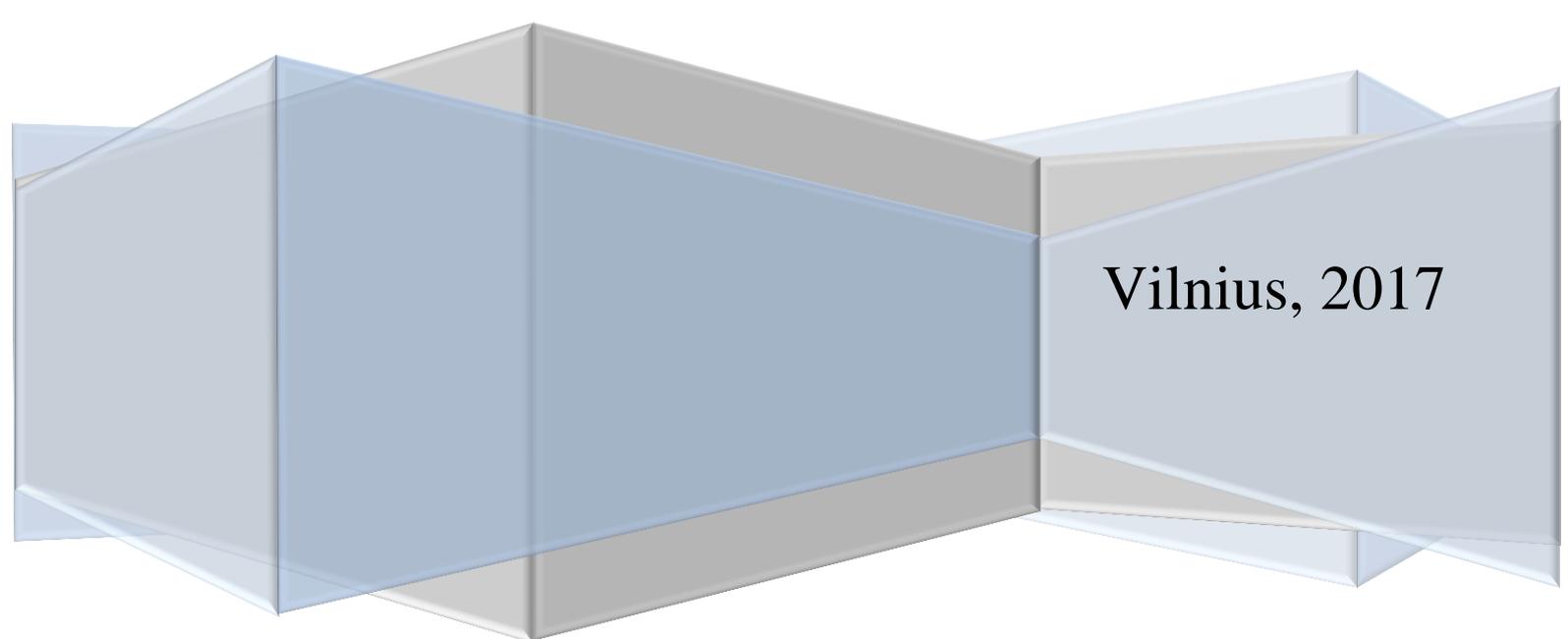


Lithuania: the National Reform Programme of 2017



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1. INTRODUCTION

The National Reform Programme of 2017 (hereinafter - 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 a European Union (hereinafter - EU) member state participating in the European Semester for economic policy coordination. In pursuit of economic and employment growth, each year member states present their NRP to the European Commission (hereinafter - EC).

In 2016, the Lithuanian economic growth (2.3 percent) exceeded the EU average (1.9 percent), and an even faster growth is planned in 2017. The rate of unemployment accounted for 7.9 percent in 2016 and was 1.2 percentage point lower than in the previous year.

The NRP lists actions of the Government of the Republic of Lithuania (hereinafter - the Government) that were taken in the implementation of the Council Recommendation published on 12 July 2016 “On the 2016 National Reform Programme of Lithuania and Delivering a Council opinion on the 2016 Stability Programme of Lithuania”:

1. ensure that the deviation from the medium-term budgetary objective is limited to the allowance linked to the systemic pension reform in 2016 and in 2017. Reduce the tax burden on low-income earners by shifting the tax burden to other sources less detrimental to growth and improve tax compliance, in particular in the area of value added tax (hereinafter - VAT);
2. strengthen investment in human capital and address skills shortages, by improving the labour market relevance of education, raising the quality of teaching and pursuing more active labour market policies and adult learning. Strengthen the role of social dialogue mechanisms. Improve the performance of the healthcare system by strengthening outpatient care, disease prevention and health promotion. Improve the coverage and adequacy of unemployment benefits and social assistance;
3. take measures to strengthen productivity and improve the adoption and absorption of new technology across the economy. Improve the coordination of innovation policies and encourage private investment, *inter alia*, by developing alternative means of financing.

The NRP was drawn up considering the Annual Growth Survey published by the EC on 16 November 2016, which starts the European Semester for economic policy coordination of 2017, and the priorities set for the entire EU and each member state individually, namely, to create the greatest possible number of jobs, to ensure a faster economic growth and investment.

With a view to better integrating the Euro area and the national economic governance aspects of the EU, on 21 March 2017, the EU Council provided a set of recommendations for the Euro area for 2017-2018. Euro area countries are advised to continue implementing the policy supporting sustainable

inclusive economic growth in the short and long term; seeking for a balance in the fiscal policy between the need to ensure sustainability and the need to support investment; implementing efficient social dialogue-based reforms which are aimed at promoting competitiveness, job creation, quality of jobs, resistance and economic and social convergence; further developing the banking union in pursuit of risk reduction and risk sharing; and aiming to complete the creation of the economic and monetary union.

On 22 February 2017, the EC presented the “Country Report Lithuania 2017”, which covers the overall economic assessment of Lithuania, the implementation of Council recommendations for 2016, the execution of structural reforms and progress of the implementation of the national goals under the “Europe 2020” strategy. According to the assessment of the implementation of the recommendations, this year Lithuania was attributed to more advanced member states. The key challenges faced by Lithuania identified in the report include: shrinking working-age population, increasing inequality and decreased productivity. The NRP lists key actions by the Government in order to tackle the said challenges.

