

# **2017 Lithuanian Draft Budgetary Plan**

**15 December 2016**

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## Introduction

Lithuania, following the general provisions of Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (hereinafter – the Regulation), provides the European Commission and the Euro Group with the updated Lithuanian 2017 Draft Budgetary Plan (hereinafter – the DBP), which includes the policy measures approved by the new Government<sup>1</sup>.

This DBP was developed in accordance with the Economic Development Scenario prepared by the Ministry of Finance and approved by the Independent Budget Control Institution<sup>2</sup>, having assessed the legal acts regulating social field and labour market approved in the middle of 2016 and with effect from 1 January 2017 and 1 July 2017, which jointly implement the structural reform of social and labour market referred to as the social model. **In this DBP Lithuania provides detailed information on the social model and addresses the European Commission with a request to evaluate the compliance of the structural reform – social model – with the provisions of the Stability and Growth Pact, foreseeing a possibility for the Member States implementing a major structural reform oriented towards improvement of long-term financial sustainability and a higher potential of economic growth to make use of flexibility of the Stability and Growth Pact.** This DBP also elaborates on comprehensive information on the better tax administration measures to be applied in 2017.

**Within updated DBP, having regard to the observations by the European Commission, other institutions and the new discretionary measures for 2017, the nominal and structural deficits of the general government are projected to be lower by 0.1% of GDP, as compared to the primary DBP, which was submitted to the Parliament on 17 October 2016.**

In addition, we provide the information on the DBP<sup>3</sup> approval schedule following national legislation:

- First hearing of the DBP at the Seimas of the Republic of Lithuania (hereinafter – the Parliament) took place on 24 November 2016. After the hearing, the Parliament returned (in accordance with the usual procedures) the DBP to the Government for reconsideration and adjustment having regard to the proposals by the Members of the Parliament;
- After the elections of the Parliament, on the recommendation of the President and by the decision of the Parliament the new Prime Minister was appointed on 22 November 2016. Following Article 92 of the Constitution of the Republic of Lithuania, no later than within 15 days after the appointment, the Prime Minister presents to the Seimas the Government formed and approved by the President and submits the Government Programme for consideration. On 13 December 2016 the Parliament approved the Programme of the Seventeenth Government, and the new Government was granted authorisations;

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<sup>1</sup> Due to the elections of the Seimas of Republic of Lithuania that took place in October 2016, after which the new Government is approved, on 17 October 2016 the European Commission and the Euro Group were provided with the DBP based only on the no-policy change scenario (i.e. in accordance with the commitments assumed just by 17 October 2016).

<sup>2</sup> <http://www.vkontrole.lt/bp/isvada.aspx?id=10071>

<sup>3</sup> DBP within this paragraph refers to the totality of the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for the year 2017, the Draft Law of the State Social Insurance Fund budget of the year 2017, the Draft Law on the Compulsory Health Insurance fund budget of the year 2017.

- On 14 December 2016 the Government approved the updated DBP and submitted it to the Seimas for the second hearing. Following Article 177(2) of the Statute of the Seimas of the Republic of Lithuania (hereinafter – the Statute), in the election year the second hearing of the DBP takes place no later than on 18 December. Following Article 177(5) of the Statute, the Parliament, after discussions, votes on the approval of the DBP in one of the coming sittings of the Parliament. Following Article 131 of the Constitution, the DBP is approved by the beginning of the new budgetary year. It is planned that final decision of the Parliament on the approval of the DBP will be adopted on 20 December 2016.

In view of the current situation, following national legislation, *de jure* situation, when there is no possibility to submit the updated DBP to the European Commission and the Euro Group 30 days in advance to the approval of the DBP at the Parliament, has formed. Lithuania took all the possible measures so that after granting the authorisations to the Government the DBP is submitted as soon as possible, and it was done within 2 days. *De jure* there exists a possibility to adjust the budget in 2017.

## 1. The macroeconomic situation and prospects

The DBP presents the Lithuanian economic development scenario for 2016-2019, developed by the Ministry of Finance and approved by the Budgetary Policy Monitoring Authority, which was posted on the website of the Ministry of Finance at <http://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus> on 12 September 2016.

The economic development scenario was developed on the basis of data collected before 30 August 2016. The conclusion of the Budgetary Policy Monitoring Authority on the economic development scenario was posted online at <http://www.vkontrole.lt/bp/isvados.aspx>.

The assumptions of the external economic environment (oil prices, the euro-to-dollar exchange rate and the prospects of the EU and euro area economies) match the forecasts made in the European Commission's July 2016 survey *The Economic Outlook after the UK Referendum: a First Assessment for the Euro Area and EU*. As Article 50 of the Lisbon Treaty has not been invoked yet, the process of United Kingdom's separation has not begun. According to the information available at the time of the preparation of the economic development scenario, an assumption was made that negotiations on the United Kingdom's exit from the European Union (“EU”) would not begin before the end of 2016. Upon invocation of Article 50 of the Lisbon Treaty, the process of negotiations on the separation takes up to 2 years, although the European Council may extend the negotiation time limit, with the Member States' consent (the assumption was that the negotiations may last more than 2 years). Bearing in mind that during the negotiations all the mutual commitments between the United Kingdom and the European Union remain valid, we assume that there will be no essential changes (such as a change in the trade regime or immigration policy) before 2019.

It is estimated that the growth of Lithuania's gross domestic product (“GDP”) will be at 2.3 per cent in 2016. Subsequently, it will grow slightly faster, by 2.7 per cent in 2017 and by 2.5 per cent in both 2018 and 2019.

Despite the moderate GDP growth, Lithuania's GDP will grow faster than that of the EU and the euro area, while the situation of residents in the period covered by the economic development scenario will continue to improve: unemployment rate will decline and the purchasing power of residents will retain its strength, as wages will grow faster than inflation.

In 2016, the average gross wage in the country is expected to grow by 7.4 per cent. In 2017-2019, changes in the average gross monthly wage will depend on the development of the economic factors, namely labour supply and demand, labour productivity, inflation and business profitability. The average gross monthly wage in the country should rise by 6.2 per cent in 2017, 6.1 per cent in 2018 and 6.3 per cent in 2019. The good financial situation enjoyed by the residents will ensure a rather rapid growth in household consumption expenditure at current prices in the medium term, at an average of 6.4 per cent per year (real growth in this expenditure will total around 4.4 per cent per year).

Investment development in early 2016 was suppressed by the change of the EU financial periods, i.e. by a decrease in the EU structural funds' resources resulting from the overlap between the 2007-2013 and 2014-2020 financial periods. In 2015, investments came from both financial periods, but in 2016 only funds from the new 2014-2020 period were invested. The volumes of projects implemented using EU funds' resources have grown from the second half of 2016, yet the poor performance in the first half of 2016 (a decline of 1.2 per cent) is likely to result in a negative change (-2.6 per cent) in gross fix capital formation. With the accelerated implementation of projects financed from the EU funds' resources as of 2017, gross fixed capital formation will also grow: by 6.3 per cent in 2017, 6.5 per cent in 2018 and 6.7 per cent in 2019. The share of gross fixed capital formation in the GDP is likely to increase to 22.1 per cent in 2019, exceeding the multi-annual average of the indicator (21.1 per cent).

Employees enjoy a favourable market situation, stimulating a rapid growth in wages and influencing price changes, especially in the service sector. Labour costs have been rising fuelled by the minimum monthly wage raise, resulting in higher prices of the services provided by the service sector employees. Over the last 1.5 years, the growth of service prices has remained stable, averaging 3.4 per cent per year. Given the anticipated stable pace of growth in wages, the service price growth trends are not likely to change significantly in the medium term.

Core inflation (measured on the basis of the Harmonised Index of Consumer Prices (hereinafter referred to as HICP), excluding energy products and unprocessed food) has remained stable over the last two years and averaged 1.2 per cent in 2014-2015. Surging real wages and household consumption expenditure in the first half of 2016 raised the annual core inflation level to 2 per cent. As wages grow faster than labour productivity in the medium term and the domestic demand rises as well, the core inflation rate will gradually gain speed and approach the multi-annual average (2.4 per cent).

The average annual inflation, estimated based on the HICP, is expected to amount to 0.7 per cent in 2016, 2.2 per cent in 2017, 2.5 per cent in 2018 and 2.5 per cent in 2019.

The external environment resulting from the Brexit-induced economic uncertainty will remain unfavourable to Lithuanian exporters. They will have to adapt to the new economic realities, to increase investment in competitiveness and currency risk management and to adopt decisions reducing the production costs and increasing operational efficiency and production volumes. Guarded optimism on the prospects of export stems from the reorientation of the Lithuanian export markets in 2015, which has created an opportunity to gain ground and to expand exports in the already discovered third countries, in particular the ones paying in dollars.

The results of the year 2015 show that Lithuanian companies are capable of adapting and increasing the volumes of exported products even in unfavourable conditions. The export value of products of Lithuanian origin (aside from mineral products affected by the drop in oil prices) rose by 3.2 per cent in 2015. The pace of growth primarily owes to the growing exports of vegetable products, furniture, machinery and mechanical appliances and products of the chemical industry of Lithuanian origin.

In the light of the Brexit-induced changes in the external environment, we predict a 4.9 percent real growth in the export of goods and services for 2016, 2.8 per cent for 2017, 3.1 per cent for 2018 and 3.3 per cent for 2019.

**Table 1 (0.i). Key assumptions**

	2015	2016	2017
Short-term interest rate (annual average)	0.2	0.0	0.0
Long-term interest rate (annual average)	1.4	1.7	1.8
USD/EUR exchange rate (annual average)	1.11	1.12	1.12
Nominal effective exchange rate	-1.7	1.2	0.0
World GDP growth (excl. EU), %	3.2	3.3	3.7
EU GDP growth, %	1.8	1.7	1.6
Growth of relevant foreign markets, %	0.5	1.1	1.6
World import volumes (excl. EU), %	0.5	2.1	3.4
Oil prices (Brent, USD/barrel)	53.4	45.3	52.7

Sources: European Commission, Ministry of Finance

**Table 2 (1a). Macroeconomic indicators**

	ESA code	2015	2015	2016	2017
		EUR million	Change, %		
<b>1. Real GDP, chain-linked volume</b>	B1*g	33649.8*	1.8*	2.3	2.7
<b>2. Potential GDP</b>		33348.6	2.2	1.9	2.1
of which:					
- labour			0.8	0.8	0.6
- capital			1.4	1.2	1.3
- total factor productivity			0.0	-0.1	0.2
<b>3. Nominal GDP</b>	B1*g	37330.5*	2.0*	3.1	5.0
<b>GDP components (at constant prices)</b>					
<b>4. Household consumption expenditure + NPI serving households</b>	P.3	21928.0*	4.1*	5.5	4.2
<b>5. Government consumption expenditure</b>	P.3	5723.2*	0.9*	0.9	0.9
<b>6. Gross fixed capital formation</b>	P.51	6561.7*	4.7*	-2.6	6.3
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
<b>8. Exports of goods and services</b>	P.6	26678.8*	-0.4*	4.9	2.8
<b>9. Imports of goods and services</b>	P.7	27497.3*	6.2*	4.0	4.4
<b>Contributions to GDP growth at constant prices</b>					
<b>10. Final domestic demand</b>		-	6.6*	1.6	3.9
<b>11. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
<b>12. External balance of goods and services</b>	B.11	-	-4.9*	0.7	-1.2

\* On 30 September 2016, Statistics Lithuania recalculated the 2015 data, yet the economic development scenario was developed using the data collected prior to 30 August 2016

Sources: Statistics Lithuania, Ministry of Finance

**Table 3 (1b). Price developments**

	ESA code	2015	2015	2016	2017
		Level	Change, %		
<b>1. GDP deflator</b>		110.9*	0.2*	0.7	2.2
<b>2. Private consumption deflator</b>		107.6*	-0.9*	0.7	2.2
<b>3. HICP (year 2015 = 100)</b>		100.0	-0.7	0.7	2.2
<b>4. Government consumption deflator</b>		114.7*	5.0*	3.9	3.7
<b>5. Investment deflator</b>		109.7*	1.5*	1.4	2.0
<b>6. Export price deflator (goods and services)</b>		106.2*	-4.0*	-2.8	1.9
<b>6. Import price deflator (goods and services)</b>		103.9*	-6.9*	-3.9	2.3

\* On 30 September 2016, Statistics Lithuania recalculated the 2015 data, yet the economic development scenario was developed using the data collected prior to 30 August 2016.

