experience will be better acknowledged, they will be more actively involved in professional, social, cultural life of Lithuania and local communities, the system of lifelong learning will be more effective and it will be available for older people as well. Retirement age income will be ensured by better coordinated social security and social support systems, a system of social services for older people will be better developed and accessible, a healthier lifestyle of older people and disease prevention will be encouraged, the access to affordable good-quality healthcare services will be ensured, positive changes in the number of population will take place, making the shares of different age groups in the society proportional.

92. The aim of the Strategy is to slow down the pace of the decline and aging of the population of the Republic of Lithuania, increase birth rate, increase the expectancy of healthy life, increase the level of life-long learning, and improve the situation of elderly people.

93. The Strategy also provides for a mechanism for its implementation, monitoring, key performance indicators and their definitions.

94. In order to ensure co-ordinated and smooth implementation of the goals and objectives set in the Strategy, the Government approved an interinstitutional action plan for implementing the

Strategy for the Demographic, Migration, and Integration Policy for 2018–2030 (hereafter – the Plan), which establishes specific measures to create a family-friendly environment, manage migration flows, help older people to better integrate into society, allocations for implementation of the measures, deadlines for implementation of the measures, and the criteria for evaluating the goals and objectives set in the Strategy. The aim of this legislation is to contribute to sustainable and positive changes in the demographic situation in the Republic of Lithuania.

95. The implementation of the measures indicated in this plan will, inter alia, strengthen the functioning of the organisation responsible for informing migrants – the migration information centre I Choose Lithuania. This centre will be transformed into a centre of individual counselling on returning to Lithuania, operating on a one-stop-shop basis. The centre's funding for the dissemination of services to the emigrants of the Republic of Lithuania will be increased, special assistance will be provided for those who wish to return and integrate into the municipalities (regions) of the Republic of Lithuania, the migration procedures will be facilitated to attract required highly qualified specialists from third countries.

96. On 20 December 2018, the Seimas adopted amendments to 29 April 2004 Law No. IX-2206 “On the legal status of aliens” of the Republic of Lithuania (hereinafter – the Law on the Legal Status of Aliens) and the accompanying laws, which create legal preconditions for the migration reform (rationalisation of functions between institutions implementing migration policy by taking away some of the functions from the police that are not typical to it; decentralising the supply of migration services to ensure effective control of migration processes; regulating the currently developed Migration Information System (MIGRIS project) which will enable the migration procedures to be integrated into the electronic space in a comprehensive manner). The adopted amendments to the law also improve the legal regulation of the legal status of aliens by revoking excessive processes and requirements in order to improve service quality, reduce the administrative burden, simplify procedures and save resources. Draft Law on the Legal Status of Aliens and other related laws were submitted to the Government, aimed at improving the existing regulations on entry from third countries to engage in work or other legitimate activities, implementing measures to simplify and speed up immigration procedures while reducing opportunities for abuse, and enhancing the control of the legal stay of foreigners (among other things, it is proposed to create favourable conditions for residence for the citizens of the economically strongest countries subject to visa-free regime (Australia, Japan, USA, Canada, South Korea, New Zealand). Also, it is proposed to set a longer temporary residence permit for startup employees.

97. In 2019, information on the progress of implementation of the Strategy was prepared and submitted to the Government and the detailed requirement for funds for the implementation of the

Plan in 2020–2021 was assessed. The Government adopted a protocol resolution to give the priority to financing the Strategy implementation measures when deciding on the allocation of the preliminary allocations for the ministers (their areas of control) in the preparation of the draft national budget for 2020–2022. Taking into account the progress of the Strategy implementation and evaluating the financing possibilities of the Strategy implementation measures, a revised Draft Plan will be prepared and submitted to the Government for approval.

SECTION THREE

HEALTH POLICY

98. According to the data of 2017, expenditure on healthcare in the Republic of Lithuania amounts to 6.3 percent of GDP and is lower than the EU average (7.1 percent of GDP), but higher than the health spending of the neighbouring countries (5.3 percent allocated by the Republic of Estonia, 4.6 percent by the Republic of Poland, 3.7 percent by the Republic of Latvia). Therefore, efficient management of the health system and rational use of available resources is one of the most important goals.

99. Considering the very large regional differences in the quality of healthcare services and population mortality rates, health disparities, demographic and human resource changes in healthcare facilities and the challenges of an aging population, the possibilities of continuing the consolidation of some active treatment services in personal healthcare facilities that have the necessary equipment and highly qualified specialists to provide high-quality and complex services were assessed. The assessment also included possibilities of continuing the planning and organisation of the services at the regional level, reducing overcrowding and inefficient use of active-treatment beds, and expanding the nursing services to ensure as safe, high-quality and affordable healthcare services for residents in all regions as possible.

100. There is a trend of having insufficient number of nurses per doctor, and demographic changes have led to an uneven distribution of healthcare professionals in the regions. Taking this into account, in 2018 an analysis of the demand for healthcare professionals was conducted for the first time and a Planning Model for Personal Healthcare Professionals was approved by 21 December 2018 Order of the Minister of Health No. V-1495 “On approval of the description of a Planning Model for Personal Healthcare Professionals” of the Republic of Lithuania (hereinafter – the Healthcare Professionals Model). The Healthcare Professionals Model presents the general principles for planning based on the existing number of (supply) and demand for (scarcity) personal healthcare professionals. The Healthcare Professionals Model will make it possible to more clearly and accurately identify the stages, indicators and their use for healthcare staff planning. According

to the indicators of the Healthcare Professionals Model, a comprehensive demand for personal healthcare professionals will be determined – the number of existing and required healthcare professionals will be evaluated according to the health system and demographic changes of the Republic of Lithuania.

101. In order to address the problem of attracting healthcare professionals to regions, the Ministry of Health of the Republic of Lithuania is implementing the project “Attracting professionals to reduce health inequalities”. The aim of this project is to attract young professionals to personal healthcare institutions in target regions where there is a shortage of those professionals.

102. In order to reduce the inequalities in the provision of healthcare services and to ensure the social guarantees of resident doctors, on 30 June 2018 the laws amending the Law on Medical Practice No. I-1555, Articles 2, 3 and 4, and 30 June 2018 Law on Dental Practice No. I-1246, Articles 2, 3 and 4 were adopted that establish tiered competences in residency studies. Implementation of the proposed changes would increase the social guarantees of resident doctors, i.e. increase the amount of the maternity and sickness benefits and increase pension savings for such individuals.

103. Amendments to legislation were prepared that establish a broader scope of competence for nurses and a greater number of members of primary healthcare teams. This is expected to increase the attractiveness of the nurse profession, improve accessibility to personal healthcare services and shorten patient waiting times for these services.

104. The salaries of healthcare employees and the prestige of this profession are consistently increased. According to the data of 2016, the expenditure of the healthcare sector in the Republic of Lithuania (2.1 percent of GDP) is higher than the EU average (1.9 percent of GDP). From 2016 to 2019, the average increase of nurses’ salaries was 23 percent and that of the doctors’ salaries – 20 percent. A collective negotiation agreement was signed, stipulating a commitment to consistently increase the average monthly salary (AMS) of doctors, which should be at least 3 times the AMS in the beginning of the 2nd half of 2020, while that of the nurses should be at least 1.5 times the AMS.

105. Licensing procedures for all personal healthcare professionals are improved by reducing the administrative burden.

106. Since an increase of a special targeted grant for public healthcare functions in 2019, the total salaries of public health professionals working in the municipal public health office were increased by about 80 percent.

107. The network of public health budgetary institutions is being optimised. By consolidating the functions and increasing the efficiency of the activities of these institutions, the necessary preconditions will be created for raising the salaries of the employees working in these institutions.

108. The measures of the Electronic Health Services and Cooperation Infrastructure Information System, the regulations of which were approved by the Government by 7 September 2011 resolution No. 1057 “On the approval of the provisions of the Electronic Health Services and Cooperation Infrastructure Information System”, are consistently improved to help reduce the administrative burden on healthcare professionals and increase the transparency of the healthcare system. By the end of 2018, 835 healthcare institutions joined the system. The e-prescription functionality is successfully used, remote personal health services were launched and pre-registration of patients was legalised to facilitate patient flow management. There is also an obligation for personal healthcare institutions (hereinafter – PHCI) to provide health data to the system, thereby ensuring the exchange of health data to avoid unnecessary repetition, unnecessary repetitive consultations, and improving the quality of medical consultations, at the same time better informing the patients about the services provided to them.

109. In order to ensure the quality of the provided healthcare services and to increase the trust between patients and doctors, a draft law amending the Law on the Rights of Patients and Compensation of the Damage to Their Health of the Republic of Lithuania, was created which legitimises the no-fault compensation model. This model will enable the patients whose health was harmed when providing personal healthcare services to more quickly and easily receive compensation to focus their time and money on the recovery of disrupted health (implementation of the no-fault compensation model). Furthermore, it will encourage the disclosure of mistakes made by personal healthcare professionals and to take measures to prevent them from recurring.

110. The aim of the interventions of the EU funds for 2014–2020 in raising health literacy and forming the skills of healthy lifestyle is to enable individuals to get affordable high-quality health development, disease prevention, early diagnosis and specialized healthcare services closer to their place of residence. This increases the people’s abilities to meet their basic needs, improve their quality of life and not feel socially excluded or poor.

111. In 2019–2021, the Ministry of Health will continue the implementation of the project “Creating new incentives for healthy lifestyle and prevention” to improve the quality of public healthcare services, improve people’s nutrition, increase their physical activity and reduce the number of suicides. In order to protect the population from the spread of vaccine-borne infectious diseases, the aim is to ensure a high level of vaccination according to the Children’s Preventive Vaccination Calendar approved by the Ministry of Health of the Republic of Lithuania. The extent of vaccination against flu among the individuals at risk will also be increased.

112. The system for educating the population on healthy lifestyle is being changed – now it focuses on health promotion from kindergarten. Innovative preventive measures to strengthen mental health are introduced. A system for early identification of possible suicides and

comprehensive assistance is being developed – training of the professionals who deal with the individuals at risk is conducted. The training is designed to identify the risk of suicide and to organise the necessary assistance.

113. To effectively manage the provision of public health services, the activities of municipal public health offices are enhanced. As of 2019, the special target grant provided to municipalities is significantly larger for state delegated functions: public healthcare in educational institutions, health promotion and monitoring. In order to increase the accessibility and quality of services provided by municipal public health offices, the competences of the staff of public health offices are expanded, said offices are assigned priority areas of operation and performance evaluation criteria, service descriptions based on good practice and scientific evidence are drawn up, special attention is paid to improving the mental health, physical activity and nutritional skills of the population.

114. The National Fund for the Improvement of Public Health was established in 2016, comprising a part of the excise duties on alcoholic beverages and tobacco products as well as the gambling tax. The fund had a total of 3 million euros in 2019. The National Fund for the Improvement of Public Health was established to raise money and use it for public health preservation and enhancement initiatives, including supporting preventive projects, social advertising, and research. 115. In order to improve the quality of healthcare services and increase their safety and accessibility, the Ministry of Health implements projects called “Development of primary outpatient personal healthcare services and reformation of the system for patient registration for appointments” and “Introduction of the measures for the development of nursing services”. The following measures are being implemented to strengthen the area of personal healthcare:

115.1. recalculation of the annual base prices of primary outpatient healthcare services for different age groups based on the frequency of patient visits, poly-illnesses, costs for laboratory research;

115.2. improving of the system of promoting family physicians for good performance;

115.3. expansion of family doctor’s team (assistants, additional nurses, lifestyle medicine professionals, social workers) and expansion of the competencies of general practitioner nurses in the areas of prevention, immunoprophylaxis and others.

116. In 2019, the Ministry of Health started to implement a project financed by EU funds to improve the performance of the programmes of selective checks for oncological diseases. After implementing the project, it is expected to include at least 70 percent of individuals from target groups to the early cancer diagnostics programs (this would exceed the OECD average).

117. In implementing the project “Introduction of measures for the development of nursing services”, the Ministry of Health increases the number of supportive care and nursing and palliative

care beds as well as legalises hospices. It also increases the number of elderly people (aged 65+) who received nursing services at least once a year, expands the indications of supportive care and nursing services so that as many patients as possible receive stationary nursing services that are paid for from the Compulsory Health Insurance Fund (hereinafter – the CHIF). The outpatient nursing services are further expanded from 24 to 52 visits of the nurse to the home of the patient. A concept of integrated care (nursing and social services), is being prepared, aiming to provide the patient with the necessary care and nursing services.