The NRP consists of the following parts:

1. Lithuanian macroeconomic outlook in line with the draft Stability Programme of Lithuania (Chapter 2);
2. Policies and ongoing reforms that address the main economic challenges (Chapter 3);
3. Information on the implementation of “Europe 2020” targets (Chapter 4);
4. Drafting the NRP and interinstitutional cooperation (Chapter 5);
5. Overview of the Action Plan of the Implementation of EU Council Recommendations for Lithuania for 2016–2017 (Annex to NRP).

2. MACROECONOMIC OUTLOOK

The economic development scenario for 2017–2020 prepared by the Ministry of Finance stipulates that the gross domestic product (hereinafter - GDP) of Lithuania will grow by an average of 2.5 percent per year in medium term. With the increase of productivity in 2017, it may grow even faster - by about 2.7 percent, while in 2018, GDP growth may reach 2.6 percent.

In recent years, improving financial situation of households and good customer expectations encouraged the growth of household consumption expenditure. In 2016, it reached 5.6 percent, which is the fastest pace in the past 9 years (a faster growth was captured only in 2007). With wages growing faster than inflation, household consumption will remain relatively high. Household expenditure will increase by about 3.6 percent per year in 2017-2020 (which is more than the EU average) and will significantly contribute to GDP growth.

Increasing investment level in the country, which will be encouraged in medium term by favourable bank credit conditions, alternative sources of financing and more active use of funds from

the European Fund for Strategic Investments and EU funds will also contribute to economic growth. Costs of formation of gross fixed capital in 2017-2020 could increase by about 5 percent per year, even though there was no increase last year.

Lithuanian exporters will have to continue adapting to changing economic circumstances, managing currency risks, reducing costs of production and increasing operational efficiency. The plan is to have the actual export of goods and services to increase by 3.8 percent in 2017, 3.9 percent - in 2018, 4 percent - in 2019, and 4 percent in 2020. Further growth of export of furniture of the Lithuanian origin, plastics, food and agricultural products, recovery of export of fertilizers and re-export of goods is expected in 2017. Improved situation in the European dairy product market and more intense export of grain will have a positive impact on the export of food and agricultural products.

In order to be competitive with the increasing price of work force, business will have to increase labour productivity, to efficiently use means of production and labour resources, and to invest in development (innovation and qualification of human resources).

In 2016, average monthly wage increased by 7.9 percent (in the private sector - by 9 percent and in the public sector - by 6.1 percent) in the country, which is the fastest growth since 2009. This was also greatly affected by a rapid growth of the minimum monthly wage in 2015-2016. Wages mainly increased in the service sector, and here they were the lowest. Wages are planned to increase at the average yearly rate of about 6 percent in 2018-2020. Wages will increase the fastest in the private sector, especially in the areas with a high labour work demand and the lowest wages.

With economic growth, the rate of unemployment will continue decreasing, and will account for 7 percent in 2017, 6.4 percent - in 2018, 5.9 percent - in 2019 and 5.4 percent - in 2020.

Rapidly increasing wages lead to the increase of prices of goods and services. Since 2nd half of 2016, the increase of these prices and prices of raw materials and processed products has sped up the inflation in the country. This year, the inflation will mainly increase due to increasing price of oil in the global market and increased excise duty on alcoholic beverages. The plan is to have average inflation to account for 3.4 percent in 2017. Upon the change of circumstances, inflation level will slightly decrease: by up to 2.7 percent in 2018 and up to 2.5 percent - in 2019–2020.

3. POLICY MEASURES THAT HELP TACKLE MAIN ECONOMIC CHALLENGES

3.1. Labour market and social policy

3.1.1. The new social model

The Parliament of the Republic of Lithuania (hereinafter - the Parliament) adopted a new Labour Code on 14 September 2016. It had to take effect on 1 January 2017, but on 20 December 2016, the Parliament made a decision to postpone the effective date of the new Labour Code till 1 July 2017.

In the meeting of 15 March 2017, the Tripartite Council, compound from trade unions, employers and the Government, reached an agreement on issues related to the new Labour Code that were the object of major disagreement: the regulation of annual leave, the right to unemployment benefit, the maximum working time and accounting of working time, distribution of the functions of work councils and trade unions, information and consultations, also criteria used as a basis for selecting members of the Tripartite Council. Having reached an agreement on the majority of disputed issues, the draft amendment to the new Labour Code, which was adopted but has not yet taken effect, will be submitted for consideration by the Parliament.

The amendment to the Employment Law, as a composite part of the social model, is aimed at legitimizing a new more efficient model of application of active labour market policy instruments, which would help solve problems of employment of social benefit recipients and reduce the risk of long-term unemployment. Provisions of the Employment Law will help expand the opportunities of work-based learning and practice for the unemployed in order to integrate the unemployed into the labour market more efficiently, also providing for new instruments promoting employment, including employment under an apprenticeship employment agreement and internships.

The new version of the Law on Unemployment Social Insurance is aimed at expanding the coverage and adequacy of unemployment insurance. During the meeting of the Tripartite Council, an agreement was reached to extend the period of payment of unemployment social insurance benefits to 9 months. According to these amendments, a person having a record of unemployment insurance of at least 12 months over the past 30 (rather than 24) months before his registration with the territorial labour exchange shall be entitled to the benefit. Formula for calculating an unemployment insurance benefit has also changed, thus this benefit will increase.

Laws governing social insurance related to the new social model took effect on 1 January 2017. These laws expanded the possibilities to get insurance (for heads of small partnerships, persons receiving bonuses) and increased the number of types of insurance applicable to persons (self-employed persons were conferred a possibility to receive sickness benefits). Different benchmark indicators for calculating minimum and maximum social insurance benefits were also set. Starting from 1 January 2017, amounts of social insurance benefits have been associated with average wages published by Statistics Lithuania.

The plan is to reduce the pension insurance contribution rate by 1 percentage point starting from 1 July 2017. Having reduced the pension contribution rate in 2017, the unemployment social insurance contribution rate will be increased by 0.5 percent, while starting from 1 July 2017, the long-term employment benefit fund used for paying severance payments to employees having lost jobs should be launched. The contribution rate of 0.5 percent is planned for funding these benefits. The total tax burden on employers remains the same in 2017.