Sources: Eurostat, Statistics Lithuania, Ministry of Finance

**Table 4 (1c). Labour market developments**

	ESA code	2015	2015	2016	2017
		Indicator value	Change, %		
<b>1. Employment, persons ('000)</b>		1334.9	1.2	2.1	0.8
<b>2. Employment, hours worked</b>		1859.5	1.4	1.0	0.8
<b>3. Unemployment rate (%)</b>		9.1	-	8.0	7.2
<b>4. Labour productivity (real gross value added per employed person), '000 EUR</b>		25.2**	0.4**	0.2	1.9
<b>5. Labour productivity, hours worked</b>		13.5**	-1.5**	-	-
<b>6. Compensations of employees, million EUR</b>	D.1	15334.3*	5.7	8.1	7.0
<b>7. Compensation per employee, EUR</b>		13096.2*	4.6	5.9	6.2

\*Value of the indicator

\*\* On 10 October 2016, Statistics Lithuania recalculated the 2015 data, yet the economic development scenario was developed using the data collected prior to 30 August 2016

Sources: Statistics Lithuania, Ministry of Finance

**Table 5 (1d). Sector balances**

	ESA code	2015	2016	2017
		% of GDP		
<b>1. Net lending/borrowing vis-à-vis the rest of the world</b>	B.9	0.6	2.0	1.6
<i>of which:</i>				
- balance on goods and services		-0.7*	1.2	-0.3
- balance of primary incomes and transfers		-1.7	-0.9	-0.7
- capital account		3.0	1.7	2.6
<b>2. Net lending/net borrowing of the private sector</b>	B.9	0.9	2.6	2.3
<b>3. Net lending/net borrowing of general government</b>	B.9	-0.2	-0.6	-0.7
<b>4. Statistical discrepancy</b>		0	0	0

\* On 30 September 2016, Statistics Lithuania recalculated the 2015 data, yet the economic development scenario was developed using the data collected prior to 30 August 2016

Sources: Bank of Lithuania, Ministry of Finance

## 2. Fiscal policy

### 2.1. General government financial indicators under the policy change scenario

The general government deficit projected for 2016 will be 0.6 per cent of GDP, which is lower than the 1.2 per cent deficit target approved by the Seimas and the projection of -0.8 per cent of GDP presented in the Stability Programme for Lithuania for 2016, approved by Resolution No 417 of the Government of the Republic of Lithuania of 27 April 2016. A better result is expected due to overperformance of the State budget and Social Insurance Funds' Budgets revenue plans and a better than projected local government subsector performance.

The medium-term objective set out by the Seimas is 1 per cent of GDP structural general government deficit. In 2014, Lithuania reached the medium-term objective. In 2015, when government deficit fell to its lowest levels since the restoration of independence (0.2 per cent of GDP), there was no deviation from the medium-term objective, i.e. the structural general government balance improved to -0.5 per cent of GDP. Despite the risks to Lithuania's economy from external economic factors and the unfavourable internal demographic processes, the economy's capacity to deal with the challenges posed by external environment, adherence to fiscal rules and application of measures for improving revenue administration will put in place conditions that will not allow the structural general government balance to deviate from the medium-term objective in 2016. The structural general government deficit in 2016 will be about 0.9 per cent of GDP.

The structural labour market and social protection reform (social model) that is to be launched in 2017, coupled with the tax measures aimed at increasing the income from labour relations of the country's population with the lowest earnings, will have, in the short-term period, a negative impact on the general government balance, which as a result will be in deficit in 2017, while, if excluding the impact of the said measures, the general government sector in 2017 would be in surplus. In 2017, the general government balance is projected to be 0.7 per cent of GDP deficit at current prices (structural general government deficit will be at 1.2 per cent of GDP). From 1 January 2017 and 1 July 2017, the social model that has been approved *de jure* is to be launched, which will cost 0.5 per cent of GDP in 2017.



The 2017 budgetary plan provides for other key (other than social model-related) measures: the increases of the amount of non-taxable income and the additional amount of non-taxable income will cost EUR 144 million, an additional amount of EUR 41 million will be earmarked for pay rises of educators, the salary increases of cultural and artistic workers will cost EUR 7.1 million and the implementation of the law on payment for work of the employees of state and municipal institutions and the pay rises of statutory officers is estimated at EUR 39.2 million. These costs will be partially offset by the increase of the excise rates on tobacco products with an anticipated EUR 26 million in additional revenues and a faster increase of excise rate on alcoholic beverages which will bring in additional revenues EUR 45 million. The VAT exemption on medicines and medical aid devices contained in outer packaging which taxable amount exceeds EUR 300 will result in EUR 12 million loss in budget revenues.

The general government finance indicators take into account the already approved measures aimed at a better tax revenue administration, applicable from the fourth quarter of 2016 and starting 2017.

### **2.1.1. Description of the structural labour market and social reform – the social model**

#### **Scope and objectives of the social model**

The reform, i.e. the social model is focused on more flexible labour relations, higher employment, more sustainable social insurance and reduction of poverty. The purpose of the new social model is to ensure the necessary guarantees as well as a better match between work and family commitments for employees, while for employers it offers creating a more favourable environment for the recruitment and retention of workforce. The increased flexibility of labour relations aims to attract more investment, create additional workplaces and provide conditions for ensuring financial sustainability of the pension system as well as adequacy of pension benefits.

#### **The relationship of the social model with country-specific recommendations of the Council of Europe for Lithuania**

The reform, i.e. the social model implements the European Council's Recommendation 2015 for Lithuania: "Adopt a comprehensive reform of the pension system that also addresses the challenge of achieving pension adequacy. Improve the coverage and adequacy of unemployment benefits and cash social assistance and improve the employability of those looking for work" and the part of the European Council's Recommendation 2016 for Lithuania "to improve the coverage and adequacy of unemployment benefits and social assistance".

#### **Drafters and independent assessors of the social model**

In the framework of the Human Resources Development Operational Programme for 2007–2013, Priority 4 'Strengthening of Administrative Capacities and Increasing Efficiency of Public Administration', implementation measure VP1-4.3-VRM-02-V 'Promotion of Public Policy Reforms', Vilnius university, in co-operation with partners from the Social Research Centre, Mykolas Romeris University and other independent experts, drafted a new legal-administrative model of the Lithuanian labour relations and state social insurance, proposing a comprehensive structural labour market and social reforms.

A detailed description of the new social model, information about the drafters, related research, cost and benefit analysis as well as other information is provided on a special website at: <http://www.socmodelis.lt/>.

## Legal status and main legislation of the social model

The social model law package comprises the following most relevant laws: the Labour Code of the Republic of Lithuania (hereinafter – “the Labour Code”), the Republic of Lithuania Law on Employment, the Law Amending the Law of the Republic of Lithuania on State Social Insurance No I-1336, the Republic of Lithuania Law Amending Law on State Social Insurance Pensions No I-549 and the Republic of Lithuania Law Amending Law on Unemployment Social Insurance No IX-1904.

### Main legal acts constituting the social model

1. Law of the Republic of Lithuania on the Approval, Entry into Force and Implementation of the Labour Code (new version) (No XIIP-3234(3))
2. Law Amending Article 19 of the Law on Bankruptcy of Enterprises No IX-216 19 (No XIIP-3244(2))
3. Law Amending Article 4 of the Law on Guarantee Fund No VIII-1926 4 (No XIIP-3245(3))
4. Law Amending Article 10 of the Law on State and Municipal Enterprises No I-722 (No XIIP-3247(2))
5. Law Amending Articles 19 and 70 of the Law on the Diplomatic Service No VIII-1012 (No XIIP-3248(2))
6. Law Amending Article 14 of the Law on Social Enterprises No IX-2251 (No XIIP-3249(2))
7. Law Amending Article 15(1) of the Law on Health Care Institutions No I-1367 (No XIIP-3250(2))
  8. The Law Amending Articles 1, 6, 8, 9, Section Four (1) and the Annex and Repealing Article 13(1) of the Law on the State Labour Inspectorate No IX-1768 (No XIIP-3264(2))
9. Law on Employment(No XIIP-3240(2))
10. Law Amending the Law on Unemployment Social Insurance No IX-1904 (new version) (No XIIP-3237(3))
11. Law Amending the Law on Social Insurance of Occupational Accidents and Occupational Diseases No VIII-1509 (new version) (No XIIP-3238(2))
12. Law on the Guarantees to Employers in the Event of Employer’s Insolvency and Long-Term Employment Benefits (No XIIP-4524(3))
13. Law Amending the Law on State Social Insurance No I-1336 (new version) (No XIIP-3235(3))
14. Law Amending Articles 2, 4, 5, 6, 11 and 14 of the Law on the Structure of the Budget of the State Social Insurance Fund No IX-547 (No XIIP-3251(2))
  15. Law Amending Articles 1, 3, 12, 13 and Title of Section Four of the Law on Benefits for Children No I-621 and Supplementing thereof with Articles 10(1) and 10(2) (No XIIP-3267(2))
16. Law Amending Articles 50 and 57 of the Law on the Statute of Internal Service No VIII-1012 (No XIIP-3258(2))
17. Law Amending Articles 65, 66, 67, 68, 70 and 72 of the Law on the Organization of the National Defence System and Military Service No VIII-723 (No XIIP-3260(2))
18. Law Amending the Law on Sickness and Maternity Social Insurance No IX-110 (new version) (No XIIP-3236(3))
19. Law Amending Articles 17 and 38 of the Law on Personal Income Tax No IX-1007 17 (No XIIP-3254(2))
  20. Law Amending Articles 1, 2, 3, 9, 10, 12, 13, 16, 21, 22, 25, 26, 27, 29, 31, 33, 34, 35, 44, Section V and the Annex of the Law on Safety and Health at Work No IX-1672 and Supplementing thereof with Section V(1) (No XIIP-3243(3))
21. Law Amending the Law on State Social Insurance Pensions No I-549 (new version) (No XIIP-3239(3))
22. Law Amending Articles 3,4,5 and 6 of the Law on Reform of the Pension System No IX-1215 (No XIIP-3252(2))
23. Law Amending Articles 3, 4, 5, 9, 10, 14, 15 and 16 of the Law on State Pensions No I-730 (No XIIP-3255(2))
24. Law Repealing the Law on Advance Payment of State Social Insurance Old-Age Pensions No IX-1828 (No XIIP-3262(2))
  25. Law Amending Article 2 of the Law on Establishment of Reference Values and Basic Rate of Fines and Penalties of Social Security Benefits No X-1710 (No XIIP-3263(2))
26. Law Amending Article 3 of the Provisional Law on the State Pensions of Scientists No I-732 (No XIIP-3257(2))
27. Law Amending Articles 3, 4, 10, 17, 23, 25, 15 and 27 of the Law on Accumulation of Pensions No IX-1691 (No XIIP-3261(2))
28. Law Amending the Law on State Social Assistance Benefits No I-675 (new version) (No XIIP-3265(2))
29. Law on Target Compensations (No XIIP-3266(2))
30. Law Amending Articles 737, 738 and 739 of the Code of Civil Procedure (No XIIP-3242(2))
31. Law Amending Articles 8, 10 and 17 of the Law on Monetary Social Assistance for Low Income Residents No IX-1675 (No XIIP-3246(2))
32. Law Amending Articles 29 and 30 of the Law on Social Services No X-493 (No XIIP-3253(2))

## Measures of the social model and the implemented substantial changes

The new Labour Code aims to eliminate the deficiencies of regulation of employment relations, reduce undeclared employment and encourage different labour contract forms, balance employment guarantees and combine flexibility with employment security. The provisions of the new Labour Code will make it easier for employees to combine work with other responsibilities either towards family or science, while encouraging employers to create legal jobs and not rush with employee dismissal at the onset of crisis. The following novelties of the Labour Code may be distinguished:

1) New types of employment contracts (project-based employment contract, job sharing employment contract, employee sharing contract, apprenticeship employment contract). Introduction of new types of employment contracts will allow employers to choose a more

acceptable method of formalization of labour relations and will encourage them to define working relations in the areas, where at present they are not formalized or where civil relations are defined.