118. In improving the provision of specialised healthcare services, the Ministry of Health aims to increase the availability of personal healthcare services. The target is to reduce the waiting time for an appointment with specialised healthcare professionals to or below 30 days. The provision of tertiary level of personal healthcare services in Vilnius, Kaunas and Klaipėda is being improved. Development of personal healthcare service centres (disease clusters) is underway. The network and infrastructure of emergency hospital admissions are further upgraded: patient flows are rationally distributed, the number of procedures and monitoring services carried out in these sections is increased, and new, effective emergency medical services are deployed. It is planned to further improve the provision of integrated personal healthcare services related to myocardial infarction and acute brain stroke. It is also planned to start implementing the model of provision of the provision of personal healthcare services in cases of serious injuries. 119. In 2019, the availability of medicinal products with added therapeutic benefit will be further increased for severely ill patients, and rational use of medicines and positive attitudes of patients and doctors towards generic medicines will be promoted.

120. A new procedure for calculating the basic prices of medicines and the surcharges on them paid by patients regulated, which sets the maximum surcharge paid by the patient (it came into force in July 2018). Also, the average surcharge per prescription was reduced from 4.8 euros (June 2018). .) to 2.3 euros (February 2019). In 2019, the following measures are to be carried out:

120.1. Increasing the level of compensation is increased from 50 to 100 percent by reducing the surcharges paid by patients as of 1 April 2019 (under implementation).

120.2. To reduce the financial burden on low-income residents, a draft Law on Health Insurance of the Republic of Lithuania was drafted and submitted to the Seimas. According to this law, these people will obtain reimbursable medicines and medical aids without a surcharge. Estimated start of implementation – 1 January 2020.

120.3. To promote rational use of medicines, the Ministry of Health is planning to implement an EU-funded project that will result in a publication called Advanced List of Medicines, to be made by healthcare professionals. It is equivalent to the Swedish Advanced List of Medicines. This project will begin in September 2019, its planned end date is September 2020. Said list will indicate

which medicines for which diseases should be selected according to the principles of evidence-based medicine, medicine efficacy, safety and cost-effectiveness of medicines.

120.4. To improve the process of including medicines in the lists of compensated medicines and to ensure the availability of the most in-demand medicines to patients, a new model of evaluation of the health technologies related to medicines is to be introduced in the Republic of Lithuania. The new procedure for the evaluation of medicines as approved by the Minister of Health is expected to come into force as of 2020. A more effective therapeutic and pharmacoeconomic evaluation of medicines will ensure the availability of effective medicines for those patients who need them the most. This will ensure more efficient use of both the CHIF and the Sodra budget.

SECTION FOUR

IMPROVING THE QUALITY OF EDUCATION AND SCIENCE

121. To develop high-quality education and learning and increase its efficiency, a funding reform was launched. By 11 July 2018 Resolution No. 679 “On approval of the description of the Procedure for Calculation, Distribution and Use of Financial Resources for Learning” of the Government, a description of the Procedure for Calculation, Distribution and Use of Financial Resources for Learning was approved, according to which as of 1 September 2018 financial resources for the implementation of the education plan are allocated for the entire class while financial resources for other teaching purposes are allocated for each student. The new model establishes that the financial resources allocated for school administration and education assistance should be calculated per student and the municipalities should allocate them to schools in accordance with their own procedures.

122. On 29 June 2018, the Seimas adopted a law amending the Law on Education No. I-1489 of the Republic of Lithuania, Article 68 and a law amending the Law on Law on Remuneration of Employees of State and Municipal Institutions No. XIII-198 of the Republic of Lithuania, Articles 2, 3, 4, 7, 8, 14, 16 and 17 and Annex 5, thus establishing the necessary conditions for introducing a new teacher salary model in September 2018, according to which the fixed-rate coefficients of the teachers’ salaries are set based on fixed number of hours (36 hours per week, 1512 hours per school year).

123. In order to reorganize the funding of higher education institutions so that it not only covers the necessary study expenses, but also stimulates progress of higher education institutions, guaranteeing a growing study quality and scientific competence, an amendment to the Law on Higher Education and Research of the Republic of Lithuania was drafted. Therein a reorganisation of the basic funding of studies is established (foreseeing an allowed rate of student dropout without

financial consequences) – this will allow to concentrate the efforts not on preserving the existing number of students, but on increasing the quality of studies. It also cover the creation of financial incentives to improve the quality of the operations of public higher education institutions by linking the financing of studies and other activities with the results of their operations (after implementation of the agreements with higher education institutions and in pursuit of the national higher education development goals).

124. In 2018, additional funds from the state budget were allocated to improve the working conditions of teachers, scientists and researchers (23 million euros). The funds were distributed among higher education and research institutions based on the results of the studies and education. When forming the 2019 budget, 9.5 million euros were assigned to basic funding of education and distributed among institutions according to the results of their scientific and artistic activities, in accordance with the methodology approved by the Government. The basic funding for higher education and research institutions was increased from 51.4 million euros in 2018 to 60.9 million euros in 2019. In 2019, an additional 23 million euros were allocated to improve the working conditions of lecturers, scientists and researchers. In two years, the average salary of these employees should increase on average by 40 percent (compared to 2017).

125. In order to improve the accessibility of pre-school and primary education, as of September 2018 legal possibilities were made to start institutional pre-school and primary education earlier. In 2018–2019, a growth in the number of 5-year-old children taught under pre-school education programmes and the number of 6-year-old children taught under primary education programmes. To improve the accessibility to this innovation, 5 pre-school education groups were established in Vilnius district in September 2018. Additional 6 groups are planned for 2019.

126. To reduce the impact of unfavourable social conditions on the achievements of students and to improve the quality of education, Recommendations on the Establishment and Organisation of All-Day School were approved by 26 June 2018 Order No. V-606 “On approval of the Recommendations on the Establishment and Organisation of All-Day School” of the Minister of Education and Science of the Republic of Lithuania. 38 pre-school and primary education institutions were selected to implement the recommendations in 2018–2019. In 2019, methodological guidance is to be provided to schools and teacher assistant positions are to be created.

127. In order to improve the microclimate in schools and student education results, progress was made in 2018 in addressing the issue of bullying. The programme against bullying and other preventive programmes were implemented in 1166 pre-school and general education institutions (in 689 institutions in 2017). In 2019, in implementing project No. 09.2.2-ESFA-V-729-03-0001 “Developing a safe environment in school II” of the EU Structural Funds, implementation of 17

programmes against violence and bullying and other prevention programmes in schools are to be funded and methodological material for the suicide prevention programme is to be prepared.

128. In pursuit of developing a modern vocational training system, a reform of the network of vocational training institutions was started in 2018, improvement of the content and process of vocational training was initiated, and an initial scheme of the vocational guidance model was developed. In 2019, the Government resolution on the development, updating and approval of vocational standards is to be approved, 23 vocational standards are to be harmonised and approved, and 95 modular vocational training programmes are to be prepared and updated.

129. In order to achieve greater compatibility of the education system with the needs of the labour market, short-term vocational studies were established in 2018, providing vocational qualification linked to a specific segment of the labour market.

130. With the aim of strengthening the country's universities and improve the quality of higher education and research, optimisation of the university network was started in 2018. In implementing the Plan for the Optimisation of State University Network approved by 29 June 2017 Resolution No. XIII-533 "On approval of the Plan for the Optimisation of State University Network" of the Seimas of the Republic of Lithuania and the measures for implementing the Plan for the Optimisation of State University Network as approved by 22 November 2017 Resolution No. 947 "On approval of the measures for implementing the Plan for the Optimisation of State University Network" of the Government of the Republic of Lithuania, in 2019 it is planned to start the implementation of the decisions regarding the reorganisation of the state college network, to reorganise the research institutes into public bodies, and to approve the procedure for external evaluation of higher education institutions.

SECTION FIVE

STIMULATING PRODUCTIVITY GROWTH

131. The labour productivity gap between the Republic of Lithuania and the EU has been declining for some time, but after the crisis the productivity growth has slowed down. However, the productivity growth is still among the highest in the EU. This is due to rapid reduction of the gap and the impact of the structural shift of the economy towards modern technologies, mainly in the agricultural and manufacturing sectors.

132. In 2017, labour productivity in the Republic of Lithuania exceeded 75 percent of the EU average and was higher by almost 35 percentage points than in the year 2000. However, productivity growth indicators remained largely unchanged during 2012–2016. This is mainly due to the slow productivity growth of co-production factors, which indicates a lack of technology

application in companies. With accelerated investment growth, in 2017 productivity growth recovered to 7 percent (a change in added value per hour worked at constant prices, in percentage). Maintaining a positive change and closing the gap again can be ensured by increasing the share of knowledge-based activities in the economy through capacity building and technology upgrading.

Stimulating research, development and innovation

133. Based on the statistics of 2016, almost 47 percent of the companies in the Republic of Lithuania engaged in innovation implementation. It was the second largest EU indicator. In 2016, annual SME investment in R&D and innovation amounted to 1.3 billion euros and sales of new products amounted to 6.6 billion euros. This is twice as much as in 2014 and 3 times more than in 2010. Innovation-friendly environments and business relationships are the strongest aspects of innovation. In order to utilize existing strengths and improve the functioning of the Republic of Lithuania's innovation ecosystem, the Republic of Lithuania started to implement a structural reform of innovation. Therefore, in the implementation of the Government Programme in 2019, the aim is to continue work on consolidating a fragmented system of science, technology and innovation (hereinafter – STI): to clarify the functions of state institutions and agencies responsible for these areas and to clearly define responsibilities.

134. In the framework of one of the six structural reforms of the Government, the structural reform of innovation, the institutional set-up of STI areas was restructured. On 30 June 2018, the Seimas adopted the Law on Technology and Innovation of the Republic of Lithuania and amendments to the Law on Higher Education and Research of the Republic of Lithuania, which established the structure of the technology and innovation system. The Ministry of Economy and Innovation became responsible for the development of technology and innovation policies. This will provide the Ministry of Economy and Innovation with the means to attract more private sector investment and encourage companies to become more innovative.

135. In order to strengthen strategic and purposeful international cooperation in the field of technologies and innovations, a list of priority countries of the Republic of Lithuania in the field of collaboration technology and innovation was created. It identifies the countries with which the Republic of Lithuania intends to cooperate most effectively in the field of technology and innovation.

136. In 2018, a Smart Specialization Interim Evaluation Report was prepared, which became the basis for updating the Smart Specialization Programme and its directions. The Smart Specialization Coordination Working Group agreed that the most appropriate way to update smart specialization is a scaling scenario: from 6 directions and 20 priorities, 7 priorities remain. An

agreement was reached that will ensure the sustainability and continuity of investment in smart specialization (key investment directions will be maintained: health and biotechnology; energy and sustainable environment; agro-innovation and food technologies; new production processes, materials and technologies; smart, clean, integrated transport; and communication technologies; an inclusive and creative society), will allow more efficient project selection procedures by abandoning the over-detailed technology description and reducing the administrative burden – currently 20 smart specialization action plans will be integrated into 1 action plan. In Q2 2019 it is planned to update the Smart Specialization Programme and the action plans.

137. In order to strengthen the human resources needed for the STI ecosystem, the following steps were taken in 2019:

137.1. Increasing the attractiveness of the researcher career – in 2018, the salaries of teachers and researchers increased by an average of 20 percent, 23 million euros were allocated for this from the state budget. It is proposed to increase the salaries of scientists and teachers by another 16 percent as of 1 January 2019. Then, compared to 2017, their total salary would have increased by 40 percent.

137.2. In 2019, the scholarships of PhD students were increased by 80 percent. The first year PhD students will receive 722 euro scholarships each month and the second–fourth year students will receive 836 euro scholarships. In addition, 8.2 million euros were allocated from the state budget. As the doctoral scholarship is approaching the size of the AMS, the higher education and research institutions acquire additional measures to compete in the market for the best talents.