The amendment to the Law on State Social Insurance Pensions is aimed at reforming the social insurance pension system. The following amendments shall take effect on 1 January 2018: procedure for calculating social insurance pensions was changed, making it clearer and more transparent; pension amounts will be more associated with the paid pension insurance contributions, expecting to create conditions for financial sustainability of the pensions system and adequate pensions. Moreover, the plan is to also change the share of the base pension of the social insurance pension funding, which is directly unrelated to social insurance contributions. It would be separated from social insurance and funded from general taxes. These changes are expecting to increase financial sustainability of the pension system and adequacy of benefits in the long term. The above mentioned law also provides for an automatic indexation of pensions based on clear criteria, which will help take into account the economic conditions and demographic indicators. Annual automatic indexation of social security pensions according to the rolling 7-year average of the growth of the Labour Compensation Fund is planned starting from 2017. The procedure for calculating disability pensions is also to be changed: instead of the currently valid distribution of pension amounts according to 3 groups, pension amounts shall be directly linked to the disability level of the person at the interval of 5 percent.

According to the calculations made pursuant to the currently considered draft legal acts governing the new social model, the indexation of pensions based on the growth rates of the Labour Compensation Fund would help balance the pension system in the long term, and would allow reducing pension expenses to up to about 3.7 percentage point of GDP (compared to the base pension projection scenario) in presence of the existing microeconomic assumptions. Introduction of new types of employment agreements and shorter dismissal notification periods as well as smaller severance payments will encourage employers to create new jobs. All the above-mentioned innovations (more flexible working time regulation, introduction of new types of employment agreements and adjustment of dismissal conditions to market conditions, reduction of administrative burden) are projected to encourage the creation of approximately 85.000 new jobs.

3.1.2. Reducing poverty, social exclusion and income inequality

In 2016, changes in the labour market enhanced social security, thus reducing unemployment rates, increasing employment, the minimum monthly wage and average wages. The average monthly wage before taxation was EUR 771, which is 7.9 percent more than in 2015. The average monthly wage after taxation increased by 8.3 % over the course of the year, and amounted to EUR 600. This is one of the largest increases in the EU. However, levels of risk of poverty, social exclusion or income inequality remain high, thus tackling these challenges is top priority of the seventeenth Government.

Given the results of monitoring of the implementation of legal regulation of cash social assistance, in order to create more favourable conditions for poor residents to receive cash social assistance, ensure adequacy of the assistance and increase motivation of working age population to

integrate in the labour market, amendments to the Law on Cash Social Assistance to Poor Residents were adopted on 20 September 2016. The amendments changed the procedure of application of the scheme for reducing the proportionality of social benefit: social benefit shall not be reduced, when during the period of its provision a person did not receive any job offer or an offer to engage in active labour market policy measures from the Lithuanian territorial labour exchange or the national employment service of another state; or when social benefit recipients take part in activities that benefit the society organized by municipal administrations. A social benefit shall be reduced solely to an employable unemployed person of working age rather than the entire family. Moreover, more favourable conditions were created for receiving a part of an additional social benefit having found employment.

The plan is to continue improving coherence between cash social assistance, social services and active labour policy measures - to switch from passive to active forms of assistance encouraging employment and to integrate the unemployed into the labour market. In order to increase the coverage and adequacy of cash social assistance, a possibility to change the amount of state supported income is considered, associating it with the amount of the minimum needs of a person (a family).

In order to support families with children, amendments to the Law on Benefits for Children were adopted on 21 September 2016. They changed legal regulation related to the payment of benefits to children valid till 1 January 2017, also increased the child's age limit - having assessed the family income, a child benefit paid shall be paid to families raising and/or fostering one or two children until the child turns 18, while a child benefit to families raising and/or fostering three and more children shall be paid a child benefit from the birth day of the child till 18 years of age, disregarding the family income.

Also these amendments enshrine two new types of benefits - a benefit of 4 base social benefit amounts (EUR 152) for care of pupils or students and a benefit of 4 base social benefit amounts (EUR 152) in case of a birth of more than one child at a time. The search of possibilities to increase financial assistance to persons raising children (legitimizing financial support for adoptive families, considering possibilities to allocate a child benefit for all children raised or fostered in the family) is continued.

Remuneration procedure of employees working in budgetary institutions has been improved: the Law on Remuneration of Employees of State and Municipal Institutions took effect on 1 February 2017, establishing conditions and amounts of remuneration of employees of state and municipal budgetary institutions funded from the state budget, municipal budgets, the State Social Insurance Fund budget and other monetary funds established by the state, who work under employment agreements, also their material benefits, job position levels and groups, and annual performance evaluation. Competitive remuneration levels will be set for employees with professions that are missing in the labour market.

In order to strengthen youth policy, the implementation of the Youth Guarantee Initiative and development of open youth centres was continued, increasing the diversity of services provided therein, which will help young people in social exclusion reintegrate and/or integrate in the labour market and/or the education system or social life. The plan is to establish 2 open youth centres at the national level in cooperation with municipalities each year in order to have at least one open youth centre in each municipality.

The implementation of instruments reducing social exclusion has been continued, mainly focusing on the development of social services. Services of integral assistance (social care and nursing) provided at home have been developed: with 21 assistance models having served the purpose in pilot municipalities, the implementation of such projects was stated in all municipalities (except for Neringa) in 2016. The Action Plan of the Transition from Institutional Care to the Provision of Services in a Family and Community for the Disabled and Children Deprived of Parental Care approved by Order of the Minister of Social Security and Labour of 14 February 2014 was being implemented. Preparation for expanding the provision of comprehensive services to parents raising children having found themselves in crisis situations and ensuring the provision of services within the shortest possible distance to the place of living of the family was started. Comprehensive provision of services to the family within the shortest possible distance to the place of living of the family was arranged. Also, creating conditions for a higher number of the disabled to receive vocational rehabilitation services was pursued.

Social work with parents of foster (care) children has been developed in order to create conditions for child's return to the family, also increasing the number of social employees working with families in municipalities. Improving the quality of the work performed has been pursued for social employees to be able to work with fewer families, to look into the situation of every family and to find the best work methods adapted for a specific family. To this end, financing for social care of families at social risk was increased, and the number of families with whom a social employee should work in municipalities was reduced from 17 to 10.