2) Shorter periods of notice and lower severance allowances for dismissed employees. Currently, long notice periods and large severance allowances (up to 6 monthly average wages) discourage the employers from creating new jobs, as they fear that in case of a business failure, they will not be able to pay large severance allowances.

3) More flexible regulation of the working hours (abandonment of strict regulation of working day hours, greater annual limit for overtime work, and easier introduction of cumulative recording of working time) will encourage employers to create new jobs more easily.

4) Reduction of administrative burden (e.g. an obligation to record in timesheets the deviations from the standard working hours is imposed only in relation to the employees who work under cumulative working time recording and those who work at night). The reduction of administrative burden will enable the creation of jobs that generate a higher added value.

The Law of the Republic of Lithuania on Employment expands the scope of application of the current support of employment by providing a classification of forms of employment; legalizes a new more efficient model of application of active labour market policy measures, which could help address employment challenges of persons on social assistance and reduce long-term unemployment risk; provides extensive opportunities for the unemployed for learning and on-the-job practice in order to achieve maximum efficiency in the integration of the unemployed into the labour market; reduces the risk of illegal employment, i.e. provides for a liability for illegal and undeclared work or undeclared independent activity as well as violations of the procedure for the employment of foreigners; encourages a more sustainable creation of jobs, alignment with workforce demand, more flexible labour relations and social security tailored to the population needs.

The Law Amending the Law of the Republic of Lithuania on Unemployment Social Insurance No IX-1904 provides for an increase in the number of the insured persons who are entitled to the unemployment social insurance benefit; ensures adequate unemployment social insurance benefits, while taking into account the change of the status of an unemployed person; specifies the grounds for suspension and termination of benefit payments.

The above-mentioned laws also provide for a reduction of the pension social insurance contribution rate to be paid by employers and financing of the basic pension with the State budget resources. This would be implemented gradually and in compliance with fiscal discipline.

The Law Amending the Law of the Republic of Lithuania on State Social Insurance Pensions No I-549 proposes a reform of the system of state social insurance pensions, i.e. moving towards a clearer and more transparent calculation of pensions, while making pension levels more dependable on pension insurance contributions and creation of conditions for ensuring the financial sustainability of the pension system as well as adequacy of pension benefits. The Law provides for:

1) considering the component of the pension that depends on the state social insurance contributions as an individual pension component (it is proposed to introduce a system of units of account) and to finance it from the State Social Insurance Budget, while considering the pension component that depends on the length of service, but is not directly related to the size of contributions paid, as the general pension component and gradually transfer its payment to the State budget;

2) establishing a pension indexation procedure based on clear criteria that allow the assessment of both the economic conditions and demographic indicators (pensions would be indexed according to the average change of the wages fund for 3 past years, current year and 3 forecast years);

- 3) a gradual increase of the required length of pensionable service from 30 to 35 years;
- 4) a change of the procedure for calculation of lost working capacity pensions, i.e. relating the sizes of lost working capacity pensions to the level of capacity for work in per cent estimated for a person.

### **Expected positive impact of implementation of the social model on economic growth potential, assessment method and assumptions**

Implementation of these legislative acts will allow for improving labour market operation, making the labour market more dynamic and labour relations more flexible; workers will be offered guarantees of staying in the labour market, the coverage and adequacy of the unemployment social insurance benefits will improve.

As a result of the reform the average annual number of the employed in the medium term will increase up to 10%, while the average annual number of the employees working standard annual hours – up to 7%. Employment growth has been calculated after conducting a survey of employers designed to find out what provisions would encourage them to create new jobs.

Factors contributing to the increase in employment:

1. Provisions of the Labour Code that will enable employers to create new jobs.
2. Other provisions are:
  - 1) the change in the unemployment social insurance benefit conditions and an increase in contribution rates for this type of insurance will ensure qualitative protection for persons who lost their jobs as a result of more flexible employment conditions;
  - 2) widening of the social insurance contributions base for persons engaged in individual activities will ensure higher quality of social security for these persons.
  - 3) the reduction of the social insurance contribution rate to be paid by employers.

### **Expected positive impact of implementation of the social model on the sustainability of general government finances, assessment method and assumptions**

In order to make a comprehensive long-term assessment of the impact of the proposals for the pension system reform on the budget of the State Social Insurance Fund, in 2016, a cost assessment of the pension system reform was performed in accordance with the Law Amending Law of the Republic of Lithuania on State Social Insurance Pensions No I-549 by using the cohort pension system model LSIM [Lithuanian Social Insurance Model]. The pension expenditure projection provided in the Stability Programme for 2016 was used for the baseline option in accordance with the then existing laws and macroeconomic assumptions. In calculating the impact of the reform, only the pension reform measures were taken into account without changing the conditions, i.e. the indexation rate was changed by introducing the 7-year average wage fund index instead of the wage growth index and a new rule of the required period of pensionable service was applied to new retired persons. The assessment of the impact took into account the economic and employment assumptions for 2020–2060 agreed by the Economic Policy Committee (EPC) in autumn 2014.

Given that the adopted pension indexation allows for estimation of the worsening ratio between contribution payers and beneficiaries and that the increase in the required period of pensionable service allows for non-assuming of greater obligations in terms of higher life expectancy, in future the proposals for the pension reform in the longer term would enable annual average pension expenditure savings of 3.7% of GDP as compared to the scenario, provided no changes are made.

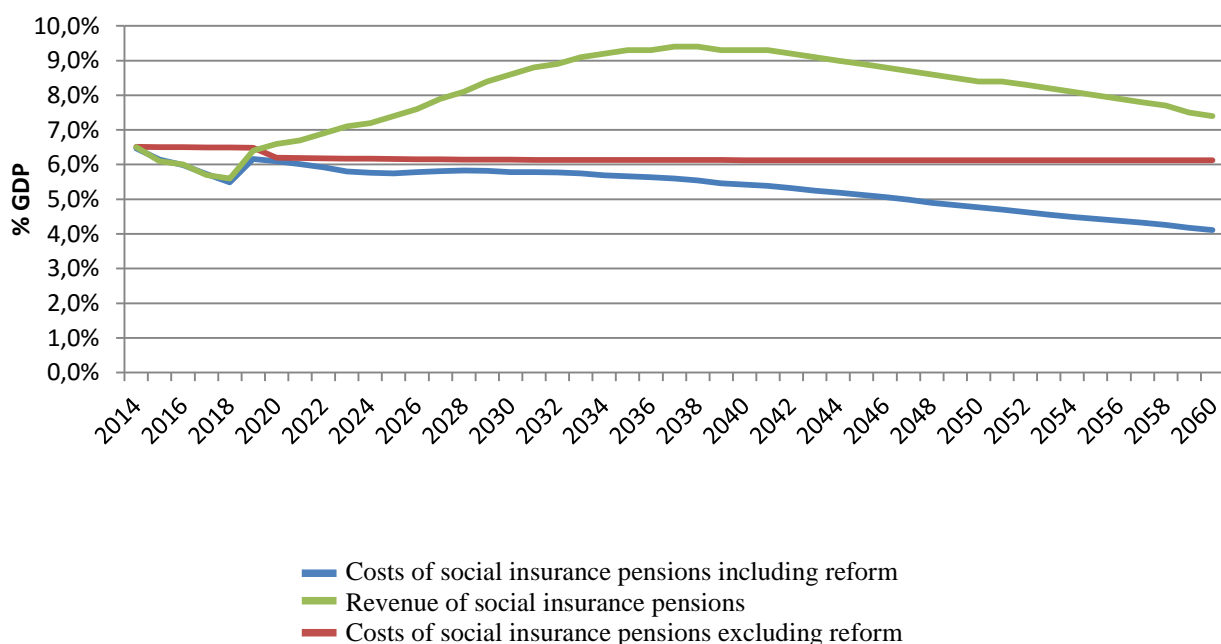
**Table 6. Economic and finance impact of the social model**

Description of the reform (1)	Methodological elements		Quantitative elements					Anticipated implementation			
			Main outcome of macroeconomic modelling (4)					Other impacts/ indicators (7)	Deadline for approval and implementation of measures (8)	Institutional process of adoption of measures (9)	
	Main characteristics of the model used/calculation method (2)	Main macroeconomic assumptions/modelling assumptions (3)	Description (5)	Annual and general impact on GDP and other key macroeconomic variables(6)							
				Year x +5	Year x +10	Year x +15	Year x +20				Year X+25*
I. The purpose of the reform is to attract investment to Lithuania's economy and create new jobs. To implement this purpose, a new Labour Code has been developed and approved by the Seimas (hereinafter – "the Labour Code"). Along with the new Labour Code, the Law Amending the Law on Unemployment Social Insurance, Law Amending the Law on Social Insurance of Occupational Accidents and Occupational Diseases, Law Amending the Law on State Social Insurance and the Law Amending the Law on Sickness and Maternity Social Insurance were adopted.	Employment growth has been calculated following a survey of employers designed to find out what provisions of the draft Labour Code and what other provisions would encourage employers to create new jobs.	The provisions of the Labour Code that will enable employers to create new jobs: 1) New types of employment contracts (project-based employment contract, job sharing employment contract, employee sharing contract, apprenticeship employment contract). Introduction of new types of employment contracts will allow employers to choose a more acceptable method of formalization of labour relations and will encourage them to define working relations in the areas, where at present they are not formalized or where civil relations are defined. 2) Shorter periods of notice and lower severance allowances for dismissed employees; currently, long notice periods and large severance allowances (up to 6 monthly average wages) discourage the employers from creating new jobs, as they fear that in case of a business failure, they will not be able to pay large severance allowances. 3) More flexible regulation of the working-hours (abandonment of strict regulation of working day hours, greater annual limit for overtime work, easier introduction of cumulative recording of working time) will encourage employers to create new jobs more easily. 4) Reduction of administrative burden (e.g. an obligation to record in timesheets the deviations from the standard working hours is imposed only in relation to employees who work under cumulative working time recording and those who work at night). The reduction of administrative burden will enable the creation of jobs that generate a higher added value.	<b>Employment</b> As a result of the reform the average annual number of the employed in the medium term will increase up to 10%, while the average number of employees working standard annual hours – up to 7%.						Legal acts will enter into force on 1 July 2017	Laws are adopted.	