137.3. Measures to attract and reintegrate highly qualified researchers from abroad were developed and launched.

137.4. The description of the competitive doctoral studies was updated – it includes provisions that provide opportunities for doctoral studies in companies (industrial doctoral studies). There is also the possibility of post-doctoral placements in companies. Both industrial doctoral studies and the possibility of post-doctoral internships in companies will contribute to the strengthening of business R&D capacity.

137.5. In order to improve the scientific management capacities of higher education and research institutions, the project “Open Access to Science and Research (MITAP II)” is being implemented. A contact centre for R&D services was created, 14 joint presentations of Lithuanian R&D services and science possibilities, 126 targeted visits and meetings with potential partners abroad, exhibitions, conferences were organized.

138. The Republic of Lithuania joins international R&D infrastructures: in 2018 it became an associate member of the European Organization for Nuclear Research (CERN), and member of ESS ERIC, CLARIN ERIC. It is expected to get involved in the EMBL, BBMRI-ERIC infrastructure in

the near future as well. The Republic of Lithuania also participates in the European Institute of Innovation and Technology (EIT), which initiates and brings together Knowledge and Innovation Communities (KICs) in Europe. The EIT brings together three key players in the field of innovation – business, education and research – to create a dynamic, multilateral partnership – KIC. There are currently eight KICs in Europe: climate, digitization, food, health, innovative energy, raw materials, manufacturing and urban mobility. The manufacturing industry KICs in the Baltic region are represented by the Lithuanian engineering industry association LINPRA, which with 50 partners (e.g. Volvo, Tecnalia, Vienna Technical University, Siemens, Whirlpool Europe), is a consortium of 17 European countries, will implement 450 million euro-worth project Made by Europe. The project will be funded by the EU Horizon 2020 research funding program. Other KICs in the Republic of Lithuania: EIT climate, innovative energy, health, raw materials and food centres.

139. The international dimension is strengthened through the award of grants to higher education and research institutions for the acquisition of Horizon 2020 consultancy services. There is also a TYKU2 project implemented under measure 09.3.3-ESFA-V-711 “Strengthening the capacities of scientists and other researchers” of the Priority 9 “Public education and increasing human resource potential” of the EU Funds Investment Action Programme 2014–2020, by which the abilities of scientists, other researchers and science managers from the scientific sectors to initiate, prepare, administer international R&D projects.

140. The link between science and business is strengthened:

140.1. Strengthening the commercialization potential of R&D results in higher education and research institutions and the transfer of knowledge and technology promotes the activities of centres of excellence and innovation and technology transfer centres. To this end, instrument 01.2.2-CPVA-K-703 “Promotion of Centres of Excellence and Activities of Innovation and Technology Transfer Centres” of Priority 1 Action Programme “Promotion of research, experimental development and innovation” is being implemented. By focusing R&D potential (researchers, infrastructure) on experimental activities in centres of excellence, opportunities are opened up to offer science-based ideas with commercial potential and to prepare them for further investment as well as for the development of emerging business solutions. This reinforces the applied aspect of R&D results. Innovation and Technology Transfer Centres act as a one-stop shop for identifying business needs, mediating and offering the best team of researchers or R&D-based solutions that already have commercializing potential. Currently, 9 centres of excellence and 9 innovation and technology transfer centres are being implemented.

140.2. In 2018, the Financing of Technological Development Projects instrument was implemented, aimed at creating more favourable conditions for the technological development of

the country, and promoting innovation-oriented research. 16 projects have been funded and implemented.

140.3. In order to expand the business sector requiring new scientific knowledge in the Republic of Lithuania, support is provided for the commercialization of the ideas of scientists and other researchers and students, as well as support for emerging innovative enterprises (offshore companies).

141. In 2018, the Government approved the guidelines for the development of the Lithuanian life sciences industry set by experts from the country's business and science and public sector, whose strategic objective is to make the Republic of Lithuania the most attractive country for the development of life sciences in 2030. In Q2 2019 the Plan of Measures for the Implementation of the Guidelines for the Development of the Life Sciences Industry in Lithuania will be approved, which will include concrete actions on how to become such a country. By acting in this direction and utilizing its unique competitive advantages, the Republic of Lithuania will seek to increase the share of the value added generated by the Lithuanian life sciences industry by 5 times to make up a significant share – 5 percent of GDP.

142. Scientific and business cooperation has been improved and innovation demand and investment in R&D activities have been improved through the development and expansion of services for financial incentives for innovation. In Q2 2018, a continued call for proposals under Action Programme Priority 1 “Promotion of research, experimental development and innovation” instrument No. 01.2.1-MITA-T-851 “Inočekiai” (budget of 4.5 million euros). Innovation checks are provided for technical feasibility studies and R&D projects, as well as for projects with the EC *Seal of Excellence* under the SME instrument of the EU Horizon 2020 Framework Programme for Research and Innovation, but for those who did not receive support for the implementation of Stage 1 activities of the SME instrument (for evaluating technical and commercial opportunities). According to this measure, 1.6 million euros have already been allocated to 73 projects. 9 projects were completed and 127,500 euros of private investment were attracted. In implementing projects, 8 companies collaborated with the institutions conducting the research, 9 companies received subsidies.

143. In order to encourage joint R&D projects that generate higher value-added products, in Q2 2018 a call for proposals under instrument 01.2.1-LVPA-K-855 Intellect LT-2 of Action Programme Priority 1 “Stimulation of research, experimental development and innovation” (budget 50 million euros). Implementation of the activities of the above mentioned instrument will support R&D, initial investment of enterprises in infrastructure (which is not available to the public) and fundamental research (joint R&D projects of mature science and mature business). After the evaluation, the funding was allocated to 2 projects, the remaining amount of the funds will be

redistributed and a new instrument of R&D direction will be formed. 2 companies collaborated with research institutions to create new products, 3 prototypes of products and services were created, 28.8 million euros were attracted from private investment corresponding to public support for innovation or R&D projects.

144. In order to encourage public sector contracting authorities to develop demand-oriented innovative products, lists of 2 state projects have been approved and under the measure 2014–2020 EU Funds Investment Action Programme Instrument No. 01.2.1-LVPA-V-835 “Pre-commercial procurement LT” signed in 13 contracts for 7.35 million euros. This way of purchasing will address public health, energy, safe traffics and similar issues.

145. In 2018, the development of the space sector was being implemented – although the Republic of Lithuania signed the agreement with the European Space Agency (hereinafter – ESA) for the trial period only in 2014, 20 scientific, technological and educational projects of the Republic of Lithuania were already implemented. ESA applies the principle of “geographical return”, according to which, during these EKA orders, about 80 percent of the contributions paid by the Republic of Lithuania returned to their subjects.

146. In 2019, it is planned to approve the Long-term Science, Technology and Innovation Development Strategy prepared by the Ministry of Economy and Innovation together with the Ministry of Education, Science and Sports of the Republic of Lithuania. A long-term strategy for the development of science, technology and innovation will ensure continuity in the long-term pursuit of STI policy objectives, while focusing on current top priorities and taking into account the latest trends in the future. The aim is to consolidate STI policy as a horizontal priority for all areas of public governance and priority areas for STI development as a basis for all public investment. This is a significant step towards the development and implementation of an integrated and sustainable national STI policy.

147. By 15 April 2019 Resolution No. 343 “On approval of the Science, Technology and Innovation Council and its Rules of Procedure” of the Government, the Science, Technology and Innovation Council (hereinafter – the STI Council) was established and its Rules of Procedure were approved. The STI is a government advisory body on the issues of state STI policy shaping and strategic management. The STI Council will develop insights, visions and plans in the field of STI, will make recommendations to the Government on setting priorities, directions and guidelines at national level in the field of STI, coordination of the implementation of STI policy and strategic management of STI system, integration of separate areas into the overall state STI policy, etc. The STI will consist of ministers and representatives of associated business and scientific structures.

148. It is envisaged to create legal preconditions for the creation of a state Innovation Promotion Fund, which would provide unpaid or repayable support to research institutions,

businesses and other organizations in the development of the product and its launch into the market. At the start of the activity, which is scheduled for 2021, the fund could be made up of EU funds to promote R&D&I. Subsequently, the fund would comprise money from remunerated support for economic entities, i.e. money returning from companies that have successfully used state-funded incentives.

149. In 2018, a working group of the Ministry of Economy and Innovation examined the possibilities of merging the agencies that implement the technology and innovation policy and prepared the necessary actions, which would create legal preconditions already in 2019 to establish one agency to implement the technology and innovation policy, which will have consolidated functions for implementing the technology and innovation policy. The primary objective of such an agency is to ensure the availability of public investment and services to business customers. The Agency applying the open door principle and providing various services to business entities will ensure efficient and targeted investment of public funds.

150. In 2019, the Business Development, Innovation and SME programme will be launched, funded by the Norwegian Financial Mechanism 2014–2021. The aim of the programme is to contribute to the creation of higher added value and sustainable economic growth and to increase the competitiveness of enterprises of the Republic of Lithuania, focusing on SMEs. Financial support will be provided for innovative green industry, bioeconomy and information technology (IT) projects.

151. In 2016, the Ministry of Finance together with the Bank of Lithuania and other institutions formed a Financial Technology (hereinafter – FINTECH) Sector Development Plan. It included measures to promote the development of the FINTECH sector in the Republic of Lithuania. Implemented initiatives (for example, legalised remote customer identification; introduced a specialized banking license type; adopted law that regulates crowdfunding), together with the active marketing of the jurisdiction of the Republic of Lithuania in foreign markets produced tangible results – within two years from the approval of the plan, the FINTECH sector of the Republic of Lithuania doubled. In 2018, there were about 170 FINTECH companies in the Republic of Lithuania (117 in 2017).

152. One of the Bank of Lithuania's strategic directions for 2017–2020 is focused on the promotion of innovations in the financial sector – the Bank of Lithuania aims to be a financial sector partner promoting innovation and sustainable growth. In 2018, measures aimed at promoting innovation in the financial sector were implemented. The most important of them are:

152.1. Opened up opportunities to apply innovative solutions in a *regulatory sandbox*;

152.2. The process of creating a *blockchain sandbox* was launched through pre-commercial procurement, which will allow blockchain companies to test solutions and obtain advice from the Bank of Lithuania on a specially adapted technological platform;

152.3. Application of blockchain technology will be tested by the Bank of Lithuania by issuing collector coins – aiming to release a digital coin and test the blockchain technology together;

152.4. Launched open banking project, which will open up opportunities in the financial market for the emergence of new consumer-oriented solutions;

152.5. In order to ease the administrative burden for financial market participants, as well as to take advantage of the opportunities offered by technologies, the Bank of Lithuania started working in the field of regulatory and supervisory technologies (*RegTech* and *SupTech*). For example, in 2018, an electronic license application was introduced to the market, and in 2019 it is planned to test the robotic potential and automate some processes using a robot.

153. In order to stimulate public sector cooperation in the field of application of new technologies, the GOVTECH Forum was created in 2018 on the initiative of the Ministry of Economy and Innovation and the Bank of Lithuania. It invites representatives of all public sector institutions interested in new technologies and looking for synergies with other institutions in the implementation of various projects. Such a format is expected to promote the application of innovative solutions and practices in the public sector.

Digital agenda

154. In order to improve the quality of life for the residents and increase company productivity, various digital projects have been initiated and are being implemented in the Republic of Lithuania. These projects are being implemented in accordance with the objectives and tasks indicated in Information Society Development Programme 2014–2020 “Digital Agenda of the Republic of Lithuania” (hereinafter referred to as the Lithuanian Digital Agenda) coordinated by the Ministry of Economy and Innovation and approved by 12 March 2014 Resolution No. 244 “On the approval of 2014–2020 Programme “The Digital Agenda of the Republic of Lithuania” of the Information Society Development” of the Government. The strategic goal of the Lithuanian Digital Agenda is to achieve that by 2020 at least 85 percent of the population of the Republic of Lithuania would use the internet and 95 percent of the companies would use it the high-speed internet. It should be noted that in 2018 78.1 percent of the total number of the country’s population used the internet (75.2 percent in 2017) and 61.2 percent of the companies used high-speed internet (58.7 percent in 2017). The values of these indicators are growing every year, and the increasing number

of people using the internet is also affecting other processes related to digitization (such as the development of e-commerce services).