Amendments were planned in order to allow access to housing by vulnerable groups of residents, creating exclusive conditions for the disabled and the elderly, adapting public spaces and housing to the disabled. The social housing fund will be expanded, renting apartments available in the market, introducing incentives for tenants and creating conditions for all persons and families entitled to housing rental assistance to receive a compensation of a part of the housing rental fee.

3.2. Amendments to taxes and their administration

In 2016, amendments to the Law on Personal Income Tax were adopted, increasing the basic and additional tax-exempt amount of income - the maximum increase of net income, taking into consideration the amount of wages, marital status and the number of raised children, will be EUR 37 per month. Also, amendments to the Law on Excise Duty were made, whereby excise duty rates on all types of alcoholic beverages and ethyl alcohol were increased as from 1 March 2017: 112 percent - on beer, about 92-111 percent - on wine, other fermented beverages and intermediate products, and about 23 percent - on ethyl alcohol.

In order to ensure the compliance of the excise duty rate on cigarettes with the minimum level of excise duties set by EU legislation (EUR 90/1 000 cigarettes), excise duties on cigarettes were increased on 1 March 2017, and in order to avoid the substitution effect, they were also increased on cigars and cigarillos.

In 2016, the development of the legal instrument for automatic exchange of tax information was completed following the global standard approved by the Organisation for Economic Co-operation and Development (hereinafter - OECD) and the latest EU initiatives. Having assessed legal acts of potential cooperation partners and personal data protection measures, preparation for actual exchange with more than 40 states was completed.

Considering the current situation and directions of the Governmental programme, the plan is to improve the tax system favourable to economic growth, the tax collection system and to promote voluntary tax payment.

In the implementation of the planned amendments to the tax system and in pursuit of the above-mentioned goals, the focus will be placed on two key works:

1. To improve the tax structure and the tax system. The following is planned in the performance of these works:

- to assess the possibilities of reducing the tax burden on low-income earners, i.e. consolidating social insurance contributions of the employer and the employee and shifting them over on the employee, combining the part of the social insurance contribution ensuring the base pension with the personal income tax, and continuing paying the remaining part of social and health insurance contributions of the insurance purpose to social or health insurance funds, respectively. Having made such changes, a possibility to further reduce tax burden on low-income earners and other socially vulnerable groups (persons raising children and people with disabilities) by increasing the tax-exempt income amount would emerge;

- having assessed the impact on public finances, the country's economy and collection of excise duties, the plan is to shift the tax burden over to other entities, the taxation of which would be less detrimental to economic growth, i.e. to change excise duty rates and the application of excise

duties, at the same time waiving tax incentives that have not served the purpose, are inefficient and socially unjust;

- in order for the tax measures to better contribute to the growth of productive investment, to eliminate obstacles of the development of the alternative capital market in the tax area, thus improving the possibilities of the starting and growing business to receive funding, and at the same time expanding incentives applicable to investment in the technologic renovation.

2. To promote voluntary payment of taxes and improve the tax collection system. The following is planned in the performance of these works:

- devoting more attention to taxpayer education (implementing an integrated taxpayer education strategy) and simplifying tax procedures (the provision of services of formation of preliminary VAT and advance income tax returns and data inspection services will be started in 2017);

- creating automated tools designated for using efficient information important for taxation received from foreign and national sources (in the implementation of OECD automatic tax information exchange initiatives and using information received by way of automatic information exchange) and itemized data received from VAT invoices and consignment notes submitted by taxpayers electronically each month, which have been received starting from October 2016.

3.3. Promoting productivity growth

The Lithuanian labour productivity growth was one of the highest among EU countries in 2000-2015. In 2015, the nominal hourly wage growth accounted for 64.1 percent of the EU average, but the rate of productivity growth slowed down. The country's economy has the potential to increase productivity by making higher investments in innovation, research and development, attracting foreign direct investment and promoting exports.

3.3.1. Promoting research, development and innovation

The new version of the Law on Higher Education and Research took effect on 1 January 2017, enshrining provisions on the coordination of research, development and innovation (hereinafter - RDI) policy: the plan is to expand the role of the Commission for Research, Development and Innovation; it also establishes that the Research and Higher Education Monitoring and Analysis Centre (hereinafter - MOSTA) shall provide recommendations to the Parliament and the Government on the improvement of research, higher education and innovation policy in order to increase efficiency of research, higher education and innovation, and to promote the growth of innovation economy.

In pursuit of RDI system efficiency, in 2016, OECD presented the report on the review of the Innovation Policy of Lithuania. Given the recommendations presented in the report, a draft action plan for the implementation of the recommendations of review of the Innovation Policy of Lithuania was

prepared and approved on 7 October 2016. In order to ensure sustainable development of civic and creative society, the plan is to implement measures necessary for comprehensive development of general and special personality skills throughout the entire chain of education system from pre-school education to life-long learning. The plan is to target systems of higher education and vocational training at the international level of scientific and technological excellence and the preparation of specialists having top qualification considering the needs of the state, the society and business. A particular focus has been placed on reducing emigration. The planned measures for the optimization of innovation system include the pursuit of more efficient coordination of the innovation policy, activities of implementing authorities consolidating them and preparing a single strategic RDI system document.

The plan of the implementation of the Government programme lists key actions that will affect the formation and implementation of the Innovation Policy:

1. Update of the RDI Strategic Council of new composition (including therein ministers and social partners by directions of smart specialization, the integral RDI policy provided for the Council's approval and attributing thereto a responsibility for the coordination and strategic management of education, research, technology and innovation policy);
2. Transformation of the institutional framework of the RDI system (establishing participant functions, duties and services);
3. Review of inter-institutional research and innovation programmes of strategic level, and preparation of a single research and innovation development programme and its implementation plan.