		Other provisions are: 1) the change in the unemployment social insurance benefit conditions and an increase in contribution rates for this type of insurance will ensure high-quality protection for persons who lost their jobs as a result of more flexible employment conditions; 2) widening of the social insurance contributions base for persons engaged in individual activities will ensure higher quality of social security for these persons. 3) the reduction of the social insurance contribution rate to be paid by employers.									
Reform of social insurance pensions: indexation of pensions linked to the growth rates of the wages fund (according to the average change of the wages fund for 3 past years, current year and 3 forecast years) and increase of the required length of pensionable service from 30 to 35 years by half a year annually from 2018 to 2027.	In order to make a comprehensive long-term assessment of the impact of the proposals for the pension system reform on the budget of the State Social Insurance Fund, the cost assessment of the pension system reform was performed in accordance with the Law Amending the Law of the Republic of Lithuania on State Social Insurance Pensions No I-549 by using the cohort pension system model LSIM [Lithuanian Social Insurance Model].  With a view to assessing the impact of the model, two scenarios have been defined which were compared with each other in order to evaluate the impact of the model being designed on Lithuania's social insurance system, i.e. the budget of the State Social Insurance Fund and the labour market.	The pension expenditure projection provided in the Stability Programme for 2016 was used for the baseline option in accordance with the then existing laws and macroeconomic assumptions. In calculating the impact of the reform, only the pension reform measures were taken into account without changing the conditions, i.e. the indexation rate was changed by introducing the 7-year average wage fund index instead of the wage growth index and a new rule of the required period of pensionable service was applied to new retired persons. The assessment of the impact took into account the economic and employment assumptions for 2020–2060 agreed by the Economic Policy Committee (EPC) in autumn 2014.	<b>Direct fiscal impact on primary balance, % BVP (improvement)</b>  <i>Otherwise: Annual impact on pension balance (reduction in pension expenditure), % BVP</i>	-0.8%	-2.1%	-3.1%	-3.7%	-3.8%		Indexation of pensions will start from 2017, while the required length of pensionable service will be gradually increased from 30 to 35 years by half a year annually from 2018 to 2027.	Laws are adopted.

Source: Ministry of Social Security and Labour of the Republic of Lithuania

## Impact of indexation and other measures on the budget of the State Social Insurance Fund.



Source: Ministry of Social Security and Labour of the Republic of Lithuania

The labour market reform measures (the new Labour Code and other measures) in the medium term will result in the greater numbers of the employed, and consequently in higher budgetary revenues and more favourable circumstances for pension indexation in the context of sustainable public finances.

### Social model costs in 2017

**Table 7. Impact of the social model on general government finances in 2017**

EUR million	2017
<b>I. Revenue</b>	<b>5</b>
A 1 percentage point reduction of social insurance contribution rate	-59
Increase in the unemployment contribution rate by 0.5 percentage point	28
Widening of the social insurance contributions base for persons engaged in individual activities	7
Taxation of bonuses by social insurance contributions	6
Employer insurance contribution to the new Long-Term Work Benefit Fund at the rate of 0.5%	23
<b>II. Expenditure</b>	<b>225</b>
Increase in budgetary expenditure due to a 0.5 percentage point increase in the unemployment contribution rate (expenditure increase)	6
Extension of the cases in which sickness allowance is to be paid (expenditure increase)	5
Reduction of budgetary expenditure due to a 1 percentage point reduction of social insurance contributions rate (expenditure reduction)	-11.5
Indexation of pension expenditure (expenditure increase)	167
Insurance of mothers and caregivers from state funds by paying an additional amount up to the minimum monthly wage	16
Raising of unemployment expenditure (expenditure increase)	24
Employee benefits from the Long-Term Work Benefit Fund	18.5
<b>Balance/net costs (I-II)</b>	<b>-220</b>
Balance (in % of GDP)	<b>-0.5</b>

Source: Ministry of Social Security and Labour of the Republic of Lithuania

## **2.1.2. Tax administration measures in 2017**

### **Tax administration goals in 2017**

In the field of tax administration improvement, in 2017 further efforts will be made to reduce the amount of income not registered in official accounting, reduce the value added tax (hereinafter referred to as VAT) collection gap, reduce the incidence of avoidance of taxes and labour related contributions, ensure the justification of personal income and sources of asset acquisition as well as prevent fraud and tax planning (reduction). In 2017 the new measures will mainly focus on better collection of VAT and personal income tax (hereinafter referred to as PIT).

### **Link between tax administration measures implemented and special recommendations of the Council of Europe for Lithuania**

Tax administration measures serve as means for implementing the recommendation of the Council of Europe for Lithuania (as well as recommendation of 2015): “<...> to improve the fulfilment of tax obligations, in particular in the field of VAT”.

### **Expected positive impact of new tax administration measures applied on public finances and impact evaluators**

The State Tax Inspectorate (hereinafter referred to as STI) has evaluated the impact of measures planned for 2017 aimed at ensuring the fulfilment of tax obligations and plans to receive in 2017 additional revenue amounting to 0.4 per cent of GDP. The biggest amount of revenue is expected to be generated in the field of VAT due to the Smart System of Tax Administration that will become operational in the fourth quarter of 2016. In addition, legislative provisions that will come into force in 2016 and that oblige financial market participants to submit data on residents' accounts to a tax administrator will contribute to better collection of revenue from PIT.

### **Legal status of key new measures and their essence**

**In the field of VAT administration** Seimas adopted the Law amending Article 75 and supplementing by Articles 42-2, 42-3 the Law No IX-2112 on Tax Administration of the Republic of Lithuania (19 November 2015). The provisions of the Law require the tax payers as from 1 October 2016 to provide on a regular basis details of VAT invoices and bills of lading of goods transported in the Republic of Lithuania to the Inspectorate.

**In the field of PIT administration** Seimas adopted amendments to Article 55 (“Information provided by supervised financial market participants”) of the Law on Tax Administration of the Republic of Lithuania that came into force on 1 January 2016. The amended provisions stipulate that supervised financial market participants are obliged to provide to the Inspectorate not only information on opened and closed individual accounts of all kinds but also information on annual account turnovers, balances at the end of the year, debt obligations, and other information necessary for the performance of the functions of tax administrator. As a result of amendments made to paragraph 1 of Article 104 (“Determination of tax obligation in case a tax payer fails to submit a declaration”) the amount of tax obligation can be determined not only on the basis of data of previous declarations of that particular tax provided by a tax payer but also on the basis of other information received by tax administrator, for example, information provided by third



parties. Information concerning other amendments to the laws in the field of PIT administration is available on the website of the Inspectorate<sup>4</sup>.

## **Measures and assumptions that underlie additional revenue from tax administration in 2017**

In the field of VAT administration:

1.1. As from 1 October 2016, VAT payers are obliged to provide data on received and issued VAT invoices and issued bills of lading of goods; the VAT invoice portal (i.SAF) and bills of lading portal (i.VAZ) have been launched as part of the Smart Tax Administration System.

On the basis of the data received cross-checks of VAT invoices that were received and issued by tax payers is performed; the irregularities detected (when buyers enter the invoice into their records, but the seller does not do that and vice versa) will be reported to tax payers, risky transactions with fraud suspects will be identified and control over tax payers will be exercised.

As from May 2015 the Inspectorate was implementing the VAT invoice project during the implementation of which at the end of the first half of 2016 approx. 30 thousand VAT payers provided the aforementioned data that made positive impact on the efforts to reduce VAT collection gap, detect fraud and increase additional budget revenue (from January to August of 2016 the declared VAT obligation of tax payers who received instructions increased by 27,9 per cent in comparison to the same period last year). However, taking into account the possibility to perform cross-checks of all VAT payers from 1 October, additional positive influence on budget revenue collection is expected.

Additional expectations concerning budget revenue collection are also related to the fact that obligation to inform a tax administrator in advance about the commencement of goods transport by road will significantly limit possibilities for abuse, when after the delivery of goods their transport documents are destroyed in case no checks were performed on the way to destination and revenue from goods realized is not entered into records.

1.2. Aiming to ensure proper supervision of tax payers whose taxes paid have major influence on budget revenue, all tax payers whose taxes paid account for 90 per cent of all taxes paid to budgets and funds have been identified and a constant process involving monitoring, analysis and control of their activity as well as the implementation of a targeted programme on checks of major tax payers and groups of enterprises will be ensured.

1.3. Taking into account cases of abuse detected in the field of supply of bulk petroleum products in 2016, a detailed action plan that includes international cooperation and cooperation with national law enforcement institutions will be implemented.

1.4. In 2017 the budget is expected to receive additional revenue by means of broader control over on-line business and specialised unit at the Inspectorate.

In the field of PIT administration:

1.1. Avoidance of labour related taxes when only a certain number of real working hours of a person is entered into records and such person's wage falls below the minimum wage and/or a person receives part of his wage as "envelope" wage is one of the greatest risks to proper collection of budget revenue from PIT. Aiming to reduce the scope of the abovementioned abuse:

control actions will be taken in relation to tax payers who showed no reaction to mitigated measures of influence (warning letters, questionnaires, dialogue) applied in case of payment of wages below the minimum wage to employees;

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<sup>4</sup> [https://www.vmi.lt/cms/web/kmdb/konsultacines-medziagos-katalogas/-/asset\\_publisher/Pec85c90jXW4/content/mokesciu-administravimostatymo-pakeitimai-2016-metais/10174](https://www.vmi.lt/cms/web/kmdb/konsultacines-medziagos-katalogas/-/asset_publisher/Pec85c90jXW4/content/mokesciu-administravimostatymo-pakeitimai-2016-metais/10174)

in line with the model “I warned you - you choose” measures of influence will be applied to newly selected (on the basis of PIT collection gap assessment performed) tax payers who pay their employees average wage below the average in a certain municipality and economic activity.

1.2. Control over tax obligations of residents will focus on persons whose assets are in conflict with income taxable in line with the defined procedure, inadmissible attribution of income to tax-free income and rich residents.

To this end, information the collection of which is ensured by recent amendments to legislation and international agreements (information concerning financial accounts in Lithuania and foreign countries (data is received according to Article 55-1 of Law on Tax Administration, Council Directive 2014/107/EU, Agreement between the Government of Lithuania and the Government of United States of America to Improve International Tax Compliance and to Implement Foreign Account Tax Compliance Act (FATCA) and other international agreements), information provided by Lithuania’s legal persons on certain contributions of natural persons and amounts paid to such natural persons (one-off declaration of loans and/or gifts in cash received since 1 January of 2004 by residents in 2016 ) will be used.

### General government financial targets under the policy change scenario

**Table 8 (2a). General government financial targets broken down by subsectors**

Indicator	ESA code	2016	2017
		% GDP	% GDP
<b>Net lending (+) / net borrowing (–) (B.9) by sub-sector</b>			
<b>1. General government</b>	<b>S.13</b>	-0.6	-0.7
<b>2. Central government</b>	<b>S.1311</b>	-0.6	-0.8
<b>3. State government</b>	<b>S.1312</b>	N.A.	N.A.
<b>4. Local government</b>	<b>S.1313</b>	0.2	0.0
<b>5. Social security funds</b>	<b>S.1314</b>	-0.2	0.1
<b>6. Interest expenditure</b>	<b>D.41</b>	1.4	1.3
<b>7. Primary balance</b>		0.8	0.6
<b>8. One-off and other temporary measures</b>		0.0	0.0
<b>9. Real GDP growth (%)</b>		2.3	2.7
<b>10. Potential GDP growth (%)</b>		1.9	2.1
<b>contributions:</b>			
<b>- labour</b>		0.8	0.6
<b>- capital</b>		1.2	1.3
<b>- total factory productivity</b>		-0.1	0.2
<b>11. Output gap (% of potential GDP)</b>		0.7	1.4
<b>12. Cyclical budgetary component (% of potential GDP)</b>		0.3	0.6
<b>13. Cyclically-adjusted balance (1 – 12) (% of potential GDP)</b>		-0.9	-1.2
<b>14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)</b>		0.5	0.0
<b>15. Structural balance (13 – 8) (% of potential GDP)</b>		-0.9	-1.2

**Table 9 (2b). General government debt development**

Indicator	% GDP	
	2016	2017
1. Gross debt as of year-end	40.8	43.5
2. Change in gross debt ratio	-1.9	2.7
Contributions to changes in gross debt		
3. Primary balance	0.8	0.6
4. Interest expenditure	1.4	1.3
5. Stock-flow adjustment	-1.5	4.0
Implicit interest rate on debt	3.4	2.9

**Table 10 (2c). Contingent liabilities**

Indicator, % of GDP	2016	2017
Public guarantees	1.1	1.4
of which: linked to the financial sector	0.0	0.0

**Table 11 (3). General government revenue and expenditure indicators broken down by main budget headings in case of no-policy change scenario**

General government (S13)	ESA code	2016	2017*
		% GDP	% GDP
<b>1. Total revenue under the no-policy change scenario</b>	TR	35.5	36.1
<b>1.1. Taxes on production and imports</b>	D.2	12.0	12.3
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	5.8	6.0
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	12.4	12.5
<b>1.5. Property income</b>	D.4	0.5	0.4
<b>1.6. Other</b>		4.7	4.8
<b>Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		30.2	30.8
<b>2. Total expenditure under the no-policy change scenario</b>	TE	36.1	36.4
<b>2.1. Wages of employees</b>	D.1	9.9	9.6
<b>2.2. Intermediate consumption</b>	P.2	5.4	5.5
<b>2.3. Social benefits</b>	D.62, D.632	13.0	13.2
<b>of which: unemployment benefits</b>		0.2	0.2
<b>2.4. Interest expenditure</b>	D.41	1.4	1.3
<b>2.5. Subsidies</b>	D.3	0.4	0.3
<b>2.6. Gross fixed capital formation</b>	P.51	3.5	3.8
<b>2.7. Capital transfers</b>	D.9	0.2	0.3
<b>2.8. Other</b>		2.3	2.4

\* Note: This is the scenario for 2017 presented in October 2016.