155. The Digital Agenda of Lithuania includes objectives, which encompass the development of digital skills of the population, development and development of public and administrative electronic services, preserving the Lithuanian language and culture in the digital space, opening of public sector data, development of safe, reliable and interoperable infrastructure.

156. As the number of people using the internet increases, the number of users of public and administrative electronic services is also increasing every year (in 2018, almost 51 percent of the population of the country used public and administrative electronic services (in 2017 – 48 percent). The goal is to create new or upgraded electronic services that are secure, advanced, user-friendly, and responsive to their needs.

157. The Lithuanian Digital Agenda is implemented through an interinstitutional action plan approved by the 27 April 2015 Resolution No. 478 “On the approval of the Interinstitutional Action Plan for the implementation of the Information Society Development Programme 2014–2020 “The Digital Agenda of the Republic of Lithuania” of the Government, which includes the main information society development works implemented by various state institutions. The majority of the works are implemented through the measures of the Priority 2 “Promotion of information society” of the Action Programme for Investments of the European Union Funds 2014–2020 (hereinafter – the Action Programme).

158. In view of the rapid development of new information technologies, in 2019 it is planned to substantially revise the goals and objectives of the Lithuanian Digital Agenda, taking into account the recent new challenges such as the inclusion of women in the digital space, FINTECH, *blockchain* and opportunities to use other new technology. One of the most important challenges to increase the scale and opportunities of using these technologies is the issue of opening up public sector data, which is currently being given particular attention. In order to speed up the processes of opening up public sector data, an open data portal is currently being developed, publishing all open public sector data, guidelines for public sector institutions that will facilitate the process of data opening.

159. At present, the EU is developing a Digital Europe Programme for 2021–2027, which is why it is planned to link its goals with the goals of the Digital Europe Programme, i.e. creating and strengthening high-performance computing and data processing capabilities and ensuring their widespread use, when revising the Digital Agenda for Lithuania; building and strengthening of basic artificial intelligence capabilities to make them available to all business entities and public administrations; Improving the competitiveness of the EU cyber security industry; the development

of a high level of digital skills (e.g. in the areas of high-performance computing, artificial intelligence and cyber security); implementation of interoperable solutions in the public sector.

160. Artificial intelligence is one of the priority areas. Participation in international cooperation networks and investments in the field of artificial intelligence in the Republic of Lithuania is significant both in the public and private sector. According to analysts' forecasts, by 2030, additional GDP growth due to the use of artificial intelligence will amount to 1.2 percent per year.

161. In 2018, the first steps were taken in the Republic of Lithuania to regulate the principles of creation and use of artificial intelligence. In the autumn of 2018, the Ministry of Economy and Innovation, together with a group of private and public sector experts, began active discussions on the impact of artificial intelligence technologies, the importance of various areas of life and the possibilities for the Republic of Lithuania to implement or participate in artificial intelligence projects.

162. In view of the results of the discussions, strategic insights were prepared, which review the current situation in the Republic of Lithuania in the field of artificial intelligence, the main ethical and legal issues in the fields of creation and use of artificial intelligence, the possibilities and ways of increasing the skills and competences required for working with artificial intelligence, opportunities for artificial intelligence research and expert development growth. In Q3 2019 it is planned to develop a strategy for artificial intelligence and in Q4 2019 – its implementation plan.

Digital transformation of the industry

163. The growth strategy of the Republic of Lithuania is based on productivity growth and increased competitiveness. Although the productivity of our country's businesses is still lower than the EU average, in 2017 the Republic of Lithuania was number one in the EU in terms of productivity growth. This is why the main focus in the medium term is on acceleration and further increase in productivity. And we are on the right path. The knowledge-based sectors in the Republic of Lithuania, such as lasers, biotechnologies, information technologies, electronics, machine manufacturing and metalworking, are successfully expanding and we are increasing our efforts in expanding the high-tech sector. The number of mid- and high-tech companies is increasing. Increasing industrial competitiveness, productivity and integration of the Republic of Lithuania into the high added-value chains of Europe and the world, industrial digital transformation projects were initiated and attended in 2018, there was active participation in various EC digitization initiatives as well. Experts from various fields from business, academia and social partners and agencies are

widely involved. The Ministry of Economy and Innovation is shaping an inclusive policy through the Ministerial Leadership – the Industry 4.0 Platform:

163.1. In implementing industrial digital transformation projects, the current industrial situation in the Republic of Lithuania and the EU was analysed and recommendations for strengthening and increasing the competitiveness of the industry of the Republic of Lithuania were prepared. Strategic lines of industrial digitalisation have been developed – the introduction of digital technologies in the industry and services related to the promotion of digitization, the legal environment and standardization, human resources and cyber security. In its 2018 Digital Economy and Society Index Report on the Republic of Lithuania published in 2018, EC identified the preparation of these strategic operational policies as an important achievement of 2018 that contributes to the promotion of digital technology integration in companies. Each of these directions is implemented through specific policy measures. To this end, a document entitled “Guidelines for the digitization of Lithuanian industry and action plan for 2019–2030” was prepared, which contains more than 50 measures that will be implemented both in the short term and in the long term.

163.2. The first part of the Industrial Transformation Regions pilot project was implemented. Activities were carried out by coordinating actions between selected 12 European regions (according to NUTS 2 criteria, 10 EU regions and two countries: the Republic of Lithuania and the Republic of Slovenia). The aim of the project is to help regions facing industrial transformation to cope with industrial challenges such as a lack of appropriate skills, the dissemination of innovation in industry, energy efficiency, entrepreneurship and inclusive growth. After analysing the situation, a report and recommendations of the OECD consultants were prepared on five areas: preparation for future jobs; expansion of the dissemination of innovation; transition to low-carbon energy; promoting entrepreneurship; promoting smooth (inclusive) growth. In the second part, the experts of the European Cluster and Industrial Transformation Observatory analysed and presented the evaluation of the activities of the clusters of the Republic of Lithuania and recommendations on their further development guidelines in solving industrial transformation challenges in the context of smart specialization. The recommendations will be applied in 2019–2020 by the Ministry of Economy and Innovation in the implementation of the project “Circular economy roadmap for Lithuanian industry symbiosis”.

163.3. There was active involvement in the EC initiative, the Strategic Forum on Important Projects of Common European Interest. These are projects that are considered to be strategic in stimulating EU growth, job creation and competitiveness. The objectives of this forum are to identify key strategic value chains for European development; foresee joint investments by EU Member States and industries that can strengthen existing value chains and highlight new ones. The

selected 9 strategic value chains are likely to become the driving force of European economic development and the participation of the Republic of Lithuania in them will facilitate the integration of the industry and increase the volume of products and services with higher added value. In 2019, it is planned to consolidate experts and other stakeholders in the collective leadership – Industry 4.0 platform and help them integrate into the selected 9 EU strategic value chains. The Ministry of Economy and Innovation aims to create conditions for business integration in the Republic of Lithuania, thereby increasing the quality of public investment and the quality of work and service of the agencies providing public services. In order to prepare for this integration, the Ministry of Economy and Innovation initiated the project “Preparation for integration of Lithuanian industry into important strategic value chains and enhancement of competence of digital innovation centres”. The project is planned to be implemented in 2019–2020.

163.4. To continue the industrial digitization and to create conditions for business productivity growth, on 4 May 2018 a Call under Action Programme Priority 3 instrument No. 03.3.1-LVPA-K-854 “Industrial Digitization LT” (budget 40.5 million euros). This measure supports two activities, namely the performance of technological audits of industrial SMEs to assess the possibilities and prospects of digitizing their production processes. The second activity is the installation of the manufacturing SMEs’ process equipment with integrated digitization technologies such as robotics technologies, artificial intelligence, automation and automation technologies, smart sensors, clouds, the Internet of Things, cyber-physical systems, etc. at industrial SMEs. 54.4 million euros are invested over 100 projects. Projects are expected to attract 44 million euros of private investment, while the work productivity due to installed technologies will increase by more than 200 percent, and technology will increase productivity by more than 200 percent.

164. Industrial SMEs will be able to use the Regio potentials LT tool for boosting productivity in the regions, administered by the Lithuanian Business Support Agency, which will support the deployment of modern technologies by adapting existing and developing new production capabilities to new and existing products. Financing will be used to invest in the acquisition and deployment of new production lines, to modernize existing production lines, to install in-house engineering networks needed for new production lines or to modernize the existing ones. On 23 November 2018, a differentiated call for proposals was announced at regional level, i.e. funding is not allocated to companies operating in Vilnius and Kaunas city and their surrounding district municipalities, and at least 70 percent of the remaining regions are not financed. The funds provided for the measure must be allocated to companies operating in Alytus, Marijampolė, Tauragė, Telšiai and Utena counties. On 25 February 2019 at the end of the call for proposals, more than 35.5 million euros is requested. Funding competitions will take place at county level, and the

remaining unallocated funds can be redistributed to those areas where project competition and funding needs are the greatest.

Developing the startup ecosystem

165. The draft law amending the Law on Personal Income Tax was to the Government, which proposes to assign to the non-taxable income the benefit of the employee from options received from his/her employer or a related person, obtained by acquiring shares free of charge or for a lower price, if the shares are acquired not earlier than 3 years from the right of option. This project aims at more favourable tax conditions for legal persons, and especially for startups seeking to apply more advanced management practices, to use the opportunity to use shares as an incentive for employees.

166. A working group formed by 22 February 2018 Order No. 4-91 “On formation of a working group for proposals on startups, their legal regulation and other startup related issues” of the Minister of Economy and Innovation presented its proposals on support for startups, including the creation of a “Soft Landing” package as well as creation of a more attractive regulatory environment: regulatory supervision for options, legalization of a virtual legal entity, simplification of migration procedures, increase of funding sources.

167. In 2018, the Ministry of Economy and Innovation paid particular attention to the promotion of startups: an annual international startup event Startup Fair. Growth 2018 was organised; 8 presentations of the startup ecosystem of the Republic of Lithuania and Startup Visa were organised (one in Belarus and Georgia, two in Turkey, Ukraine, Russia each); Startup Visa approved 41 Startup Visa applications (out of 178 applications received). 17 startups have already been established in the implementation of the Startup Visa programme (8 startups were established in 2017 and 9 startups in 2018). At the end of 2018, there were 520 startups in the Republic of Lithuania (380 in 2017). In 2018, they attracted a record amount of 183 million euros.

168. In November 2018, a call to submit proposals for training programs under the EU funds instrument Competences LT was announced for the employees of the sectors relevant to startups. The Ministry of Economy and Innovation allocated almost 14 million euros of EU investments that will enable company employees to receive the highest-level sectoral competence training. This will have a particularly big impact on the startup ecosystem and the industries involved in digitization.

169. In order to promote the development of startup ecosystems, in 2019 it is planned to implement the activities of creating favourable business environment for startups and their access to financing sources:

169.1. In Q1 2019 streamlining and shortening the procedures for Startup Visa, adjusting the valuation procedures that determine whether the activities of the company to be set up are related to

the introduction of new technologies or other innovations that are important for economic and social development, and whether the alien has the necessary qualifications, financing and business plan, provisions of the Description.

169.2. Establishment of the Startup Employee Visa procedure for promotion, retention and integration of foreign talents in the Republic of Lithuania after signing on 29 April 2019 an interinstitutional cooperation agreement between the Ministry of Economy and Innovation, the Ministry of the Interior of the Republic of Lithuania and the Migration Department under the Ministry of the Interior of the Republic of Lithuania.

169.3. During 2019–2020 financial technology innovation promotion project FinTech Lt under instrument No. 01.2.1-LVPA-V-842 Inogeb LT of the Action Programme Priority 1 “Promotion of research, development and innovation” (budget 1,962 million EUR) is to be implemented. The project aims to promote FINTECH innovation by providing specialized innovation advisory and support services to FINTECH companies, and to establish 20 new startups in FINTECH.

169.4. Providing Soft Landing services – help and advice for potential and existing founders of startups and foreign startups, helping to relocate to Lithuania.

169.5. On 30–31 May 2019, international startup conference Startup Fair is to be held, which aims to promote the creation of new startups in the Republic of Lithuania, attract foreign startups and help existing startups attract foreign investments. Over 1,500 participants are expected to attend the event. In 2019, other presentation of the startup ecosystem of the Republic of Lithuania are be made in the most important European and world reviews: Startup Heatmap and Startup Genome.