In addition to the previously mentioned measures of the implementation plan of the Government Programme, the following is also planned in the area of promotion of RDI:

- to make activities of research and technology parks and open access centres more efficient, having linked the performance results set therefor to financing;
- to ensure accessibility to RDI infrastructure - to install the virtual innovation information platform;
- to create the permanent innovation voucher programme encouraging companies to more actively engage in innovation activities and to take advantage of possibilities provided by cooperation between science and business;
- to create a comprehensive system for the assessment of all types of RDI activities, the methodology, indicators and results whereof could be applied in preparation and implementation of RDI programmes and projects;
- to implement the initiative ensuring the participation of business RDI projects having received good ratings in international programme contests in national RDI contests without expert re-evaluation;

- to create a coordinated research and innovation diplomacy system ensuring consistent and coordinated contribution of the Lithuanian diplomatic missions to the enhancement of international cooperation in the RDI field;
- to draft a description of the procedure of the promotion and monitoring of internationalization of research and higher education institutions and businesses in the area of research and innovation (including the development of a map of international cooperation in the area of research and innovation);
- to co-fund doctoral studies of the company contributing 50 percent in order to increase employment of researchers in the business sector and to promote applied research on topics relevant for business;
- to initiate the implementation of measures promoting cooperation between research and business (comprehensive common research-business projects, technologic development projects for the cooperation of research and education institutions and small and mid-size enterprises).

In order to encourage contracting authorities to hold pre-commercial procurement procedures, a description of the conditions of financing projects under the measure “Pre-commercial procurement LT” was drafted in 2016, consulting contracting authorities on the execution of specific projects under the measure. About 80 possible pre-commercial procurement procedures were identified in preparation for the implementation of the measure. By 7 March, the Agency of Science, Innovation and Technology had received 60 descriptions of objects pre-commercial procurement, of which 58 were evaluated and 17 were approved as meeting characteristics of pre-commercial procurement, while others were offered to adjust descriptions of objects. The plan is to publish a call for draft proposals for the compilation of a list of state projects under the measure in the nearest future (participation of 22 contracting authorities is expected).

It should be noted that having adopted the new version of the Law on Public Procurement, contracting authorities will have better opportunities for holding innovative public procurement procedures, providing for a new type of innovative public procurement procedure - the innovation partnership.

3.3.2. Promoting investment and export

36 projects for attracting foreign investment were implemented in Lithuania in 2016. The plan is to create more than 3 716 jobs in the upcoming 3 years, and the planned investment amount is EUR 126 million.

Main tasks of investment attraction and improvement of the investment environment are under implementation and planned in 2017:

1. To implement the policy of attracting talents to Lithuania, by creating an incentive system.

2. To improve regulation of free economic zones (hereinafter – FEZ). Land management procedures in FEZ will be made more efficient in order to create conditions for FEZ operators to simply and quickly include in FEZ new territories and to remove non-competitive territories therefrom. Regulations of more favourable regulation of company activities in FEZ territories are being developed and territory planning procedures in FEZ territories are accelerated.

3. To additionally activate investment attraction activities in order to create special financial and tax incentives for attracting large production investments.

In order to improve the system of planning of state capital investment, the use and control of funds, works of transformation of the state investment planning and coordination system will be conducted in 2017, making amendments to legal acts governing state capital investment planning processes, which are planned to be applied when preparing the State Investment Programme for 2018-2020. Amendments to legal acts will establish the criteria for state capital investments that must be attracted to the State Investment Programme, also establishing requirements for state capital investment projects to reasonably apply the cost-benefit analysis method, to apply score-based selection system for the evaluation of state capital investment projects, to establish the procedure for publishing decisions made by selection commission of state capital investment projects, to provide for the monitoring of state capital investment projects 5 years after their implementation, also including other provisions ensuring a more transparent and efficient state capital investment management.

Export results have shown for several years now that in presence of unfavourable conditions, Lithuanian companies manage to adapt and to increase produce exports. In 2016, the value of exports of goods (excluding mineral products, the value whereof was adversely affected by fallen oil prices) increased by 1.8 percent, while export of goods of Lithuanian origin (excluding mineral products) grew by 2.7 percent.

In order to help business to tackle challenges, export markets were reviewed in 2016 and grouped by their importance. 14 target export markets of Lithuania were distinguished. Also measures, which will help facilitate the development of Lithuanian business in target export markets and ensure efficient use of resources and a stable short and long-term export development, were approved. More active involvement of diplomatic services, coordination of visits and initiatives, and funding of various projects beneficial for businesses from EU investments in planned. Long-term target measures are aimed at strengthening the image of Lithuania and business sectors abroad, improving the system of economic representation of the country, enhancing competencies of export specialists and implementing a one-stop shop system for Lithuanian exporters.

The following is planned for the promotion of export in 2017:

1. to create an export credit instrument and to provide export credit guarantees, a factoring guarantee facility and portfolio factoring guarantees. The available measures should be adjusted

considering the areas where the Lithuanian economy creates the highest GDP in the global value chain system (integration of Lithuanian sectors in the value chains);

2. to organize new trademark and export competence development training programmes necessary for the development of competencies of human resources working in the export area in major cities and regions;

3. to create the system of cooperation with the Lithuanian diaspora network in order to introduce Lithuania in target export markets.

4. IMPLEMENTATION OF THE OBJECTIVES OF THE EUROPE 2020 STRATEGY

4.1. Employment, poverty and social exclusion

4.1.1. Rate of employment of persons in the 20–64 age group

Table 1. Rate of employment in the 20–64 age group

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
An employment rate of 75 percent in the 20–64 age group	An employment rate of 72.8 percent in the 20–64 age group	An employment rate of 75.2 percent in the 20–64 age group

The rate of employment in the 20–64 age group of individuals was 75.2 percent in 2016 and, compared to 2015, it increased by 1.9 percentage point.

In 2016, the rate of unemployment was 7.9 percent in Lithuania, which is 1.2 percent point less than in 2015. The rate of unemployment of men decreased by 1 percent in 2016 and accounted for 9.1 percent, and the rate of unemployment of women decreased by 1.5 percentage point and it was 6.7 percent in total. The rate of long-term unemployment decreased by 0.9 percentage point - to 3 percent - in 2016.

Activities of the 2014-2020 EU fund investment action programme aimed at providing financial incentives to foreign investors creating jobs in the sectors of production and services and financial support for investment in innovative business are being implemented in 2017. The plan is to allocate about EUR 65 million from EU structural funds and EUR 7.7 million from the state budget for the action programme activities for promoting employment in 2017.

In order to increase the relevance of labour force qualification to labour market needs and thus increase the possibilities of staying in the market, the plan is to start implementing the Action Programme measure “Supporting and promoting acquisition of practical skills” in 2017, designated for practical training of students of vocational training schools in the workplace, also for practical training of persons studying under formal education programmes in the sectoral practical training centre, and to support initiatives for increasing the appeal of vocational training.