**Table 12 (4a). General government expenditure and revenue indicators under the policy change scenario**

General government (S13)	ESA code	2016	2017
		% GDP	% GDP
<b>1. Total revenue</b>	TR	35.5	36.0
<b>1.1. Taxes on production and imports</b>	D.2	12.0	12.5
<b>1.2. Current taxes on income, wealth, etc.</b>	D.5	5.8	5.6
<b>1.3. Capital taxes</b>	D.91	0.0	0.0
<b>1.4. Social contributions</b>	D.61	12.4	12.7
<b>1.5. Property income</b>	D.4	0.5	0.4
<b>1.6. Other</b>		4.7	4.8
<b>Tax burden (D.2+D.5+D.61+D.91-D.995)</b>		30.2	30.7
<b>2. Total expenditure</b>	TE	36.1	36.7
<b>2.1. Wages of employees</b>	D.1	9.9	9.8
<b>2.2. Intermediate consumption</b>	P.2	5.4	5.6
<b>2.3. Social benefits</b>	D.62, D.632	13.0	13.3
<b>of which: unemployment benefits</b>		0.2	0.2
<b>2.4. Interest expenditure</b>	D.41	1.4	1.3
<b>2.5. Subsidies</b>	D.3	0.4	0.3
<b>2.6. Gross fixed capital formation</b>	P.51	3.5	3.8
<b>2.7. Capital transfers</b>	D.9	0.2	0.3
<b>2.8. Other</b>		2.3	2.3

**Table 12 (4b). Amounts to be excluded from the expenditure benchmark**

Indicator	ESA code	2015		2016	2017
		EUR million	% GDP	% GDP	% GDP
<b>1. Expenditure on EU programmes fully matched by EU funds revenue</b>		701.0	1.9	2.0	2.3
<b>1a. Expenditure on gross fixed capital formation covered by EU resources</b>		435.8	1.2	1.0	1.2
<b>2. Cyclical unemployment benefit expenditure</b>		0	0	0	0
<b>3. Discretionary revenue measures in the field of revenue</b>		132.9	0.4	0.4	0.5
<b>4. Revenue increases mandated by law</b>		0.0	0.0	0.0	0.0

**Table 14 (5a.i). Discretionary revenue measures taken by general government**

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
					2016	2017
1.	Increase of the amount of non-taxable income as of 2016 from EUR 166 to EUR 200, increase of additional amount of non-taxable income for children as of 2016 from EUR 60 to EUR 120 and increase of individual amount of non-taxable income for the disabled	D.5	Accrual	Approved	-0.17	
2.	Increase of the amount of non-taxable income as of 1 January 2017 from EUR 200 to EUR 310, increase of additional amount of non-taxable income for children as of 1 January 2017 from EUR 120 to EUR 200 and increase of individual amount of non-taxable income for the disabled	D.5	Accrual	Approved		-0.36
3.	Increase of minimum monthly wage from EUR 300 to EUR 325 starting from 1 July 2015, increase of minimum monthly wage from EUR 325 to EUR 350 starting from 1 January 2016, increase of minimum monthly wage to EUR 380 starting from 1 July 2016	D.5 + D.61	Accrual	Approved	0.18	0.07
4.	Calculation of the taxable value of land derived from the average market value of land	D.5	Accrual	Approved	0.01	0.01
5.	Improvement of administration in relation to PIT	D.5	Accrual	Approved	0.08	0.04
6.	Abolition of the VAT relief on domestic central heating and hot water	D.2	Accrual	Approved		0.12
7.	Changes in the deadline (within 30 days from the day on which a written request to refund excess tax is received) for return of VAT difference for VAT payers who apply reverse charge mechanism in relation to VAT	D.2	Accrual	Approved	-0.01	
8.	Improvement of administration in relation to VAT	D.2	Accrual	Approved	0.11	0.30
9.	Increase of excise rates on ethyl alcohol and alcoholic beverages	D.2	Accrual	Approved	0.03	0.03
10.	Increase of excise rates on ethyl alcohol and alcoholic beverages	D.2	Accrual	Approved, envisaged by the Government in the budget plan		0.11
11.	Increase of excise rates on tobacco products	D.2	Accrual	Approved	0.05	0.06
12.	Introduction of excise tax on natural gas used for heating purposes	D.2	Accrual	Approved	0.01	
13.	Introduction of excise tax on gas oil used for agricultural purposes	D.2	Accrual	Approved	0.01	
14.	Introduction of pollution tax on waste going to a landfill	D.2	Accrual	Approved	0.01	0.005
15.	Removal of excise tax advantage for biofuel	D.2	Accrual	Approved	0.03	
16.	Improvement of administration in relation to excise taxes	D.2	Accrual	Approved	0.03	
17.	Reduction of rates of social security contributions by 1 percentage point ( <i>according to the Social Model</i> )		Accrual	Approved, but the date of		-0.15

				entry into force is being changed		
18.	Increase of unemployment insurance contribution rate by 0.5 percentage point ( <i>according to the Social Model</i> )		Accrual	Approved, but the date of entry into force is being changed		0.07
19.	Broadening of the social insurance base for persons performing individual economic activity ( <i>according to the Social Model</i> )		Accrual	Approved		0.02
20.	Requirement to pay social insurance contributions in case of bonuses ( <i>according to the Social Model</i> )		Accrual	Approved		0.01
21.	0.5 per cent rate of employers' social contributions paid to new Long-term Employee Benefit Fund ( <i>according to the Social Model</i> )		Accrual	Approved, but the date of entry into force is being changed		0.06
22.	Contributions to the Compulsory Health Insurance Fund in relation to persons insured by the State from public funds		Accrual	Approved		0.1
23.	Reduced VAT rate for expensive medicines		Accrual	Approved		-0,03
<b>Total:</b>					<b>0.37</b>	<b>0.47</b>

**Table 13 (5a.ii). Discretionary expenditure measures taken by general government**

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
					2016	2017
1.	Contributions in relation to persons insured by the State from public funds		Accrual	Approved		-0.10
2.	Increase of minimum monthly wage to EUR 380		Accrual	Approved	-0.10	-0.03
3.	Implementation of the Statute of Interior Service		Accrual	Approved		-0.05
4.	Child benefits		Accrual	Approved		-0.05
5.	Increase of pensions as a result of raising the basic pension and the increase of insured income	D62 + D632	Accrual	Approved	-0.28	
6.	Increase of wages of culture and art workers from 1 July 2015 and from 1 July 2016	D1	Accrual	Approved	-0.03	
7.	Increase of wages of officers of the Police Department, Fire and Rescue Department, State Boarder Guard Service and other institutions, and implementation of the provisions of the Law on Civil Service	D1	Accrual	Approved	-0.06	
8.	State pensions to mothers who have raised 5 children up to age 8 and have brought them up properly and other benefit payments resulting from increases in the basic pension and insured income	D62 + D632	Accrual	Approved	-0.04	
9.	In compliance with the Law on Reform of the Pension System, beginning from 1 January 2016, a pension contribution of 2 % of the average wage for the total economy is transferred to pension funds	D62 + D632	Accrual	Approved	-0.09	

10.	Co-financing expenditure for investment of the Structural Funds support for the 2007-2013 financial period are not continued after the year 2015	D1, P2, P51	Accrual	Approved	0.11	
11.	Increase of wages of social workers as from 1 January 2016	D1	Accrual	Approved	-0.02	
12.	Increase in budgetary expenditure due to increase of unemployment insurance contribution rate by 0.5 per cent ( <i>according to the Social Model</i> )		Accrual	Approved, but the date for entry into force is being changed		-0.01
13.	Increase of cases when sickness benefit is paid (expenditure increase) ( <i>according to the Social Model</i> )		Accrual	Approved		-0.01
14.	Decreased in budgetary expenditure due to reduction of social insurance contribution rate by 1 per cent (expenditure decrease) ( <i>according to the Social Model</i> )		Accrual	Approved, but the date for entry into force is being changed		0.03
15.	Indexation of expenditure for social security pensions (expenditure increase) ( <i>according to the Social Model</i> )		Accrual	Approved		-0.42
16.	Insurance for mothers and nurses when amounts necessary to reach the minimum monthly wage are paid from public funds ( <i>according to the Social Model</i> )		Accrual	Approved		-0.04
17.	Increase of unemployment expenditure (expenditure increase) ( <i>according to the Social Model</i> )		Accrual	Approved, but the date for entry into force is being changed		-0.06
18.	Benefits for employees from the Long-term Employee Benefit Fund ( <i>according to the Social Model</i> )		Accrual	Approved, but the date for entry into force is being changed		-0.04
19.	Increase of salaries of educators	D1	Accrual	Approved, envisaged by the Government in the budget plan		-0.06
20.	Implementation of the law on the payment for work of the employees of state and municipal institutions and increase of the salaries of other categories (statutory officers)	D1	Accrual	Approved, envisaged by the Government in the budget plan		-0.097
21.	Increase of salaries of cultural and artistic workers	D1	Accrual	Approved, envisaged by the Government in the budget plan		-0.02
<b>Total:</b>					<b>-0.51</b>	<b>-0.96</b>

**Table 16 (7). Comparison of indicators in DBP and Stability Programme**

Indicator	ESA code	2015	2016	2017
		% GDP	% GDP	% GDP
<b>Growth of GDP:</b>				
Stability Programme		1.6	2.5	3.2
Budget Plan		1.8	2.3	2.7
Difference		0.2	-0.2	-0.5
<b>General government net lending / net borrowing projection under the no-policy change scenario</b>	B.9			
Stability Programme		-0.2	-0.8	0.0
Budget Plan		–	-0.6	-0.7
Difference		–	0.2	-0.7*

\* Note: The 2016 Stability Programme for Lithuania envisaged a balanced general government sector in 2017 excluding the budgetary impact of the social model costs and the increase of the amount of non-taxable income. The general government sector balance in 2017 would be without deficit (in surplus), if the costs of the social model and the increases of the amount of non-taxable income were excluded.