169.6. A new financial instrument, the Accelerator Fund, was created, which includes accelerating activities (mentoring, expert advice, legal assistance, marketing strategy preparation, etc.), enabling further investment in the implementation of viable ideas for micro and small businesses. As of 2019, this instrument is being implemented by two managers – 70 Ventures UAB and the Estonian young business acceleration company Startup Wise Guys.

Improving the business environment

170. The World Bank assesses the business regulatory environment in 190 countries each year in the areas that are most challenging for SMEs: starting a business, obtaining building permits, joining electricity networks, registering real estate, receiving credit, protecting small investors, paying taxes, foreign trade, contract execution and insolvency. The World Bank’s Doing Business report has a major impact on foreign investors in terms of country attractiveness. In the DB report published in 2018, the Republic of Lithuania ranks 14th in the world (among 190 countries), higher

than ever, in favour of business conditions, ahead of Estonia (16th place), Finland (17th place), Latvia (19th place). Compared to the Doing Business 2018 report published in 2017, the Republic of Lithuania moved up the ranking by 2 places – last year it was 16th. The Republic of Lithuania ranked 4th among EU member states.

171. The Republic of Lithuania made the greatest progress in 2017–2018 in areas that determine the attractiveness of the country for investments in manufacturing, i.e. the issue of building permits and the connection to the electricity grid. The Republic of Lithuania has risen from the 12th to the **7th** place in the area of obtaining building permits due to improved qualification requirements for supervision and the process of issuing shortened building permits. The Republic of Lithuania consistently simplifies the process of connection to the electricity grid – the procedure of signing the contract with the supplier was abandoned, which allowed Lithuania to rise this year by 7 positions – from 33rd to 26th place, and in 2019 the inspection and issued certificate of the State Energy Inspectorate will be abandoned.

172. The DB report indicates that the positions of the Republic of Lithuania improved in the period of 2017–2018 due to implementation of three reforms that improved business conditions in the field of protection of small investors, tax payment and foreign trade. In the area of the protection of small investors, the World Bank positively evaluated the changes in the corporate governance statement of a public limited company whose shares are publicly traded on a regulated market must include information on transactions with related parties, the remuneration of the manager, each member of the board and the supervisory board, and other information. This reform resulted in moving up 5 positions in the area of small-investor protection (from 43rd to 38th). In the area of tax payment, the number of business tax payments decreased from 11 to 10 and the duration of tax payments decreased as well, while in the area of foreign trade the time of customs clearance for export was reduced. Although the Republic of Lithuania implemented reforms in the area of tax payment and foreign trade, its positions under these indicators did not improve because of reforms made by other countries.

173. Improvement of DB report indicators is one of the Government's priorities for 2017–2020. The Government programme implementation plan included reforms aimed at improving the country's ratings based on the indicators according to which the Republic of Lithuania is lagging behind the most. The Government ambition is to rise up to 10th place in the Doing Business rating by 2020. It is intended to optimize and shorten the procedures for establishing companies and connecting the companies to the electricity grid, reform the insolvency system in order to increase efficiency, strengthen the protection of small investors, initiate a review of pledge as a way of securing obligations, and simplify the terms of pledging assets.

174. In 2018, on the initiative of the Ministry of Economy and Innovation, a draft law amending the Civil Code was submitted to the Seimas in order to establish a legal regulation that would allow a legal entity to choose which office – physical or virtual – to have. These amendments are intended to simplify the process of establishing legal entities without the need of consent of the owners of the premises or without the services of intermediaries, to make it possible not only to establish certain legal entities in electronic form, as is currently the case, but also to exercise the activities of the legal entity irrespective of its permanent management body's location, and to ensure effective, secure, legal, and verifiable communication between the parties.

Business supervision

175. In 2018, according to the methodology for the evaluation of progress (scoreboard) of institutions supervising the activities of economic entities (hereinafter – the methodology for the evaluation of progress (scoreboard)), the Ministry of Economy and Innovation for the first time assessed how the 56 institutions (61 legal entities) supervising the activities of economic entities (hereinafter – supervisory institutions) had implemented in 2017 the advanced business-supervision measures and how they had implemented other modern related to business supervision. In January 2018, the methodology for the evaluation of progress (scoreboard) was developed in accordance with the principles and measures of the business supervision policy as established in the Law on Public Administration and other legislation, also taking into account OECD recommendations and best practices of other states. The evaluation all supervisory institutions carried out for the first time is the first of its kind in the world to receive special attention of the experts of the OECD and the World Bank.

176. According to the overall assessment of national supervisory institutions, advanced business supervision measures related to business supervision are currently applied by a small number of institutions – the progress evaluation of 33 (61%) supervisory institutions are less than 5.5 points (out of 10), only 2 institutions scored more than 9 points and only 7 supervisory institutions scored more than 7.5 points.

177. According to individual criteria, 28 (46%) supervisory institutions do not comply with the mandatory provisions of the Law on Public Administration and evaluate the effectiveness of their activities according to the proportion or number of violations identified. Only 30 percent of supervisory institutions have implemented at least one appropriate indicator for assessing supervisory activities, which shows how the institution contributes to its protected values, such as human life, healthcare.

178. Positive results can be seen in the control questionnaires – 36 (59%) questionnaires presented on institution websites used by inspectors during inspections can be reached with just 3 clicks. However, it should be noted that business supervisory institutions should improve their performance by improving questionnaires that currently lack clarity, specificity and user-friendliness. The quality of records of the consultations provided by phone should also be more actively assessed.

179. Although the majority of business supervisory institutions have signed a declaration not to punish entrepreneurs who started their business in the first year, it is still often the case that the institutions do not focus on such businesses in their first year, but after inspecting them in their second year violations are found and fines are imposed. According to best practices, supervisory institutions should allocate resources to advise and assist business representatives operating in their first year to correct errors and not repeat them in the second year of operation.

180. It was also established that only 10 (16%) of supervisory institutions properly carry out risk assessment of supervised entities. On the other hand, the proportion of the inspections carried out by these supervisory institutions amounts to 60% of total inspections carried out by all supervisory institutions.

181. The experts of the Ministry of Economy and Innovation prepared and submitted individual recommendations to each supervisory institution on optimising their activities, as well as discussed them with all supervisory institutions and their appropriate ministries that wanted to meet and discuss.

182. Periodic evaluation of the progress (scoreboard) of the supervisory institutions as well as publication of the results will be a useful tool to assist the Government and those that control the institutions in monitoring the progress of the supervisory institutions, identifying key issues and assessing the need to take specific action to improve the situation and reduce the burden of supervision. For the supervisory institutions themselves it will be useful to learn about the best practices of business supervision in the Republic of Lithuania and abroad and to take over them. In 2019 it is planned to carry out the assessment of the supervisory institutions in the categories “business novice”, “low significance” and “consulting”, under which the supervisory institutions, having read the 2018 scoreboard report and individual recommendations given to them, had enough time to make progress.

183. In 2019, the creation of the supervisory institution information system (SIIS) is continued. The system will make it possible to conveniently and quickly receive and provide data necessary for the supervisory institutions in the processes of supervision of economic entities (preparation of technical specifications, public procurement, etc.).

184. In implementing another EU-funded project and in order to provide a basis for increasing employee professionalism and reducing the supervisory burden of supervisory institutions, 3,500 persons (staff of the supervisory institutions and ministries responsible for strategic planning) will be trained in 2019–2020 by means of 3 specialised training programs “Basics of modern supervision system”, “Creating and applying the performance evaluation criteria used in the strategic planning documents of supervisory institutions” and “Developing high-quality consulting skills in a supervisory institution”.

185. Following a review of overlapping, similar, and ineffective business oversight functions, the Government approved the plan of measures for consolidating and / or optimizing the drafted by the Ministry of Economic Affairs and Innovation, which as of 2020 would reduce the number of supervisory institutions by 8 institutions – from 55 to 47 supervisory institutions. The plan also indicates 18 measures that will optimise the functions of business supervision and improve the processes of oversight of business activities. Until 2019 June 30, responsible ministries will have to prepare the necessary legislative amendments to implement the proposed amendments.

Better regulation

186. According to the data provided by the institutions, it was found that the administrative burden on business in 2017 was reduced by 4.6 million euros, while in 2018 necessary conditions were established to reduce it by 103.9 million euros. Changes to the procedure for installing and using cash registers will have the greatest impact on reducing the administrative burden – users of the new-model cash registers will no longer have to fill paper records. Updated rules of good hygiene practice also make it possible to no longer use paper records. The simplification of the procedure for connection of the electrical equipment of the electricity producers and consumers to the electricity grid and provision of social security notifications will also have a significant impact on the reduction of administrative burden.

187. In order to further reduce the administrative burden, after analysing the existing data and institutions’ proposals, by 10 October 2018 Resolution No. 1016 “On the approval of the Guidelines for Reducing Administrative Burden in 2018–2019” the Government approved the Guidelines for Reducing Administrative Burden in 2018–2019 reducing the administrative burden caused by legal regulation for the economic entities of energy consumption, production and supply; personal healthcare institutions, public healthcare institutions; agricultural entities.

188. Implementation of the guidelines will make it possible to reduce the administrative burden on the target groups of these economic entities: energy companies, personal and public

healthcare institutions, agricultural entities. Responsible implementers of the guidelines are advised to carry out the most comprehensive analysis possible and to prepare amendments to the legislation that would allow the abolition of excess, duplicate, irrelevant information obligations.

189. To reduce the administrative burden on business, in 2019 the following is planned:

189.1. to submit systemic proposals for improvement of the Law on the Reduction of Administrative Burden;

189.2. to formulate recommendations for the authorities regarding the prevention of excessive requirements related to the reports submitted by economic entities;

189.3. to ensure the practical application of the results of the regulatory compliance checks in the fields of chemistry, industrial project development and transport carried out within the framework of an EU-funded project. Achievement of the project results should reduce the regulatory burden on businesses by 2.5 million euros.

190. By 9 January 2019 Resolution No. 13 the Government approved the draft law amending the Law on Public Administration, which would ensure the accumulation of all information about licenses issued in the Republic of Lithuania in one state information system (license information system). Public and unpaid information about all licenses issued in the Republic of Lithuania will increase consumer confidence in business and the transparency of licensed economic activities.

191. In 2019, draft amendments to legislation will have to be prepared and submitted to the Government in order to abolish licenses and permits required for the commencement or performance of certain economic activities, as well as issuing of duplicates and paper licenses . Accumulation of all the information about the licenses issued in the Republic of Lithuania in one state information system (license information system) and abolition of paper licenses will simplify the conditions for starting a business, save business and state resources for managing paper documents and their duplicates, for storing and providing information.

Stimulating investment and export

192. Work will continue in 2019 to improve the investment climate and implement a system for investment incentives from various sources of funding. In order to attract large, high-added-value manufacturing investments (the value of the investments in long-term capital of at least 30 million euros and at least 200 new jobs created), a special legal regulation and targeted incentives for such investment projects are planned in 2019³. It is planned to prepare projects for the

³ In the Seimas spring session of 2019, a draft law amending the Law on Investment No. VIII-1312 of the Republic of Lithuania, Articles 1, 2, 9¹, 12, 13, and adding Section Four²; a draft law amending the Law on the Legal Status of Aliens No. IX-2206 of the Republic of Lithuania, Article 1; a draft law amending the Law on Territorial Planning No. I-1120 of the Republic of Lithuania, Articles 2, 4, 6, 17, 20, 23 and 28; a draft law amending the Law on Employment No. XII-2470 of the Republic of Lithuania, Article 56; a draft law amending the Law on Land No. I-446 of the Republic

development of free economic zones and industrial parks, to concentrate financial resources. 193. In 2018, Invest Lithuania attracted 45 FDI projects, which will create approximately 4,600 new jobs. Compared to 2017, the number of planned FDI projects increased by 15 percent (there were 39 projects in 2017), but the number of planned jobs decreased by 9 percent (5,040 new jobs were planned in 2017). The amount of investments in fixed assets reached 206 million euros in 2017, and in 2018 it decreased by 14 percent amounting to 179 million euros.