The Action Programme instrument for developing entrepreneurship skills of residents and initiatives for supporting the establishment and development of businesses in rural areas and areas with high unemployment levels is being implemented in 2017.

Active labour market policy measures for the support of integration of the unemployed into the labour market are applied in 2017. The priority is given to unqualified long-term unemployed persons aiming to provide them with marketable skills and develop competencies meeting employer requirements.

In order to ensure a rapid and sustainable transition of young people to the labour market and to reduce the rate of unemployment of young people, the implementation of the Youth Guarantee Initiative and other programmes promoting youth employment has been continued in 2017.

4.1.2. Individuals facing the risk of poverty or social exclusion

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

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
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	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	857 000 residents facing the risk of poverty or social exclusion (data of 2015)

According to data of 2015, improving economic and employment indicators did not help reduce poverty in the country. The number of people facing the risk of poverty or social exclusion was 29.3 percent in 2015 (compared to 27.3 percent in 2014). The data of statistical research of income and living conditions conducted by the Statistics Lithuania revealed that the poverty risk level was 22.2 percent in Lithuania in 2015. About 640 000 residents of Lithuania lived below the risk of poverty threshold in 2015, which increased by 7.5 percent (from EUR 241 to EUR 259) compared to 2014.

Inconsistent growth of income in certain sectors, a rapid growth of wages, a different level of quality employment and unemployment increased the difference in the level of the risk of poverty in urban and rural areas. 18.1 percent of population received disposable income below the risk of poverty threshold in cities (13.7 percent - in the five major cities and 25.1 percent - in other cities) and 30.6 percent - in rural areas. Two thirds of the unemployed persons face the risk of poverty. In 2016, the maximum amount of social benefit accounted for 39 percent of the risk of poverty threshold amount (compared to 42 percent in 2015).

The Action Programme provides for the allocation of about EUR 80 million from EU structural funds and EUR 5.1 million - from the state budget for activities aimed at increasing social inclusion and combating poverty.

In order to increase availability of social services, the development of inpatient and out-patient social service infrastructure will be continued in 2017, providing integral assistance at home (nursing and social care).

Providing support to the most deprived persons, the implementation of the project funded by the Fund for European Aid to the Most Deprived in the value of EUR 32.83 million is planned in 2017-2018. The plan is to provide food assistance to about 280 000 most deprived persons.

In order to create the system of comprehensively provided services, which would allow every child, a disabled person or his family members (carers, guardians) to receive individual services depending on need and the necessary assistance in the community, the 2014-2020 action plan for the transition from institutional care to family and community-based services to the disabled and children deprived of parental care is being implemented.

4.2. Innovations, research and development

Table 3. Investments in research and development (hereinafter - R&D).

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
Increasing investment in R&D to 3 percent of GDP	Increasing investment in R&D to 1.9 percent of GDP	Investment in R&D accounted for 1.04 percent of GDP (data of 2015)

Research and development (hereinafter - R&D) expenses have doubled in Lithuania over the past decade, from EUR 190.5 million in 2006 to nearly EUR 387 million in 2015, and account for 1.04 percent of GDP. Compared to 2014, R&D expenses increased by 3 percent in 2015 and reached 1.04 percent of GDP, but R&D expenses in the business sector decreased by 9 percent in 2015.

Despite the fact that R&D expenses in the business sector decreased and accounted for 0.28 percent of GDP in 2015 (compared to 0.32 percent of GDP in 2014), they have tripled since 2005 - from EUR 32 million (0.15 percent of GDP) to EUR 104 million.

The Action Plan provides for the allocation of about EUR 76 million from EU structural funds to promote R&D activities in 2017.

The Action Programme measures administered by the Ministry of Economy are targeted at applied research, experimental development activities, clusterization, promotion and dissemination of innovation, increasing internationalization of companies, attracting foreign direct investment and increasing innovation demand necessary for creating innovative products, services or processes. The aim is to have the assistance cover the entire innovation cycle and become an incentive to ensure its smooth functioning. The focus is placed on each cycle stage - from the formation of a new product idea to its introduction into the market. Measures “Inogeb LT”, “Inovaciniai čekiai” (English: Innovation Vouchers), “InoConnect”, “Inopatentas” (English: Inopatent), “Intelektas. Bendri mokslo-verslo projektai” (English: Intellect. Common research-business projects), “Inoklaster LT” (English:

Inocluster LT), “Verslo klasteris LT” (English: Business Cluster LT), “DPT pramonei LT+” (English: HIT Industry LT+) and “Eco-inovacijos LT+” (English: Eco-Innovation LT+) of the Action Programme are implemented for this purpose.

Measures of the Action Programme administered by the Ministry of Education and Science are targeted at the development of an efficient ecosystem for the creation, improvement and transfer of knowledge and technology and the maintenance thereof in research and higher education institutions and other public sector entities conducting R&D activities:

1. The plan is to enhance human capital R&D skills in 2017 implementing the measures “Enhancing skills of scientists and other researchers”, “Improving skills of scientists and researchers in knowledge-intensive enterprises”, “Developing scientific competence of students of scientists and other researchers via practical scientific activities” of the Action Programme. R&D intellectual potential is also enhanced by increasing salaries of researchers from the state budget funds.

2. R&D and study infrastructure is undergoing further development and renovation in 2017 implementing measures “Development of research, experimental development and innovation infrastructure and its integration in European infrastructures”, “Expansion of centres of excellence” and “Concentration and improvement of the learning environment and infrastructure, and the development of information systems” of the Action Programme.

3. In 2017, investments in R&D activities (conducted in cooperation with business representatives) are made, and the system of knowledge and technology transfer is created by implementing measures “Promoting commercialization and internationalization of R&D results”, “Common research-business projects”, “Targeted research in the field of smart specialization” and “Promoting activities of centres of excellence and innovation and technology transfer centres” of the Action Programme.