### **3. Links between the DBP and the Council of Europe Recommendations, as well as the DBP and the Objectives set by the European Union’s Strategy for Growth and Jobs**

**Table 17 (6.a). Recommendations to Lithuania**

Recommendation	List of measures	Impact on achievable objective/outcome
<b>1. To ensure that the 2016 and 2017 deviation from the medium-term objective does not exceed the allowed limit linked to the systemic pension reform.</b>	<b>1.1.</b> To draft a 2017 State Budget, a Budget of the Compulsory Health Insurance Fund, and a Budget of the State Social Insurance Fund.	The totality of all the draft budgets will ensure compliance with the legal acts regulating public fiscal discipline and will prevent higher than allowed deviation from the medium-term objective.
	<b>1.2.</b> To take into consideration the qualitative indicators of public spending areas when drafting the 2017 State Budget and the budgets of the State Social Insurance Funds, and when planning and allocating appropriations.	The aim is to improve quality indicators of the results of the fields of education, health and social security, within the spending limits and budget balance restrictions.
	<b>1.3.</b> To work out a procedure for submitting to the Ministry of Finance of the Republic of Lithuania municipal spending projections.	The current-year financial results projections drafted by municipalities, provide a possibility to receive more accurate data to monitor public finances (a legal act is being developed to make the up-to-now temporary requirement a standard procedure).
<b>2. To reduce the tax burden on low-income earners by shifting the tax burden to other sources of taxation that have lower adverse effect on economic growth</b>	For the purpose of drafting the laws of the Republic of Lithuania on the approval of financial indicators of the State Budget and municipal budgets, to work out and submit proposals on higher rate of tax allowance.	Increased tax allowance would reduce the tax burden on low-income earners.
<b>3. To improve tax compliance,</b>	<b>3.1.</b> To develop legal provisions restricting cash settlements.	Bringing down the scale of unaccounted economy.



<p><b>particularly in the area of VAT</b></p>	<p><b>3.2.</b> To introduce the latest technological solutions-based tax administration information system (Smart System of Tax Administration, i.MAS): to introduce analysis and risk management subsystems for electronic invoicing, electronic bills of lading.</p>	<p>Improving tax collection, administrative efficiency and reducing the burden on the taxpayer. The introduction of this system will oblige the taxpayers to provide tax authorities with the details of invoices and bills of lading, which will enable the tax authorities to be more efficient in carrying out regular taxpayer oversight procedures, ensure prevention of tax violations, and provide the taxpayer with a possibility to access e-services as regards the provisional formulation of VAT returns, use of e. bills of lading, accounting, etc.</p>
<p><b>4. To invest more in human capital and address the issue of the declining number of the working-age population through the enhanced match between the skills offered by the education system and labour market demands, through improved training quality, through a more active labour market policy and better adult education possibilities</b></p>	<p><b>4.1.</b> To improve the quality of work-based vocational training through Estonian-Latvian-Lithuanian project “Work-based learning, WBL-BALT”.</p>	<p>Exchanges between the Baltic countries in reforming vocational training, especially as regards practical work-based learning and apprenticeship.</p>
	<p><b>4.2.</b> To update vocational training curriculum to meet the economic and regional needs: to develop 60 modular vocational training programmes and 10 professional standards.</p>	<p>Development of a modern vocational training system.</p>
	<p><b>4.3.</b> To develop adult non-formal education services through the project under EEA scholarship programme ‘Transfer of Norwegian experience in adult education in Lithuania’.</p>	<p>Development of non-formal adult education services.</p>
	<p><b>4.4.</b> To co-ordinate and promote initiatives for the development of institutional partnership-based lifelong learning in vocational training establishments and universities.</p>	<p>Implementation of non-formal adult education programmes.</p>
	<p><b>4.5.</b> To increase the competencies of adult education programme coordinators for the purpose of the project ‘Implementation of Agenda for Adult Learning 2015-2017’</p>	<p>Coordination of inter-institutional cooperation in adult lifelong learning.</p>
	<p><b>4.6.</b> To approve the regulations of the Education Management Information System (EMIS) required for building and developing a system for monitoring and tracing the employability and career of high-school graduates.</p>	<p>EMIS regulations will provide legal basis for the collection, storage and provision of data and information needed to analyse education providers and monitor the engagement of the Lithuanian population in economy, education and the labour market, to follow and evaluate the related changes and processes in terms of various aspects and predict future trends, as well as make data-evidenced decisions.</p>
	<p><b>4.7.</b> To link study and training programmes with occupation subgroups listed in the Lithuanian Classification of Occupations, as approved by Order No 4-171 of the Minister of the Economy of 6 March ‘On the Approval of Lithuanian Classification of Occupations LPK 2012’.</p>	<p>Provisions have been made to track the link between graduates’ actual jobs and their qualifications gained.</p>
	<p><b>4.8.</b> To start the implementation of the measures under the Operational Programme for EU Structural Funds Investments</p>	<p>Possibilities have been provided for professional development and improvement of technological competence as well development of new skills for the employees of business entities, particularly the small</p>

	for 2014-2020: ‘Competence LT’, ‘Human Resources Invest LT+’, ‘Competency Vouchers’, ‘Apprenticeship and Work-based training’, ‘Innovation Training’.	ones.
	<b>4.9.</b> To introduce pre-school and pre-primary curriculum documents: Pre-School Achievements Map and a Pre-Primary Education Framework Programme, and to improve the primary and basic education content.	Higher quality of education and better learning results. The implementation of the Primary Education Framework Programme for Lithuanian Language Teaching and the Basic Education Framework Programme for Lithuanian Language and Literature Teaching will improve language literacy in 1-10 grade students.
<b>5. To increase the scope and efficiency of active labour market policy measures</b>	<b>5.1.</b> To implement the following projects of Active Labour Market Policy:	
	- Promoting employment of long-term unemployed	Helping long-term unemployed and the persons having stayed away from the labour market for a long time registered at a territorial labour exchange office, to acquire or improve qualifications, acquire competencies, missing job skills directly in the workplace, and to integrate into the labour market.
	- Raising competences among unskilled persons	Increasing motivation among the unskilled unemployed to get a job, also helping to gain or improve qualifications or acquire competencies, missing job skills directly in the workplace, and to integrate in the labour market and stay there.
	- Supporting senior unemployed	Helping the seniors (54+) to gain or improve qualifications and/or acquire competencies and missing job skills, helping them to integrate in the labour market and stay there.
<b>6. To increase the role of the social dialogue mechanisms for</b>	<b>6.1.</b> To implement 2016-2017 measures under the 2016-2020 Action Plan for Promoting Social Dialogue in Lithuania, approved by Order No A1-81 of the Minister of Social Security and Labour of 12 February 2016.	Efforts have been made to build and develop social dialogue through enhanced social partnership capacities in social partners – employers and trade unions, improve the quality of the resolution of individual and collective labour disputes, inform the public and raise awareness of the issues related to industrial relations, to promote non-discrimination environment, to strengthen the democratic governance of the country through public consultations with different interest groups, and to promote the sustainable development of society.
<b>7. To improve health care performance through enhanced outpatient care, disease prevention and health promotion</b>	<b>7.1.</b> To draw up and implement the fourth stage of the plan for health care development and hospital network consolidation.	Effective operation of national health care system.
	<b>7.2.</b> To develop a more efficient and more accurate model for monitoring of uneven health indicators.	The model developed enables faster measurement and more uniform interpretation of the scale of inequalities and a more accurate selection of measures aimed at their elimination by primarily directing them to priority problem territories.
	<b>7.3.</b> To develop a model for the evaluation of health condition outcomes.	Preconditions have been provided for objective evaluation of health care activities on the basis of the latest health care performance results.
	<b>7.4.</b> To carry out corruption prevention in health system:	
	- To develop measures to reduce and eliminate unofficial payments in health care.	An action plan has been drawn up listing measures aimed to reduce and eliminate preconditions for unofficial payments in health care.
	- To implement the anti-corruption initiative of “Clean Hands” among the Lithuanian national health	Health care institutions are annually categorised, by corruption index, into transparency institutions (seeking to be named the most transparent health care institution), and into those that are vulnerable in terms of corruption

	institutions.	manifestation possibilities.
	- To build healthcare workers' resilience (intolerance) to corruption.	Health care workers will be trained in how to prevent corruption and will gain resilience in this respect. The expectations for corruption intolerance among health care workers (percentage of all medical staff) in 2016 is 50 per cent; in 2017 – 45 per cent; in 2018 – 40 per cent; in 2019 – 35 per cent.
	- To run PSAs on prevention of corruption in healthcare.	The public will be trained to prevent corruption and will gain resilience in this respect.
	<b>7.5.</b> To increase the effectiveness of measures promoting health in children and young people.	Improved public health care performance through better access to public health care services and their quality in Lithuanian educational institutions.
	<b>7.6.</b> To ensure high quality relevant skills of health care professionals as well as public education promoting the skills of healthy life style.	Improved public health care performance through quality and up-to-date development of health care professionals' skills, more efficient public education promoting the skills of healthy life style.
	<b>7.7.</b> To develop public health preservation and enhancement activities, implement disease prevention projects, run social advertising, and conduct relevant studies.	Improved public health care performance through enhanced services for public health preservation and disease prevention.
<b>8. To increase the scope and relevance of unemployment benefits and social assistance</b>	<b>8.1.</b> To improve legal regulation on cash social assistance to the deprived population by extending the list of conditions where the proportional reduction scheme of financial social assistance would not be applicable.	Ensured adequacy of cash social assistance, i.e. the deprived people become eligible for state assistance if they cannot get a job for objective reasons.
<b>9. To take measures to increase productivity and improve the introduction of new technologies and their use in all the sectors of the economy</b>	<b>9.1.</b> To examine the possibilities for the development of the industry of financial technologies (hereinafter referred to as the <i>Fintech</i> ) in Lithuania (as well as the necessary legislative amendments) and, by 20 November 2016, to submit proposals to the Government of the Republic of Lithuania on the development of <i>Fintech</i> industry in Lithuania.	Possibilities have been identified for the development of the financial technology sector in Lithuania, proposals have been made on the required legislative environment, research funding, businesses involved in <i>Fintech</i> , cooperation between financial institutions, state and educational institutions, exchange of knowledge, and the promotion of Lithuania as a country successfully embracing the <i>Fintech</i> industry.
	<b>9.2.</b> To implement the project 'InoSpurtas' under the measure 'Inogeb' in the framework of the Operational Programme.	Companies will be encouraged to make greater use of corporate tax incentives for research and development (hereinafter referred to as the R&D): consultations will be offered on the use of corporate tax incentives for R&D, and appropriate documentation, and expert conclusions will be provided as to what corporate activities are attributable to R&D. Innovation promotion/brokerage activities have been implemented. Innovation agents, searching for technological solutions, will help enterprises to accelerate the development and introduction of innovations, and will shorten the gap between 'the idea and the prototype.'
	<b>9.3.</b> To invest in the search of new export markets and international contacts under the Operational Programme 'Verslo klasteris LT' (Business Cluster LT).	Businesses have easier access to the international market, so they become more competitive, it is also easier to introduce new technologies and modernize technology processes. In 2017, it is aimed, in terms of companies involved in clusters and industrial co-operation cases, to achieve the change (in percentage) of