194. In 2018, the Ministry of Economy and Innovation implemented the instruments of the Government Programme Implementation Plan No. 4.2.8 “Creating a system for attracting and retaining talents in Lithuania” designed for attracting talent, their integration, improving the immigration model, and creating a system of incentives for returning talents. 4 projects are implemented in cooperation with the public institution Invest Lithuania: “Establishment and enabling of the talent attraction unit” (project completed), “Creating an incentive system for attracting highly qualified professionals”, “Improvement of the immigration model for attracting highly qualified professionals and their families”, “Creating a model for the integration of highly qualified professionals and their families who have returned to Lithuania”. Projects are to be implemented by the end of Q3 2020.

195. In order to facilitate the conditions of employment of highly qualified specialists from third countries in the Republic of Lithuania, the Ministry of Economy and Innovation periodically updates the list of professions requiring high professional qualification, of whom there is a shortage in the Republic of Lithuania, approved by 8 February 2017 Resolution No. 96 “On the approval of the list of professions requiring high professional qualification, of whom there is a shortage in the Republic of Lithuania”. The list is updated to meet the needs of the labour market.

196. Export results reveal successful effort of companies to establish themselves in international markets. According to preliminary data, the export of goods of the Republic of Lithuania increased by 7.3 percent in 2018 compared to 2017. The export of goods of Lithuanian origin increased by 9.8 percent over the year. In 2018, as in previous years, the EU remained the main export market for goods of Lithuanian origin (excluding energy products) (72.5 percent of total exports of goods). The growth of exports of goods of Lithuanian origin (excluding energy products) was mainly driven by the chemical industry, engineering industry, tobacco and furniture sectors.

197. In order to help business establish themselves in international markets, in 2018 the following measures were implemented to facilitate the development of the Lithuanian businesses in

of Lithuania, Article 23; and a draft law amending the Law on Environmental Impact Assessment of the Proposed Economic Activity No. I-1495 of the Republic of Lithuania, Articles 2, 6, 8, 9, 10, and adding Article 8¹ will be submitted.

the target export markets and to ensure efficient use of resources and stable short- and long-term export expansion:

197.1. Project Internationality LT administered by the Lithuanian Business Support Agency was launched. The aim of the project is to increase the exports of Lithuanian-origin goods and services of SMEs in promising sectors through the development of strategies and marketing initiatives designed for target export markets of the promising sectors. The project focuses on the priority sectors of the Ministry of Economy and Innovation: 3 traditional economic sectors (furniture, food and beverage, and industrial engineering) and 3 high-tech sectors (biotechnology, medical devices and scientific instruments, and IT services). Project monitoring indicator – the export growth of the 6 promising sectors identified during the project at the end of 2022 should exceed the total export growth of the country by at least 8 percent (interim results of the indicator are monitored annually in 2019–2021). Project duration: 1 January 2018 – 31 December 2020.

197.2. An instrument was created and implemented to help companies find and prepare for public procurement abroad. Public procurement in foreign countries is seen as a good and unexploited opportunity to strengthen the internationalisation of Lithuanian businesses and to stimulate exports.

197.3. A mechanism for searching for contacts abroad was created, which will help to attract clients of specific services/goods to Lithuania. There was a need to look for a more efficient mechanism for searching for contacts abroad, which would help to attract clients of specific services/goods to Lithuania, due to the problems identified and the aim to ensure systematic and effective cooperation between Lithuanian companies and representatives in foreign markets. The concept of the contact search mechanism consists of two parts – the support of the representatives and the network of consultants abroad.

197.4. Enterprise Lithuania developed and started to implement a programme for developing high-level export professionals through theoretical and practical experience in business enterprises. 24 graduates of Lithuanian and foreign higher education institutions were attracted, who will gain theoretical and practical export competences and who will have to help to develop exports at Lithuanian companies for at least 2 years. By the end of the program in June 2020, professional and comprehensive export consultations will be provided to 72 companies of the Republic of Lithuania.

197.5. In order to provide SMEs with the necessary information, consultative methodological and other support on the issues of exports, search for potential markets and international trade, in Q3 2017 the first call for 5.6 million euros worth of applications was announced under the instrument Expo Consultant LT of Action Programme Priority 3 “Stimulating the competitiveness of small and medium-sized enterprises” (hereinafter – Priority 3) administered by Invega UAB. Since the start of the implementation of the instrument, 345 contracts have been concluded with

project developers, worth 1.4 million euros. The companies received 11,000 hours of consultations on export issues, another 20,000 hours are planned.

197.6. To support the certification of products to be exported by SMEs, including the necessary tests and studies, in Q4 2017 a second call for proposals worth 1.56 million euros was announced according to Priority 3 instrument Expo Certificate LT, administered by the Lithuanian Business Support Agency. Since the launch of the instrument, 74 contracts from the two calls have been signed, worth 2.6 million euros. The companies that received the investments certified 178 products and are planning to certify 317 more. The exports of Lithuanian-origin products of these companies increased by 328 percent.

197.7. In encouraging SMEs to focus as much as possible on the search for new foreign markets and the expansion into existing markets, in January 2018 two calls for proposals were launched according to Priority 3 instruments “New Opportunities LT” administered by Lithuanian Business Support Agency – group presentation of SMEs and their production abroad and/or international exhibitions, fairs and business missions in the Republic of Lithuania. In one call, all SMEs, with the exception of SMEs in the cultural and creative industries sector (hereinafter – the CCI sector), received 2.4 million euros; in another call, only the SMEs of the CCI sector received 0.6 million euros. In December 2018, an invitation to individual companies to participate in business exhibitions and fairs was announced. The participants of the projects implemented under the first calls took part in 272 international business fairs, missions, exhibitions, and the export volume of Lithuanian-origin products of these companies on average increased by 85 percent.

197.8. In order to encourage groups of SMEs that have decided to operate together to get involved in international network chains to find new export markets for their products, in December 2018 a 2nd call for applications was announced, worth 3.6 million euros. According to Priority 3 instrument Business Cluster LT, administered by the Lithuanian Business Support Agency, 35 applications were received, requesting for 35 million euros. The clusters funded under the first call attracted 9 new members, it is planned to attract another 31. There are 4 new memberships in international networks, and it is expected that the cluster members’ export will on average increase by 105 percent.

197.9. In the context of export dynamics and in order to focus resources on the export destinations with the highest potential, a review of the target export markets is underway. The most promising markets are to be identified according to the export potential of high-added-value goods and services. In implementing the tasks of economic activities, the network of diplomatic missions and diaspora of the Republic of Lithuania are more actively involved, visits and cooperation initiatives are coordinated. The long-term target measures are aimed at strengthening the image of

the Republic of Lithuania and business sectors abroad, improving the system of economic representation of the country, and improving the competence of export specialists.

197.10 As of the end of February 2018, export credit guarantees were introduced for small and medium-sized enterprises (8 million euros allocated). As of 2019, they will also be introduced for large companies. Also, on 3 April 2018 a cooperation agreement was signed with Šiaulių bankas AB, and on 3 July 2018 – with SME Finance UAB for the provision of portfolio guarantees for factoring transactions (4.3 million euros allocated). Both in case of the export credit guarantee and the portfolio guarantee factoring, the instrument will help SMEs to expand their export activities, strengthen their competitiveness and stimulate exports of Lithuanian-origin goods.

Improving the management of state-owned companies

198. In 2018, the governance and legal regulation of the SOEs continued to be consistently improved. All of the OECD guidelines for the area of corporate governance of SOEs were implemented, that the OECD had given after assessing the compliance of the Republic of Lithuania with the OECD Guidelines for the Management of State-Owned Enterprises published in 2015. This significantly contributed to the accession of the Republic of Lithuania to the OECD.

199. In implementing the recommendation on strengthening the functions of state property, on 20 April 2017 the Seimas adopted amendments to the Law on the Management, Use and Disposal of State and Municipal Property and the Law on the Manager of Centrally Managed State Property, according to which on 1 July 2017 the functions related to the implementation of the state-owned enterprise management policy were transferred to a separate legal entity – public institution Stebėsenos ir priemonių agentūra. Also, the budget for carrying out these functions were doubled. In 2018, the functions of public institution Stebėsenos ir priemonių agentūra related to the implementation of the state and municipal-owned enterprise management policy were expanded (it received mandate to monitor the activities of the companies managed by the municipalities, to analyse the indicators and to prepare annual reports summarising the activities of these companies).

200. The independence of supervisory boards and management boards was increased – a uniform procedure for the selection of members for supervisory boards and management boards of state-owned companies and members of the management boards of state enterprises was improved, selection procedures for candidates with the required professional experience for the supervisory boards and management boards of the SOEs were improved, and recruitment agencies were allowed to participate in the selection process. Since the beginning of 2018, independent members were elected for least half of the member places of SOE bodies, the SOE management boards were completely depoliticized – they no longer have civil servants of political confidence. According to

the data of 31 December 2018, 56 percent of the collegial members of the supervisory and management bodies of SOEs were independent. Also, in November 2017 amendments to the Law on Companies were adopted that strengthen the functions of the supervisory body, equalise the possibilities to receive information for all shareholders, an obligation was established for the companies listed on stock exchange to have a supervisory body, and 1/3 of the members of this body must be independent, and new regulation on related party transactions was established.

201. In 2018, the legal forms of SOEs were revised – the Government approved a plan for the centralization of state-owned enterprise restructuring and management, under which the implementation of the decisions on mergers, reorganization, transformation of legal entities into other legal forms, liquidation or non-participation by the state in the management, and privatisation of state-owned shares of these companies were started. The aim of the plan is to reduce the number of both SME managers and the SOEs themselves (the aim is to reduce the number of managers from the current 14 to 8 in the transition period and to concentrate the management of the SOEs in one institution by 2023, thus separating the management from policy making). Since the implementation of the restructuring of the forest sector and the merger of 43 state-owned enterprises in this sector, on 8 January 2018 SE Lithuanian State Forests was founded, which is responsible for centralized management of state forests in the Republic of Lithuania. On 20 June 2017 the Seimas adopted amendments to the Law on Roads, on 5 July 2017 the Government adopted a resolution by which it agreed to reorganize 11 road maintenance companies of national significance. On 1 November 2017 SE Road Maintenance was founded (by 28 November 2018 Resolution No. 1169 “On reorganization of state enterprise Road Maintenance and investment of state assets” the Government agreed to reorganise SE Road Maintenance into a limited liability company). There were 118 SOEs operating in the Republic of Lithuania in 2016, and 61 at the end of 2018. There should be 34 SOEs by the end of 2020.

202. In 2017, the state’s return on investment from SOEs amounted to 202.4 million euros – an increase of 35.2 compared to 2016. The amount of dividends and profit payments to the state amounted to 172.9 million euros and, compared to 2016, increased by 42.7 percent. In 2017, the normalized return on equity of SOEs was 5.1 percent and this was 1.2 percent more than in 2016.

CHAPTER V
IMPLEMENTING THE EUROPE 2020 TARGETS

SECTION ONE
EMPLOYMENT, POVERTY AND SOCIAL EXCLUSION

Employment rate among the 20-64 year olds

Table 1. Employment rate among the 20-64 year olds

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2018
75 percent employment rate 20-64 year olds	72.8 percent employment rate 20-64 year olds	77.5 percent employment rate 20-64 year olds

203. The employment rate of the population aged 20–64 in 2018 in the Republic of Lithuania was 77.5 percent and, compared to 2017, increased by 1.5 percent.

204. In 2018, the unemployment rate was 6.2 percent – 0.9 percentage point lower than in 2017. In 2018, the unemployment rate for men was 6.9 percent, for women – 5.5 percent. Over the year, the unemployment rate for men fell by 1.6 percent and for women by 0.2 percent. The unemployment rate of youth (aged 15–24) in 2018 was 11.4 percent – 1.9 percent lower than in 2017. The long-term unemployment rate in 2018 was 2 percent – 0.7 percent lower than in 2017.

205. In 2018, new projects “TAPK – Creating Your Future Prospects” and “Take Advantage” directed at long-term, unskilled, unemployed or disabled people aged over 54 were launched with the help of EU funds. The projects will continue until the end of 2020.