In order to ensure quality monitoring necessary for efficient functioning of the research and education system and the analysis, evaluation and forecasting based thereon, and to implement the programme for the implementation of priority research, experimental (socio-cultural) development and innovation development (smart specialization) directions and their priorities, the focus will be placed on the ongoing analysis of the implementation of R&D and innovation priorities, impact assessment and the use of the collected data when making decisions on further implementation of the strategy, review of R&D and innovation priorities, and change of education, R&D and innovation policy measures. Interim evaluation of the smart specialization process is planned in 2018.

4.3. Education

4.3.1. Reduction of early school leaving of young people

Table 4. Reduction of early school leaving of young people

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
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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 5 percent (advance data of 2015)
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The Action Programme provides for the allocation of EUR 4.7 million from EU structural funds and EUR 619 000 from the state budget for activities that are aimed at increasing efficiency of operations of the network of general education and non-formal education institutions, reducing the rate of early school leaving and activities for preventing dropping-out from schools in 2017.

In the continuation of increasing accessibility of pre-primary and pre-school education, the measure “Increasing accessibility to pre-primary and pre-secondary education” of the Action Programme will be implemented till 2020. 20 pre-school education institutions holding pre-primary and pre-school education programmes will be modernized (renovating the interior of the institutions, creating 2 000 new education places, etc.), also implementing new innovative models for arranging pre-school education.

Better aimed education content and new forms of organizing the education process will be created and implemented in 2017. Education organization models will be created, also legitimizing the status of productive teaching, publishing school progress competitions and improving the safe environment for student access to digital resources.

In order to increase availability of educational assistance in general-purpose schools, a project of inclusive education concept for children with autism spectrum disorders, behavioural and (or) emotional problems or difficulties was prepared. In 2017, the project will be expanded to the general concept of inclusive education, which will form the basis for preparing the action plan for the implementation of the inclusive education concept.

Amendments to the Law on Education expanding comprehensively provided education assistance and social and health care services to children up to 18 years of age (or up to 21 years of age - to those who have severe or profound special educational needs) and their parents were adopted on 29 June 2016. The plan is to have an inter-institutional cooperation coordinator implement the coordination of these measures in each municipality, who will bring together all municipal administration divisions and institutions to solve issues related to the assurance of welfare of certain specific children.

The implementation of programmes for the prevention of bullying, addictions and other prevention and student support programmes will be continued in 2017. The aim is to increase the diversity of prevention programmes and the coverage of schools taking part in violence and bullying prevention programmes.

Vocational practicing services will be continued in 2017. The aim is to increase the motivation of pupils, accept information and make experience-based decisions on further learning and career planning, thus reducing the risk of early school leaving.

4.3.2. Retaining the share of persons having completed third level of equivalent education

Table 5. Retaining the share of persons having completed third level of equivalent education

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
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	58.3 percent of 30-34-year-olds have completed third level education

The share of 30-34-year-olds having completed third level education has increased each year in Lithuania. According to preliminary data of 2016, it accounts for 58.3 percent of Lithuania - in 2016 (just like in 2014 and 2015), Lithuania was the country having the most 30-34-year-old persons having completed third level education in Europe. However, there is a large gap in this indicator between men and women - there are 20.3 percent more women having third level education than men.

The Action Programme provides for the allocation of EUR 28.4 million from EU structural funds for activities designated for improving the quality of third level and equivalent education, its efficiency and availability in pursuit of better student involvement and better learning achievements in 2017.

In order to solve problems related to the quality of third level education the plan is to advise social economic partners and to prepare the plan for optimizing the network of research and education institutions, rearranging the network of third level education institutions, its funding and quality assurance systems in 2017. The Government invited ministries, municipal mayors, regional development councils and associated business structures to get involved in these works. The need for optimizing the network of third level schools is driven by demographic challenges, the necessity to enhance study quality and competitiveness of science, bring together the scattered academic, financial and infrastructure resources having made a decision on how and which institutions, research and educational areas should be enhanced so that best results in the international arena are achieved using the available resources.

Offers will be prepared comprehensively assessing the potential of all education institutions (universities, colleges and vocational training institutions) and research institutes, considering the specifics of the city, the region and the related sectors, based on evidence (demographic, financial, geographic, strategic, qualitative and other arguments, foreign expert recommendations) and assessing all possible network optimization alternatives.

On 6 March 2017, the Government brought together a working group of experts, which must assess the potential of the network of third level education institutions from demographic and financial

perspective, aspects of scientific potential, the need and management efficiency, and draw up proposals for its optimization by 28 April 2017 and present them to the Government.

In order to reduce social exclusion in the area of third level education, students, who meet the criteria set by the Government, were allocated 7 300 social scholarships in 2016, paying a total of EUR 4 989.1 thousand in social scholarships in 2016.

Having assessed financial possibilities of the state budget, the plan is to increase the social scholarship amount in 2017.

In June 2016, the State Studies Foundation signed a contract with the public institution European Social Fund Agency for the execution of the project “Increasing accessibility of studies” funded from 2014-2020 EU structural funds (detailed information on the project is available online at www.studijuoktobulek.lt). The plan is to allocate EUR 7.24 million from the European Social Fund for the implementation of the project. The State Studies Foundation will be implementing the project “Increasing accessibility of studies” till 2021. In the implementation of the project, students with disabilities will be paid targeted benefits of EUR 152 per month, property will be acquired to improve informational and physical environment of project partners - third level education institutions, also holding trainings for their employees.

In order to achieve that accessibility of studies by abilities was not limited by financial barriers, the social scholarship amount was increased from 3 to 3.25 basic social benefits (from EUR 114 to EUR 123.5) in 2016. Since September 2016, funds allocated for motivating students have been increased by 24 percent. The sum for motivating students increased by EUR 22.8 (from EUR 95 to EUR 117.8). The funds were increased in the implementation of the agreement between the Government and the Lithuanian National Union of Students to gradually increase state funds for motivating students to 50 percent by 2018.

According to preliminary data, in 2015-2016, 2 405 students went to study abroad having received “Erasmus+” and “Nordplus” student scholarships; internship abroad was financed for 1 855 students, also funding teaching and learning visits of staff of education institutions (1 851 people in total). The plan is to have the same number of students and education institution staff leave for training programmes in 2016–2017.