		20 per cent. (Compared with 2015).
	<b>9.4.</b> To implement the following measures under the Operational Programme: ‘DPT pramonė LT+’ (KET industry LT+) and ‘Eco-inovacijos LT+’ (Eco-innovations LT+).	The measure ‘DPT pramonė LT+’ (KET industry LT+) seeks to promote the transformation of the conventional industry through the introduction of technologies greatly relevant to industrial innovations and the economic growth, i.e. key enabling technologies, in manufacturing processes of micro, small and medium-sized enterprises (hereinafter referred to as the SMEs). It is hoped to achieve 18.5 per cent rate of the advanced (high) and the average advanced technology products in the entire industrial production fabric in 2017. The measure ‘Eco-inovacijos LT+’ (Eco-innovations LT+) aims to encourage the introduction of eco-innovative technologies in SMEs with a view to mitigating adverse effects of the climate change and greenhouse conditions.
<b>10. To improve innovation policy coordination and encourage private investment, <i>inter alia</i>, by developing alternative sources of financing</b>	<b>10.1.</b> To regulate crowdfunding activities in Lithuania.	The law will ensure increased legal clarity and protection of investor interests. Crowdfunding will complement bank funding, and will enable those seeking additional funding (including SMEs) find potential investors in an easier and simpler way. Individuals will be able to borrow through crowdfunding platforms to fund their business, professional, scientific, research, and other projects (except for consumption purposes).
	<b>10.2.</b> To regulate private placement criteria of limited liability companies.	Conditions have been set, as to when limited liability companies will be able to offer their shares, and this will not be considered a public offering. The proposed regulation will create clear legal conditions for limited liability companies to attract funds in the form of capital relatively inexpensively, and will encourage sharing business risk and getting additional experience and knowledge while carrying out planned activities of the company.  Separation of public offering and private placement of units and shares, as well as offering to contribute, has been abandoned. Withdrawal of separation between public offering and private placement would give legal clarity to market participants, and hence encourage more efficient operation of collective investment undertakings designed for informed investors.
	<b>10.3.</b> To improve regulation by the legal acts of Lithuania of collective investment undertakings, by making legal regulation of partnerships more precise.	A competitive legal environment has been created in the field of legal regulation for general partnerships and limited partnerships, and their attractiveness for investment has been enhanced, by providing more financing opportunities for businesses and creating more favourable conditions for investment in Lithuania, which is of particular relevance to the activities of venture capital funds.
	<b>10.4.</b> To regulate credit-granting activities related to immovable property in Lithuania.	Equal conditions for operation of credit providers and credit intermediaries operating in the market have been established, competition among them has been enhanced, credit services accessibility and development has been improved, and protection of the rights and interests of borrowers (consumers) has been ensured.
	<b>10.5.</b> To initiate amendments to legal acts with a view to better coordination of innovations policy.	Council for Research, Development, and Innovation will be granted a bigger role in coordination of innovations policy, so that decisions were discussed based on the bottom-up principle, and that draft decisions were proposed to the Government following evidenced-based and reasoned discussions.
	<b>10.6.</b> To start implementing risk capital measures:	

- Co-Investment Fund I and Co-Investment Fund II.	These measures will seek encourage investment, first into innovative ideas of young innovative businesses, with a view to helping them reduce start-up risks and facilitate successful growth. Private investors will be initiators of investment, they will be able to constantly submit proposals to the co-investment fund manager regarding co-investment into viable businesses. The measure will also contribute to the development of the alternative market ( <i>First North</i> ), hence creating conditions to businesses to get ready to move to the regulated securities market.
- Development Fund I and Development Fund II.	Fund managers, established for these new risk capital measures, will invest into the equity of micro, small, and medium sized enterprises, or into quasi-equity at the development stages of enterprises.
- Business Angels Co-Fund.	Manager of the fund established in compliance with this measure will co-invest with business angels into equity or quasi equity of SMEs.
- Early Stage and Expansion Fund.	Manager of the fund established in compliance with this measure will invest into early development stage businesses and will seek to bridge the gap between science and business. The major share of investment through this measure will be allocated to businesses operating in smart specialisation fields.
- Early Stage and Expansion Fund I.	Manager of the fund established in compliance with this measure will invest into equity or quasi equity of SMEs in their initial stages of growth. The measure will encourage transmission of ideas generated by science and education institutions to business (commercialisation).
<b>10.7.</b> To continue implementation of the joint Action Programme measure “Intellect. Joint Science-Business Projects” while starting implementation of measure “Joint Science-Business Projects”, administered by the Ministry of Science and Education.	Enhanced cooperation between science and education institutions and business in carrying out joint R&D projects.
<b>10.8.</b> To start implementation of the Action Programme measure “Encouraging commercialisation and transnationality of R&D results”.	Commercialisation of ideas by scientists, researchers, and students working or studying at science and education institutions has been funded: creation and start of operation of spin-offs. Market-oriented science and business projects are implemented through an international network.
<b>10.9.</b> To start implementation of the Action Programme measures “Development of Competence Centres” and “Encouragement of Activities of Competence Centres and Innovation and Technology Transfer Centres”.	Exclusive competences of science and education institutions in certain R&D fields have been strengthened: students and researches are provided with equipment to carry out R&D activities. Knowledge and technology transfer units of science and education institutions are created and consolidated; competences of science managers are strengthened.
<b>10.10.</b> To implement the Action Programme measure “Risk Capital for R&D activities”.	Private investment has been attracted to carry out R&D activities and to commercialize their results; cooperation between business and science has been enhanced.

**Table 18 (6.b) Indicators set in the European Union’s Strategy for Growth and Jobs**

National targets under the Europe 2020 Strategy	List of measures	Direct relevance of measure to achieve the target of the Europe 2020 Strategy
<p><b>National employment target is 72.8 per cent.</b></p>	<p>To implement measures encouraging investment into jobs that create higher value added and that need specialists with higher qualifications, by giving financial incentives to foreign investors, who create jobs in production and services sectors, and providing financial assistance for investments into innovative business in the sectors of processing of aquaculture and fishery products. To implement the measures, EUR 17.53 million are planned to be allocated from the State Budget, and EUR 9.91 million from the EU structural funds in 2017.</p>	<p>Creation of new quality jobs is encouraged, and demand for highly qualified labour is enhanced.</p>
	<p>To develop entrepreneurship of citizens and to support initiatives for business creation and development in the rural and high-unemployment areas. To implement the measure, EUR 8.14 million are planned to be allocated from the State Budget, and EUR 11.11 million from the EU structural funds in 2017.</p>	<p>Creation of jobs in the regions, especially in high unemployment rate areas, is encouraged, thereby increasing labour demand and creating employment opportunities.</p>
	<p>To implement measures helping improve qualifications of human resources, enhance their competitiveness, and develop labour force skills matching labour market needs. To implement the measure, EUR 0.99 million are planned to be allocated from the State Budget, and EUR 15.15 million from the EU structural funds in 2017.</p>	<p>Compliance between labour force qualifications and labour market needs is augmented, hence increasing opportunities to stay on the labour market.</p>
	<p>To apply active labour market policy measures by supporting integration of the unemployed into the labour market, to give priority to the unskilled and the long-term unemployed, to provide marketable skills first, and to develop competences in line with the employers’ requirements to have successful integration into the labour market. To implement the measure, EUR 7.05 million are planned to be allocated from the State Budget, and EUR 31.66 million from the EU structural funds in 2017.</p>	<p>Opportunities are offered to the unemployed, especially to the long-term and unskilled, to acquire vocational training and return to the labour market, thereby reducing unemployment of the long-term and unskilled persons.</p>
	<p>To continue implementation of the Youth Guarantee Initiative and other programmes encouraging youth employment. To implement the measure, EUR 1.3 million are planned to be allocated from the State Budget, and EUR 26 million from the EU structural funds in 2017.</p>	<p>Fast and sustainable transition of the youth from education system to the labour market is ensured, and youth unemployment is reduced.</p>
	<p><b>National R&amp;D investment target is 1.9 per cent of GDP.</b></p>	<p>To support activities encouraging business innovation potential. To implement the measure, EUR 0.57 million are planned to be allocated from the State Budget, and EUR 28.6 million from the EU structural funds in 2017.</p>

		<p>“Smartparkas LT”, and “DPT pramonei+”), traditional industry transformation is encouraged through application of technologies that are important for innovation in industry and growth of the entire economy – key enabling technologies in the production processes of micro, small, and medium-sized enterprises, participation in international and innovation-related programmes and projects is supported.</p> <p>In addition, measures will be implemented to encourage business investment in the creation and use of R&amp;D cluster infrastructure, participation in international R&amp;D initiatives, foreign direct investment in R&amp;D activities, infrastructure, and investment in industrial parks and free economic zones, where foreign companies will carry out R&amp;D activities, in engineering networks and transport communications. Business consultation will be offered regarding creation of innovative products.</p>
	<p>To encourage interinstitutional, inter-sectorial, and international cooperation to develop top-level scientific research, to encourage R&amp;D activities relevant to tackle strategic problems of public and national importance as well as to boost economic growth.</p> <p>To implement the measure, EUR 2.56 million are planned to be allocated from the State Budget, and EUR 7.45 million from the EU structural funds in 2017.</p>	<p>The aim is to create conditions for Lithuania’s researchers individually, groups of the Lithuanian and foreign researchers, in cooperation with researchers from other science and education establishments, or businesses to carry out high-level scientific research and other R&amp;D activities that would not only create new knowledge, but also yield results, application of which in business and public needs can create high value added.</p>
	<p>To develop commercial and non-commercial use of R&amp;D results.</p> <p>To implement the measure, EUR 222 million are planned to be allocated from the EU structural funds in 2017.</p>	<p>The aim is to create knowledge and technology transfer and commercialisation ecosystem in science and education establishments, which would ensure comprehensive support to researchers and students seeking commercialisation of R&amp;D results that they produce.</p> <p>Expected outcomes:</p> <ul style="list-style-type: none"> <li>- efficient use of R&amp;D activity results for business and public needs;</li> <li>- preconditions for tackling major socio-economic challenges.</li> </ul>
	<p>To create, renew, and consolidate R&amp;D infrastructure that provides conditions for creation of knowledge and innovations.</p> <p>To implement the measure, EUR 21.57 million are planned to be allocated from the EU structural funds in 2017.</p>	<p>The aim is to create and renew high-level infrastructure that is important for further development of national R&amp;D system, and ensure constant maintenance of its high level, thereby creating the best conditions for researchers to carry out high-level R&amp;D activities and create high value added results.</p>
	<p>To ensure quality monitoring, which is necessary for efficient functioning of science and education system, as well as analysis, assessment, and forecasting based thereupon.</p> <p>To implement the measure, EUR 290,000 are planned to be allocated from the State Budget, and EUR 521,000 from the EU structural funds in 2017.</p>	<p>In the implementation of Smart Specialisation Strategy, focus will be made on constant analysis and impact assessment of R&amp;D and innovation priority implementation as well as the use of the gathered data in the decision-making process regarding further implementation of the Strategy, review of R&amp;D and innovation priorities, and amendment of education, R&amp;D, and innovation policy measures. A mid-term assessment of special</p>