206. In order to ensure a rapid and sustainable transition of young people from the education system to the labour market, to reduce youth unemployment, in 2015–2018, two projects of the Youth Guarantees initiative financed by EU funds were implemented: Discover Yourself and New Start. The aim of the Discover Yourself project is to reduce the number of young people between 15 and 29 years of age who are not in employment, education or training by implementing early intervention and motivation measures, taking into account the target group and the needs and opportunities of the individual. The aim of the New Start project is to increase the opportunities for young people aged 16-29 to integrate into the labour market and to become established there. It was open to young people who had already participated in the initial intervention project.

207. 43,400 people participated in the initial intervention project Discover Yourself, 19,700 of them started working or studying. 15,800 young people participated in the project New Start, 10,600 of them became employed, started studying or acquired a qualification.

208. In 2019, new projects for the implementation of the Youth Guarantees initiative will be launched and will run until 2021.

Individuals facing the risk of poverty or social exclusion

Table 2. Individuals facing the risk of poverty or social exclusion

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2017
To reduce the number of people living in poverty and facing social exclusion or people in danger of poverty or social exclusion by at least 20 million	To reduce the number of people living in poverty and facing social exclusion by at least 170,000 people, and the number of these people in 2020 must not exceed 814,000	843,000 residents facing the risk of poverty or social exclusion

209. According to the data for 2017, despite improving economic and employment rates, poverty remains high as income and economic prosperity are growing unevenly. In 2017, 29.6 percent of the residents the risk of poverty or social exclusion (30.1 percent in 2016). According to the data of the statistical survey of income and living conditions carried out by Statistics Lithuania, in 2017 the risk of poverty in the Republic of Lithuania was 22.9 percent. Compared to 2016, it increased by 1 percent – in 2017 around 650,000 residents lived below the risk of poverty.

210. The highest at-risk-of-poverty rate was in the age group of 65 and over. In 2017, it made up 33.4 percent and, compared to 2016, increased by 5.7 percent points. The increase was due to the increase of the poverty line as a result of increased labour income and the relatively lower growth of retirement pensions.

211. The risk of poverty for children under 18 increased by 0.1 percent compared to previous years and amounted to 25.7 percent, while it decreased for the people aged 18-64 by 0.3 percent and, compared to 2017, amounted to 18.8 percent. The decline was due to higher wages, lower unemployment and an increase in the minimum monthly salary.

212. Since 2019, the social assistance pension for elderly and disabled individuals has increased from 117 to 130 euros. This will affect about 5 thousand beneficiaries of social assistance pensions.

213. In addition, in 2019 a pension premium was linked to the minimum consumption requirements amount (up to 95 percent of the minimum consumption requirements amount) for individuals who receive low pensions.

214. As of 2019, retirees receiving less than 233 euros, who have at least the minimum required period of service, will on average receive a premium of 20 euros per year, but retirement pension will be increased for each person individually. This will affect around 90,000 retirees and disabled people.

215. In 2018, the aid in food and hygiene products for the most deprived persons was given to almost 200,000 individuals. In 2018, additional activities aimed at reducing social exclusion were launched for the first time: consultations were provided (on balanced nutrition, low budget management, legal, psychological assistance); various trainings, activities for children were organized. In 2019, a new project was launched – distribution of long-lasting food and hygiene products. It is expected that up to 230,000 people will receive support every year during 2019–2020.

216. In order to continue to financially support families raising children and to ensure a consistent increase in the amount of child benefit, in 2019 the amount of universal payment for every child was increased by 67 percent from 0.79 of the basic social benefit (BSB) (30.02 euros) to 1.32 BSI (50.16 euros) per month, and by 133 percent for disabled children – to 1.84 BSI (69.92 euros). Also, an equal amount of additional child benefit (regardless of the age of the children) was set at 0.53 BSI (20.14 euros) per month, leaving the existing legal regulation. The increase in the universal child benefit rate is projected to reduce the risk of poverty by 4.3 percent for children aged 0-17; in a family where both parents raise three or more children – by 9.2 percent.

217. In order to better support financially disadvantaged families with school-age children and to ensure full, healthy nutrition for pupils, the amounts allocated to social support for pupils have been increased in 2019. The amounts of daily funds for purchasing free meals increased by around 25 percent (from 7.7 BSI (2.93 euros) to 9.7 BSI (3.69 euros), and the funds for student needs increased around 33 percent (from 1.5 BSI (57 euros) to 2 BSI (76 euros).

SECTION TWO

INNOVATION, RESEARCH AND DEVELOPMENT

Investment in R&D

Table 3. Investment in R&D

EU target for 2020	National target for 2020	Actual situation in the
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		Republic of Lithuania in 2017
Increased investment in R&D up to 3 percent GDP	Increased investment in R&D up to 1.9 percent GDP	Investment in R&D amounted to 0.89 percent GDP

218. In 2017, 371.7 million euros were assigned for R&D, this amounted to 0.89 percent GDP. Compared to 2016, R&D expenditure increased by 44.1 million euros or by 0.4 percentage points of GDP. This was mostly influenced by the increased financing of R&D with foreign funds, the bulk of which were the EU funds redistributed through the state budget. In 2017, R&D expenditure through the higher education sector was 0.32 percent of GDP, and through the government sector – 0.25 percent (0.33 percent and 0.22 percent in 2016). Through the business sector, there was 0.32 percent of GDP spent on R&D in 2017 (0.30 percent in 2016).

219. The Republic of Lithuania is still heavily dependent on EU structural funds for R&D (0.22 percent of GDP): the share of state budget funding in R&D remained the same as in 2016 and made up 0.33 percent of GDP, although EU countries on average spend on R&D almost twice the amount. Expenditure of the private sector as a source of financing for R&D in the Republic of Lithuania was equal to 0.31 percent of GDP in 2017 (0.02 percent of GDP less than in 2016), which is also almost four times lower than the EU average.

220. According to the European Innovation Scoreboard issued by the EC in 2018, during the 2010-2017 period the growth of the Republic of Lithuania's science and innovation activities was the fastest, amounting to 20.1 percent (the average growth of innovativeness of EU countries was 5.8 percent). Over the years, the greatest progress has been made in the broadband internet penetration rate (+25 percentage points). According to the penetration of broadband internet for business, the Republic of Lithuania exceeds the EU average by 175 percent. Significant progress has also been made on the following indicators: number of applications for trademark and design registration (+13.9 percentage points and +15 percentage points per year respectively), medium and high-added-value goods exports (+4.6 percent points per year). The number of scientific articles of the Republic of Lithuania published in the most cited scientific journals has increased by 10 percent, the number of articles published together with foreign authors grew 12 percent, while the share of scientific publications published in cooperation with business increased by 5 percent. The growth of international competitiveness of the Republic of Lithuania is also indicated by the number of foreign PhD students in the Republic of Lithuania, which has increased by 15 percent. 17 percent growth in training of employees in the field of information and communication technologies is also noteworthy.

221. During the 2014–2020 financial period, the Action Programme measures administered by the Ministry of Economy and Innovation are focused on applied scientific research, experimental development activities, clustering, promotion and dissemination of innovations, increase of internationalization of enterprises, attraction of foreign direct investments, attraction of foreign direct investment, innovative products, and increasing demand for innovation. The aim is to support the entire innovation cycle and to provide an incentive to ensure its smooth functioning. The focus is on each stage of the cycle – from the creation of a new product idea to its launch in the market. To this end, the instruments No. 01.2.1-LVPA-V-842 Inogeb LT, No. 01.2.1-MITA-K-824 Innovation checks, No. 01.2.1-MITA-T-851 Ino-checks, No. 01.2.1-LVPA-T-844 InoConnect, No. 01.2.1-MITA-T-845 Inopatent, No. J05-LVPA-K Intellect. Joint Science-Business Projects, No. 01.2.1-LVPA-K-833 Inoklaster LT, No. 01.2.1-LVPA-V-835 Pre-Commercial Purchases LT, No. 01.2.1-MITA-T-852 Inostart, No. 01.2.1-LVPA-K-823 SmartInvest LT, No. 01.2.1-LVPA-T-848 Smart FDI, No. 03.2.1-LVPA-K-807 Business Cluster LT, No. 03.2.1-LVPA-K-801 New Opportunities LT, No. 2. No. 03.2.1-LVPA-K-802 Expo Certificate LT, No. 03.3.1-LVPA-K-841 For DPT Industry LT, No. 03.3.2-LVPA-K-832 EcoInnovation LT, No. 2. No. 03.3.2-LVPA-K-837 Eco-Innovation LT+, No. 03.3.1-LVPA-K-803 RegioInvest LT, No. 03.3.1-LVPA-K-854 Industrial Digitization LT, No. 03.3.1-LVPA-K-850 Regio Potential LT are being implemented.

222. During the 2014–2020 financial period, instruments No. 01.1.1-CPVA-V-701 “Development and integration of R&D infrastructure in European infrastructures“, No. 01.2.2-MITA-K-702 “Promoting the commercialization and internationalization of R&D results“, No. 01.2.2-LMT-K-718 “Targeted research in the field of smart specialization“, No. 01.2.2-CPVA-V-716 “Promotion of the Centres of Excellence in Smart Specialization“, No. 01.2.2-CPVA-K-703 “Promotion of the centres of excellence and centres of innovation and technology transfer” of Action Programme Priority 1 “Promotion of Research, Development and Innovation” administered by the Ministry of Education, Science and Sport, as well as instruments No. 09.3.3-ESFA-V-711 “Strengthening the capacity of scientists and other researchers“, No. 09.3.3-LMT-K-712 “Development of scientific competence of scientists, other researchers and students through practical scientific activities” of Action Programme Priority 9 “Educating the society and enhancing the human resource potential“ contribute to strengthening and mobilizing the potential of human resources in R&D, promoting the involvement of higher education and research institutions in international programs, directly contributing to research and business cooperation by strengthening the knowledge and technology link, providing incentives for the development of subsidiaries, also contributes to the development of a new knowledge-intensive business sector as well as to the development of a favourable environment for R&D and R&D infrastructure development.

223. In 2019, in implementing project No. 09.1.3-CPVA-V-704-04-0001 “Acquisition of special educational instruments and technical assistance for education” co-funded with EU structural funds, around 20 percent of all children with special educational needs are to be provided with special technical aids for learning and development. In implementing project No. 0.9.2.2-ESFA-V-707-02-0001 “Improvement of the qualifications of teachers and educational aid professionals“ of the EU structural funds, the aim is to improve the professional qualification of teachers and other persons involved in the education process. In 2019, in implementing instrument No. 09.2.2-EAFA-V-707 “Improving the educational possibilities of individuals with special learning needs”, project “Development of the opportunities for inclusive education, stage I“ is being carried out, which will include an assessment of the current educational support model by international experts and recommendations for its improvement. Methodologies for identifying specific educational needs will also be created and adapted.

SECTION THREE EDUCATION

Reducing early withdrawal of young people from the education system

Table 4. Reducing early withdrawal of young people from the education system

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2018
To ensure that school drop-out rates are below 10 percent	To ensure that school drop-out rates are below 9 percent	The share of school drop-outs accounts for 4.8 percent (preliminary data)

224. In order to reduce the early departure of young people with disabilities from the education system, a Action Plan for the Inclusion of Children in Education and Multidisciplinary Education is being implemented, as approved by 27 June 2017 by Order No. V-527 “On the approval of the Action Plan for the Inclusion of Children in Education and Multidisciplinary Education 2017-2022” of the Minister of Education and Science of the Republic of Lithuania. General education schools are provided with the necessary special means of training and technical support for pupils, new positions of assistant teachers are established, a variety of programmes adapted for the disabled in vocational training institutions is ensured. In 2018, 22 school buses for transporting the pupils with demanding and very demanding special educational needs.

225. In 2019, in implementing project No. 09.1.3-CPVA-V-704-04-0001 “Acquisition of special educational instruments and technical assistance for education” co-funded with EU structural funds, around 20 percent of all children with special educational needs are to be provided with special technical aids for learning and development. In implementing project No. 0.9.2.2-ESFA-V-707-02-0001 “Improvement of the qualifications of teachers and educational aid professionals” of the EU structural funds, the professional qualifications of teachers and other persons involved in the education process are to be improved.

226. In implementing project No. 09.3.1-ESFA-V-708-01 “Increasing the accessibility of studies“ of the EU structural funds, social scholarships are granted to students of higher education institutions, targeted benefits are made available, and the physical environment is adapted. In 2019, tactile printers are to be provided to schools.