4.4. Energy and climate change

4.4.1. Increasing the use of renewable energy sources

Table 6. Share of renewable energy sources in the final energy consumption

EU 2020 target	National 2020 target	Situation in Lithuania in 2015
To increase the share of renewables to 20 percent of gross final consumption of energy by 2020	increase the share of renewables to 23 percent of gross final consumption of energy by 2020	The share of renewables comprised 25.86 percent of gross final consumption of energy

In order to reduce dependency on imported fuel, sustainable development of renewable energy sources was being implemented in 2016. The set strategic objectives in the area of renewables allowed to rapidly develop the capacities of local energy production and energy from renewable sources in Lithuania.

The Action Programme provides for the allocation of about EUR 129 million from EU structural funds for activities for promoting energy efficiency and the use of energy from renewables in 2017.

On 5 July 2016, amendment to the Law on Energy from Renewable Energy Sources of the Republic of Lithuania was registered with the Parliament. It is aimed at additionally increasing the number of consumers producing electricity and provides for a possibility for both natural gas legal persons having installed solar power plants to have the so-called double electricity metering (<10kW - for natural persons and <50 kW - for legal persons), i.e. to use the produced electricity for own needs and to supply unused electricity to power grids and, if necessary, to recover it from the grids. The plan is to have these amendments encourage the development of solar power plants and increase local electricity production without increasing the price of electricity for all consumers.

A draft amendment to the Law on Energy from Renewable Energy Sources of the Republic of Lithuania was registered with the Parliament on 30 May 2016, the main aim whereof is to establish that a tender procedure for issuing a permit for using a part of the Lithuanian territorial sea and/or Lithuanian Exclusive Economic Zone for the development and operation of power plants using renewable energy sources shall be held by the Government or its authorized institution having conducted research and other actions necessary for assessing possibilities of electricity production from renewable energy sources in the established procedure. These amendments would allow for the development of wind power plants in the territorial sea of the Republic of Lithuania.

4.4.2. Increasing final energy consumption efficiency

Table 7. 4.4.2. Increasing final energy consumption efficiency

EU 2020 target	National 2020 target	Situation in Lithuania in 2015
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 decreased by 8.25 percent compared to 2010 (excluding the transport sector)

On 3 November 2016, the Parliament adopted: the Law on Increasing Energy Consumption Efficiency, amendments to the Law on Energy, amendments to the Law on Electricity, amendments to the Law on Heat Sector, amendments to the Law on Natural Gas and amendments to the Law on Consumer Protection. The approved Law on Increasing Energy Consumption Efficiency and amendments to related laws establish obligations for industrial and energy companies, enhance

consumer awareness of efficient energy consumption, and will change their behaviour and encourage publication and implementation of energy consumption efficiency related measures. Also implementing legislation of 9 laws related to the provision of information to end users and calculation and supervision over the energy saved by measures for increasing energy consumption efficiency was approved.

784 multi-apartment buildings were modernized under the Programme for the Renovation (Modernization) of Multi-apartment Buildings, which is 2.2 percent more compared to 2015. 1 280 individual instruments reducing heat energy consumption were implemented in multi-apartment buildings at the initiative of residents. A total of 2 354 multi-apartment buildings have been renovated under the Programme for the Renovation (Modernization) of Multi-apartment Buildings (since 2005), and 12 425 individual instruments reducing heat energy consumption have been implemented in multi-apartment buildings at the initiative of residents.

The rated consumption of heat energy in multi-apartment buildings built according to the technical requirements for construction that were valid before 1993 was reduced by approximately 720 GWh per year from 2005. Such reduction accounts for approximately 14.4 % compared to 2005 (5000 GWh) (the plan is to achieve at least 20 percent in 2020).

The plan is to modernize at least 500 multi-apartment buildings in 2017, thus the rated consumption of heat energy should drop by another 100 GWh.

4.4.3. Restriction of greenhouse gas emissions

Table 8. Restriction of greenhouse gas emissions

EU 2020 target	National 2020 target	Situation in Lithuania in 2015
By 2020, to reduce greenhouse gas (hereinafter - GHG) emissions by 20 percent in comparison with the level of 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 15.46 million tonnes of CO ₂ eq.	The quota of sectors that are not a part of the EU emission allowance trading system comprised 13.658 million tonnes of CO ₂ eq. According to the data of the National Report on GHG Emissions Accounting of 2017, the actual greenhouse gas emissions totalled 13.235 mln. t CO ₂ eq.

According to the Law on Financial Instruments of Climate Change Management, in 2016, about EUR 43.3 million was allocated for financing new projects for increasing energy efficiency and the use of renewables (EUR 41.8 million), for the installation of renewable energy sources (EUR 1.5 million) and developing cooperation in order to transfer renewable energy source technologies produced in Lithuania to third countries (EUR 0.3 million).

In 2017, 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 a total of EUR 33.34 million for projects aimed at increasing energy efficiency and use of renewables in 2017.

5. INTERINSTITUTIONAL COOPERATION

In the preparation of the action plan implementing European Council's Recommendations for Lithuania for 2016–2017 (hereinafter - the Action Plan) and the NRP, close cooperation with both state authorities and social partners was continued.

The Action Plan was presented in Committees of the Parliament: the Committee on Social Affairs and Labour, the Committee on the European Affairs, the Committee on Education and Science and the Committee on Culture. Pursuant to Resolution of the Government of 17 August 2011, the Action Plan was presented to the Government.

The Country's Report published by the EC was discussed in the following Committees of the Parliament: the Committee on the European Affairs, the Committee on Environmental Protection, the Committee on Social Affairs and Labour, the Committee on State Administration and Local Authorities, the Committee on Audit, the Committee on Budget and Finances, the Committee on Economy, the Committee on Education and Science, and the Committee on Health Affairs. Also, on 1 March 2017, the international conference was held in the Parliament, the aim whereof was to discuss the key economic and social issues, ways to resolve them and possibilities of their implementation considering the report "Country Report - Lithuania 2017". The conference was attended by the EC Vice Chairman Valdis Dombrovskis, the Prime Minister of Lithuania Saulius Skvernelis, members of the Parliament, ministers and social partners.

When planning activity priorities of the Government for 2017, the implementation of measures laid down in the comprehensive assessment of the country designated for Lithuania and Annual Growth Survey priorities was considered.

The NRP was prepared in cooperation with the inter-institutional working group composed of ministries, representatives of the Bank of Lithuania and Statistics Lithuania. The Minister of Economy coordinated the preparation of the NRP.