	<p>To train highly-qualified researchers, to strengthen and consolidate human potential in R&amp;D to develop smart specialisation areas.</p> <p>To implement the measure, EUR 300,000 are planned to be allocated from the State Budget, and EUR 7.62 million from the EU structural funds in 2017.</p>	<p>specialisation process is planned for 2018.</p> <p>Training of R&amp;D specialists is planned to be funded in all degree levels, and opportunity for them to choose a career of a researcher and conditions to develop required competences are planned to be given. Skills of researchers and other specialists to take part in R&amp;D activities that are organised on a national and international level are planned to be developed and strengthened, scientific potential of knowledge-intensive businesses created and strengthened, and interdisciplinary, inter-sectorial, and international specialist mobility encouraged.</p>
<p><b>Greenhouse emissions in sectors not covered by the EU Emissions Trading Scheme (change in emissions from the 2005 levels in per cent and in millions of tonnes of CO<sub>2</sub>), target is not exceeding 15 per cent.</b></p>	<p>The National Strategy for Climate Change Management Policy approved by Resolution No XI-2375 of the Seimas of the Republic of Lithuania of 6 November 2012;</p> <p>The Interinstitutional Action Plan for the Implementation of the Goals and Objectives of the National Strategy for Climate Change Management Policy for 2013-2020 approved by Resolution No 366 of the Government of the Republic of Lithuania of 23 April 2013 and subsequent amendments;</p> <p>Sectoral programmes and plans:</p> <p>The Programme for the Renovation (Modernization) of Apartment Blocks approved by Resolution No 1213 of the Government of the Republic of Lithuania of 23 September 2004;</p> <p>The Programme for Enhancement of Energy Efficiency in Public Buildings approved by Resolution No 1328 of the Government of the Republic of Lithuania of 26 November 2014;</p> <p>The National Waste Management Plan for 2014–2020 approved by Resolution No 366 of the Government of the Republic of Lithuania of 16 April 2014.</p>	<p>Results to be achieved in 2017:</p> <ul style="list-style-type: none"> <li>- sectors not covered by the EU ETS will not exceed the annual permitted GHG emissions threshold of 14.38 million tonnes of CO<sub>2</sub> equivalent, established for Lithuania;</li> <li>- the share of renewable energy sources in the final energy balance will make up 26 per cent;</li> <li>- the efficiency of final energy consumption will increase by 10.5 per cent compared to 2010.</li> </ul>
<p><b>National renewable energy sources consumption target is 23 per cent.</b></p>	<p>The National Strategy for the Development of Renewable Energy Sources approved by Resolution No 789 of the Government of the Republic of Lithuania of 21 June 2010.</p> <p>The Action Plan for the Implementation of the National Strategy for the Development of Renewable Energy Sources in 2010–2015 approved by Order No 1-180 of the Minister of Energy of the Republic of Lithuania of 23 June 2010.</p> <p>The Law No XI-1375 of the Republic of Lithuania on Energy from Renewable Sources. Promotion of the switch from fossil fuels to renewable energies for the production of heat energy. Funding allocated to this measure in 2017 amounts to EUR 0.58 million from the EU structural funds.</p> <p>Promotion of low capacity biofuel cogeneration. Funding allocated to this measure in 2017 amounts to EUR 3 million from the EU Structural Funds.</p>	<p>Increasing the share of RES in the overall energy balance of the country will enable to satisfy as much energy demand as possible in electricity, heat and transport sectors by means of internal resources, refuse the imported polluting fossil fuels and thus increase the security of energy supply, energy independence and contribute to the international efforts to reduce the emissions of greenhouse gases.</p> <p>Ensuring a development of sustainable use of renewable energy sources will encourage a further development and introduction of new technologies as well as consumption of the energy produced, in particular, taking into consideration Lithuania's international commitments and the goals of environment protection, sustainable use of fossil energy, reduction of dependence on fossil energy and the reduction of energy imports as well as other national energy policy objectives.</p>
<p><b>National energy efficiency target is 740</b></p>	<p>The Programme for the Renovation (Modernization) of Apartment Blocks; The Energy Efficiency Enhancement Programme in Public buildings.</p>	<p>Renovation of apartment blocks and public buildings in order to increase the efficiency of energy consumption. The energy performance classification of modernized</p>



<b>ekWh</b>	For the implementation of this measure in 2017, the allocated funding amounts to EUR 25.9 million from the State Budget and EUR 63.9 million from the EU Structural Funds.	buildings has to be in class C.
<b>The National target is to achieve that the percentage of individuals aged 18-24 who have only basic or secondary education and who are no longer engaged in any education does not exceed 9 per cent</b>	To increase children's access to pre-primary and pre-school education. For the implementation of this measure in 2017, it is planned to allocate EUR 2.69 million from the EU Structural Funds.	Modernized at least 30 pre-primary schools providing pre-primary and pre-school education programmes (renovated interior education spaces, new education spaces created, etc.). New innovative pre-school education models adopted.
	To develop and introduce an up-to-date education content and new forms of educational organization. For the implementation of this measure in 2017, it is planned to allocate EUR 1.88 million from the EU Structural Funds.	New educational organization models will be created and tested. Productive learning model was established. School progress tenders will be launched. Improved safe environment for student access to digital resources.
	To introduce critical cumulative assessment and recognition of learning outcomes. For the implementation of this measure in 2017, it is planned to allocate EUR 841 000 from the State Budget and EUR 1.6 million from the EU Structural Funds.	Individual learning progress assessment system is being created and timely support is provided. The concept of learning outcomes was expanded including the education and assessment of student's personal and social characteristics.
	To further improve the learning possibilities of persons with special educational needs. For the implementation of this measure in 2017, it is planned to allocate EUR 0.5 million from the State Budget and EUR 2.5 million from the EU Structural Funds.	A variety of education forms has been developed and access to educational support in general education schools has been improved. Provision of integrated educational assistance, social, health care services to children and their parents has been developed in municipalities. The number of children in special schools and special education centres has been reduced by introducing innovative models of organization of education and provision of educational support, providing schools with special teaching resources and means of technological support for education, improving the competencies of education support specialists (psychologists, social teachers, special teachers, speech therapists) and teachers. The development of consultative and methodological functions of special needs education and children socialization centres.
	To further implement bullying, bad habit prevention and other prevention as well as pupil assistance programmes. For the implementation of this measure in 2017, it is planned to allocate EUR 75 000 from the State Budget and EUR 293 000 from the EU Structural Funds.	Increased variety of preventive programmes and coverage of schools participating in the implementation of violence and bullying prevention programmes.
	To further increase the variety and accessibility of non-formal education of children. For the implementation of this measure in 2017, it is planned to allocate EUR 7.12 million from the State Budget and EUR 6.34 million from the EU Structural Funds.	More children participate in non-formal education of children and improve general and subject competencies. The infrastructure and education base of non-formal education schools has been improved. Teachers' competences haven been improved.
	To further provide career development services. For the implementation of this measure in 2017, it is planned to allocate EUR 360 000 from the EU Structural Funds.	Greater accessibility to occupational counselling (career development) and provision of quality services will enable the development of students' motivation, making experience-based informed decisions on further learning and career planning, thus reducing the risk of early withdrawal from the educational system.
	To further update vocational training	For the creation of a well-developed modern

	programmes according to economic and regional needs. For the implementation of this measure in 2017, it is planned to allocate EUR 1.6 million from the EU Structural Funds.	vocational training system, professional standards corresponding to the economic needs will be developed for different sectors. Based on these standards, modular vocational training programmes will be developed. This will permit a flexible response to business needs by updating individual programme modules and formalizing the competencies acquired in the production process, ensuring a smooth integration of students into the labour market.
<b>National target is to achieve that the percentage of persons aged 30–34 with tertiary or equivalent education reaches 48.7 per cent.</b>	To improve the quality and openness of tertiary or equivalent education. For the implementation of this measure in 2017, it is planned to allocate EUR 1.195 million from the EU Structural Funds.	Studies match better the needs of the labour market, better organization of the study practice, better preparation of working places for the study practice.
	To modernize the infrastructure of studies with a view to improving the quality of studies. For the implementation of this measure in 2017, it is planned to allocate EUR 6.0987 million from the EU Structural Funds.	Development of higher education infrastructure corresponding to the economic needs. Creation of modern and favourable conditions for acquiring required competences while studying.
	To provide students with targeted grants, social grants and assistance to students. For the implementation of this measure in 2017, it is planned to allocate EUR 9.56 million from the State Budget and EUR 2.27 million from the EU Structural Funds.	Creation of social and financial incentives and provision of assistance to students from socially vulnerable groups, reduction of social exclusion in the field of higher education.
	To further promote the development of adult education services and adult learning. For the implementation of this measure in 2017, it is planned to allocate EUR 782 000 from the EU Structural Funds.	Evaluation and recognition by the Lithuanian higher education schools of competencies acquired in the system of informal adult education will contribute to a more accessible and flexible system of the Lithuanian higher education studies.
	To increase the internationality of higher education. For the implementation of this measure in 2017, it is planned to allocate EUR 3.8 million from the EU Structural Funds.	Increase of (international) visibility and status of Lithuanian higher education schools. Opportunities provided for students to study abroad, attraction of foreign students and lecturers to Lithuania, support to the education of Lithuanian language and culture.
	To develop the system of monitoring the assessment of the progress of science and study. For the implementation of this measure in 2017, it is planned to allocate EUR 3.71 million from the EU Structural Funds.	Strengthening of external evaluation of activities of higher education schools with a view to providing assistance to higher education schools for improving their activities. The information received is required for the management decisions.
<b>National poverty reduction target – to reduce the number of persons in poverty and socially excluded people or the people at-risk of poverty and social exclusion to 814 000.</b>	Implementation of the pension reform. From 1 January 2017, pensions will be increased by the application of the automatic indexation principles. The need of funds for the increase of social insurance pensions in 2017 is EUR 167.4 million.	Extension of social insurance funding base and lowering of tax burden on the labour force. Establishment of clear indexation rules to maintain the purchasing power of pensions. Changing of the calculation of formula for calculating social insurance incapacity for work pensions to ensure that the pension is related to the percentage of incapacity rate which would improve the adequacy of these pensions.
	Implementation of the new law on Unemployment insurance which increases the social security of persons. The allocated amount from ‘Sodra’ budget for unemployment benefits is EUR 109 million in 2017.	Increasing the adequacy of unemployment benefits and scope of recipients in case of unemployment by increasing the unemployment benefits, its payment period and scope.
	To increase the accessibility of social services. It is planned to allocate the following amounts	Development of the infrastructure of the on-site and residential care social services,

	<p>from the EU Structural Funds:</p> <ul style="list-style-type: none"> <li>- EUR 0.87 million for the measure of “Improving the infrastructure of social services”;</li> <li>- EUR 6.0 million for the measure of “Development of integrated assistance to people with disabilities and elderly people”.</li> </ul>	integrated home assistance (nursing and social care).
	<p>Aid for the most deprived persons. An EUR 32.83 million project will be implemented in 2017-2018 financed from the Fund for European Aid to the Most Deprived (FEAD).</p>	By implementing the project funded by the FEAD funds it is estimated that food aid will be provided to approximately 280 000 most deprived persons.
	<p>Implementation of the transition from institutional care to family and community-based services. For the implementation of this measure in 2017, it is planned to allocate from the State Budget EUR 1.04 million.</p>	Creation of a system of integrated services enabling access to every child, person with disabilities or his family (guardians, carers) to individualized services according to needs and required assistance in the community.

#### 4. Methodological aspects

**Table 14 (8). Preparation of economic development scenario**

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/technique used	Assumptions
Principles of national accounting, econometric and expert evaluation	Economic development scenario	Macroeconomic forecasts are prepared for the medium-term using macroeconomic model developed according to national accounts. Based on the analysis of individual or more than one potentially interrelated macroeconomic indicators, econometric equations are made, also, expert evaluation is used. Estimates of potential GDP are based on methodology approved by ECOFIN in 2002.	Technical assumptions (oil price, currency exchange rate and interest rates)

#### Revenue forecasting

Tax revenue forecasts are prepared according to macroeconomic forecasts, statistical data, revenue dynamics and the information provided by state institutions. Forecasts of revenues from individual taxes may be adjusted using expert judgement, i.e. considering other circumstances than those provided for in the draft amendments that may affect revenue collection.

Depending on the tax, one or several forecasting methods are applied:

- Detailed modelling method. Data is collected on the number of taxpayers in each category and the total amount of revenue and revenue structure of that category. A simulation model is created from two blocs: typical tax payer and aggregating bloc. According to this method, it is estimated how much on average an individual taxpayer representing a certain group will pay in taxes, how much this group and, ultimately, all taxpayers of the country will pay.

•Effective average rate method. The tax rate established by law is adjusted taking into account the reliefs, exemptions from the tax base, etc. The effective average rate thus assessed is multiplied by the scope of the tax base to obtain a forecast of revenues from appropriate taxes.

•Elasticity method. A relationship is established between the revenues from a tax increase (decrease) and the change in the tax base. After taking into account the elasticity coefficient specific to a certain tax and the forecasted tax base change, revenue forecast from that specific tax is made.

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