Maintaining the share of people with higher or similar education

Table 5. Maintaining the share of people with higher or similar education

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2018
To ensure that at least 40 percent of 30-34 year-olds complete third level education	To ensure that at least 48.7 percent of 30-34 year-olds complete third level education	At least 57.6 percent of 30-34 year-olds have completed third level education (preliminary data)

227. In implementing the provision of the Government regarding the expansion of free higher education – Bachelor’s studies, in 2018 2,200 more first-semester students had the opportunity to have the price of their studies covered by state funds than in 2017. In order to ensure that the share of state-funded students does not decrease and correspond to the needs of the state development, in 2019 it is planned to develop an education supply analysis and evaluation system, to increase the attractiveness of the fields of studies that are unpopular but necessary for the labour market, and to index study prices (increasing the salaries of researchers and lecturers).

228. In order to create effective conditions for increasing the accessibility of studies, in 2019 it is planned to renew the system of student social assistance by increasing the amount of social scholarships from 3.25 BSI to 3.5 BSI, as well as to compensate the part of the tuition fee for those who have completed the initial mandatory military service or the basic military training.

229. In order to develop the internationalization of the studies and the system for financing of Lithuanians’ studies abroad, in 2019 it is planned to continue the “Kitas 100” competition organised by the State Studies Foundation, which is for the citizens of the Republic of Lithuania who study in

the best universities of the world under the bachelor, master or doctoral study programmes. The support is provided to pay for the studies and/or to cover the living expenses.

SECTION FOUR ENERGY AND CLIMATE CHANGE

Increasing the use of renewable energy sources

Table 6. A share of renewables of the total amount of power consumed

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2017
To increase the share of renewables to 20 percent of gross final consumption of energy by 2020	To increase the share of renewables to 23 percent of gross final consumption of energy by 2020	The share of renewables comprised 25.83 percent of gross final consumption of energy

230. On 21 June 2018, by Resolution No. XIII-1288 “On the amendment of 26 June 2012 Resolution No. XI-2133 “On the approval of the National Energy Independence Strategy” of the Seimas of the Republic of Lithuania” of the Seimas of the Republic of Lithuania, the National Energy Independence Strategy (NEIS) was updated. The targets set therein are 30 percent by 2020, 45 percent by 2030, 80 percent by 2050. For the purpose of NEIS implementation, a National Energy Independence Strategy Implementation Plan was approved by 5 December 2018 Resolution No. 1210 “On the approval of the National Energy Independence Strategy Implementation Plan” of the Government. This plan sets out specific policy measures that will allow the following targets set in the NEIS to be achieved by 2030:

230.1. to increase the share of electricity produced from renewables by at least 45 percent compared to the country’s total final electricity consumption;

230.2. to increase the share of district heating produced from renewables and local energy sources to at least 90 percent of the heat energy balance;

230.3. to increase the share of renewables in the transport sector to at least 15 percent. 231. In 2018, the necessary conditions for further development of renewable energy were established – green energy auctions will be launched as of September 2019. On 20 December 2018, the Seimas approved the amendments to the Law on Renewable Energy and the Law on Electricity of the Republic of Lithuania, which establish a new model for the support of power plants that use renewables (hereinafter – the Support Model). Under the new procedure, support for renewable-based power plants will continue to be allocated through auctions because this approach will ensure the lowest price, but for this purpose the auctions will be transparent, open and technology neutral.

231. The Prama model will be funded by public service obligations (PSO) and will not be additionally paid by the consumers since as of 2021 the incentive period for some of the producers of renewables that receive support under the current support scheme will have expired and the support will no longer be paid. In addition, a consistent decrease in support for renewable energy from PSO is planned due to cheaper technology and maximum orientation of renewables to operate under market conditions.

232. The support will be distributed through technology-neutral auctions, which means that power plants using different renewable energy technologies to generate electricity will be able to participate and compete with each other for a surcharge to market price. Technology-neutral auctions will make it possible to select only the most cost-beneficial projects.

233. It should be mentioned that an instrument for supporting producing consumers (households), financed by the EU Structural Funds for 2014–2020, will create additional renewable capacity of at least 35 MW. 17 million euros were allocated for the implementation of the instrument.

234. The development of renewables will make it possible to reduce the import of electricity by 30 percent, reduce air pollution (34.7 tonnes less greenhouse gas emissions, equivalent to the pollution of 19,000 cars per year), at least twice as much electricity will be produced from renewables in 2025 – from 2.4 TWh up to 5 TWh (enough energy for nearly 1.4 million households to meet their electricity needs) and at least 320 new jobs will be created.

Increasing the efficiency of final energy consumption

Table 7. Increasing the efficiency of final energy consumption

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2017
To consume 20 percent less final energy in comparison with 2009 by 2020	To consume 17 percent less final energy in comparison with 2009 by 2020	Consumption of final energy in 2017 decreased by 1.9 percent compared to 2010 (excluding the transport sector)

235. The main objective of NEIS in the area of energy efficiency improvement is to ensure that the primary and final energy intensity would be 1.5 times lower in 2030 compared to 2017, about 2.4 times lower in 2050 compared to 2017. To achieve these goals, the following actions are planned:

235.1. to rapidly develop low-energy and energy-efficient various industrial companies, deploy and purchase state-of-the-art and environmentally friendly technologies and equipment in order to save around 2 TWh in this sector;

235.2. to increase energy efficiency in the transport sector – to renew the car fleet, to move to modern and efficient public transport, to optimise the transport and alternative-fuel infrastructure in order to save about 3 TWh of energy;

235.3. to support comprehensive renovation of multi-apartment residential and public buildings (giving priority to the renovation of residential blocks), aiming to renovate 500 multi-apartment buildings annually;

235.4. to modernise urban street lighting in at least 3 cities;

235.5. to modernise district heating networks in order to reduce heat losses to 14 percent of all the heat supplied to the network;

235.6. to replace at least 4200 old boilers in households with more efficient renewable-based technologies in. 237. The Programme for Increasing Energy Efficiency of Public Buildings approved by 26 November 2014 Resolution No. 1328 “On approval of the Programme for Increasing Energy Efficiency of Public Buildings” of the Government established a target to renovate around 365,000 sqm of public buildings owned by the central government by 2020. This would save about 60 GWh of annual primary energy in these facilities, or 3 million euros annually. In order to speed up the process of renovation of public buildings, on 25 July 2018 there is a cross-financing scheme that combines the instruments of loans and refundable subsidies. One of the most important criteria for assessing applications for funding the renovation of public buildings is that after completion the public buildings should have at least energy efficiency class C. In addition, the final energy costs of the renovated facilities will have to be reduced by at least 30 percent. After receiving the necessary funding for building renovation and reaching and exceeding the targets set for their projects, the building managers will be allowed not to repay the refundable part of the subsidy. In this way, building managers are encouraged to provide high-quality renovations of the buildings, which would bring long-term benefits to the state.

236. On 30 June 2018, by an amendment to the Law on Electricity of the Republic of Lithuania, an exemption for payments for PSO electricity was legalised for companies of electricity-intensive industries. The goal of this PSO relief is to improve the investment environment in the Republic of Lithuania, attract high-added-value companies and increase the competitiveness of companies of energy-intensive industries. Also, it is proposed to create conditions to reduce the electricity price for the companies that use electricity intensively in their operations by differentiating the fee related to electricity production from renewables. It is also proposed to allow the companies of electricity-intensive industries to recover 85 percent of the part of PSO price that is related to electricity production from renewables, calculated from their annual electricity consumption exceeding 1 GWh. The companies have to invest at least 75 percent of the recovered funds in energy efficiency improvement measures.

237. According to the Multi-apartment buildings renovation (modernization) programme approved by 23 September 2004 Resolution No. 1213 “On approval of the Multi-apartment building renovation (modernisation) programme” of the Government of the Republic of Lithuania, 224 apartment buildings were modernised in 2018. For this purpose, in 2018 23.14 million euros were used from the state budget and 16.21 million euros from the Special Climate Change Programme approved by 5 July 2018 Order No. D1-664 “On the amendment of 6 April 2010 Order No. D1-275 “On the approval of the Description of the Procedure for the Use of Funds of the Special Climate Change Programme” of the Minister of Environment of the Republic of Lithuania” of the Minister of Environment of the Republic of Lithuania. Modernised buildings district heated from centralized networks use 50–70 percent less energy for heating than before renovation. On the initiative of the population, 762 various measures to reduce heat consumption in multi-apartment buildings were implemented. In total, 2,981 multi-apartment buildings (about 8.2 percent of all multi-apartment buildings) have been modernised under the multi-apartment buildings renovation (modernization) programme, and 13,869 measures to reduce various heat energy costs in multi-apartment buildings have been implemented on the initiative of the population.

238. Calculated heat energy costs in multi-apartment buildings constructed according to the construction technical standards applicable before 1993 have been reduced since 2005 by about 912 GWh per year. Such a reduction compared to 2005 (5,000 GWh) amounts to a share of about 18.24 percent (at least 20 percent is to be achieved by 2020).

239. At least 500 multi-apartment buildings are planned to be modernised in 2019, which should reduce the calculated heat energy costs by another 100 GWh.

Limiting greenhouse gas emissions

Table 8. Limiting greenhouse gas emissions

EU target for 2020	National target for 2020	Actual situation in the Republic of Lithuania in 2017
To reduce GHG emissions by 20 percent until 2020 compared to 1990. In sectors that are not a part of the EU emission allowance trading system, to reduce GHG emissions by 10 percent compared to 2005	During the 2013–2020 period, in sectors that are not a part of the EU emission allowance trading system, every year not to exceed the annual quantitative quotas (hereinafter – tonnes of CO ₂ eq.) of GHG emissions set for Lithuania and to ensure that GHG emissions in 2020 increase by no more than 15 percent compared to 2005 and do not exceed 15.24	The quota of sectors that are not a part of the EU emission allowance trading system comprised 14.126 million tonnes of CO ₂ eq. According to the data of the National Report on GHG Emissions Accounting of 2019, the actual greenhouse gas emissions in 2017 totalled 14.163 million tonnes of CO ₂ eq.

240. In 2018, 24 million euros were allocated for energy efficiency improvement; 6.9 million euros – for the implementation of renewable energy sources, 0.8 million euros – for developmental collaboration projects in order to transfer renewable energy technologies produced in the Republic of Lithuania to third countries, and 0.8 million euros – for other instruments of national policy making and implementation of climate change management.

241. In 2019, funds from the Special Climate Change Programme will continue to be used for financing projects the implementation whereof results in quantitative reduction of greenhouse gas emissions. The plan is to allocate 80 million euros for projects aimed at increasing energy efficiency and use of renewables in 2019. It is planned to provide support for natural persons for projects of upgrading of individual houses and implementation of renewable energy sources, to support companies and residents of apartment buildings to finance implementation of energy efficiency measures, to support initiatives related to development of environmentally friendly transport and its infrastructure.

CHAPTER VI

INTERINSTITUTIONAL COOPERATION

242. The Country Report published by the EC and the objectives set out therein for the Republic of Lithuania were discussed in detail in the Seimas Environmental Protection Committee, Budget and Finance Committee, Economic Committee, European Affairs Committee, Social Affairs and Labour Committee, Health Affairs Committee, Education and Science Committee, State Administration and Municipalities Committee.

243. The NRP was prepared in cooperation with an interinstitutional working group comprising representatives of the ministries, Bank of Lithuania and Statistics Lithuania. The preparation of the NRP was coordinated by the Minister of Economy and Innovation.

244. During the meeting held on 7 March 2019 of the National Reform Programme supervision committee, which was set up by 17 August 2011 Resolution No. 967 “On coordination of implementation of the National Reform Programme in Lithuania” of the Government, the main issues of preparing the NRP 2019 were agreed and the Country Report was discussed. Also on 12 April 2019, with the participation of representatives of other branch committees of the Seimas, the NRP was presented at the Seimas European Affairs Committee.

245. The NRP project was publicly announced in the legislation information system of the Office of the Seimas of the Republic of Lithuania during in 28 March – 3 April 2019. Comments

and suggestions could have been provided to him by economic-social partners and society as a whole.
