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2016 Lithuanian Draft Budgetary Plan

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Introduction

Having joined the euro area in 2015 and having regard to 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 referred to as "the Regulation"), Lithuania hereby presents the 2016 Lithuanian Draft Budgetary Plan (DBP) to the European Commission and the Eurogroup.

To ensure closer monitoring and coordination of the economic and fiscal policies of the countries in the euro area, these countries must submit their stability and national reform programmes (by April 30) as well as draft budgetary plans (by October 15) to the European Commission on an annual basis. Submission and evaluation of these documents are integral parts of the European Semester. In the first stage, the European Commission, having examined the national reform and stability programmes submitted by euro zone countries, issues specific recommendations to Member States (hereinafter referred to as "Recommendations"). In the second stage (upon submission of draft budgetary plans), the European Commission examines and issues an opinion on the compliance of national budgetary indicators with the requirements of the Stability and Growth Pact (hereinafter referred to as "the SGP") of the European Union (EU) and evaluates measures towards the achievement of the objectives of the Europe 2020 goals and the implementation of the Recommendations. This opinion is delivered to national parliaments prior to the adoption of the budget.

The DBP was drafted pursuant to the Draft Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2016, the Draft Law of the Republic of Lithuania on the Approval of the Indicators of the State Social Insurance Fund Budget for 2016 and the Draft Law of the Republic of Lithuania on the Approval of the Indicators of the Compulsory Health Insurance Fund Budget for 2016, which were approved by the Government of the Republic of Lithuania on 30 September 2015. The abovesaid laws were drafted in accordance with the economic development scenario published by the Ministry of Finance on 10 September 2015 and the medium-term objectives for the general government finance management set out in the Stability Programme, pursuant to the provisions of the Constitutional Law of the Republic of Lithuania on the Implementation of the Fiscal Treaty (hereinafter – "the Constitutional Law"), the Law of the Republic of Lithuanian on Fiscal Discipline and the SGP, and in implementing the Recommendations.

The DBP consists of the Lithuanian economic development scenario, approved on 18 September 2015 by the National Audit Office of the Republic of Lithuania, which performs the functions of the Budgetary policy control authority, indicators and information on Lithuania's economic situation and trends, the financial indicators formed by the entirety of the budgets classified in the general government sector under the European system of accounts 2010 (hereinafter – "ESA"), the revenue and expenditure indicators of the general government, and information on the conformity of the general government financial target indicators with the general government financial indicators set out in the Stability Programme.

Despite the growing uncertainty of the external environment, the Lithuanian gross domestic product (GDP) went up by 1.3 per cent in the first half of 2015 year on year. The national economy is expected to grow by 1.9 per cent in 2015 (a 2.5 per cent growth was predicted in the Stability Programme). GDP growth in 2016 is estimated at 3.2 per cent (the projection in the Stability Programme is 3.1 per cent of GDP).

The national economy's ability to cope with the challenges posed by the external environment, compliance with fiscal rules, the systematic pension reform and successful application of revenue administration measures will provide a favourable environment for the general government structural balance indicator for 2015–2016[1] to stay in line with the indicators set out in the Stability Programme. Considering the general government financial risk in the long term, during the implementation of the general government financial targets under the Stability Programme, the European Commission expects a low public financial risk (the risk indicator equals 1.9, i.e. it is below the threshold of 2; if this threshold is exceeded, the long term general government financial risk is classified as medium). **The general government structural deficit in 2015 is estimated at no more than 0.9 per cent of GDP. A negative output gap is anticipated in Lithuania in 2016. The structural general government deficit is expected to stay close to the medium-term target (1 per cent of GDP), without deviating from it after the deduction of the costs of the systematic pension reform, recognised by Eurostat (0.1 per cent of GDP). In 2016, structural general government deficit, including the costs of the systematic pension reform, will equal up to 1.1 per cent of GDP**.

[1] Nor will there be any deviation from the general government financial indicators for 2017–2018 set out in the Stability Programme. Due to a positive output gap, the general government sector in 2017–2018 will be balanced and achieve a surplus (based on the general government balance and structural government balance indicators).

1. Macroeconomic situation and prospects

The DBP presents the Lithuanian economic development scenario for 2015–2018, prepared by the Ministry of Finance and approved by the Budgetary Policy Control 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 10 September 2015. The economic development scenario was developed on the basis of data collected before 1 September 2015, and the conclusion of the Budgetary Policy Control Authority on the economic development scenario was posted online at *http://www.vkontrole.lt/bp/isvados.aspx*.

The assumptions of the external economic environment (trade partner development, oil prices and the euro-to-dollar exchange rate) match the spring 2015 forecasts of the European Commission. Despite the growing uncertainty of the external environment, the Lithuanian GDP grew by 1.3 per cent over the first half of 2015, while economic development remained in balance: GDP growth was fuelled by external and internal demand. The national economy will grow by 1.9 per cent in 2015.

The impact of domestic demand on GDP changes will remain strong in the medium term. In the first half of 2015, household consumption increased by 4.9 per cent, while growth for the full year is estimated at 4.5 per cent this year as well as in 2016. Household consumption dynamics in the medium term will be determined by changes on the labour market, price convergence processes and labour productivity changes. In spite of the geopolitical tensions and uncertainty of the external environment, consumer expectations over the first nine months of 2015 remained higher compared with last year. Gross fixed capital formation, another important domestic demand element, went up by 11 per cent in the first half of this year. Gross fixed capital formation is expected to grow 6.9 per cent in 2015 and 4.2 per cent in 2016. Investment growth will be stimulated by the need to increase labour productivity, availability of bank loans and implementation of projects under the new financial perspective funded from European Union funds as well as national defence-related investment projects.

Import of goods and services grew by 9.6 per cent and export by 1.3 per cent over the first half of 2015. Slower export growth was primarily predetermined by the Russian embargo on certain food products as well as the worsening of the Russian economic situation. An active investment process partially accounted for the surge in the import of goods, which resulted in a negative net export. Export recovery in 2016 is expected to cushion the negative impact of net export on GDP growth.

The unemployment downward trends have been on-going for several years. Lithuania is one of the EU leaders in reducing the unemployment level, Eurostat reports. The average unemployment rate went down to 9.4 per cent in the second quarter of 2015, and is expected to remain at the same level throughout 2015. The unemployment rate forecast for 2016 stands at 8.8

per cent. In the medium-term, a lower unemployment level is expected due to the improving labour market situation, as the growing labour demand and the rapidly rising real wages will encourage residents to be more active on the labour market.

Wage changes in the national economy have been determined by the recent rapid growth in wages in the private sector, especially in those areas that are still experiencing workforce shortages and struggling to retain qualified staff. The average monthly gross wage is expected to grow by 4.8 per cent in 2015 and 5.3 per cent in 2016. Employer competition for highly qualified employees will result in an increase in real unit labour costs, while workforce shortages will require more investments in production capacities utilization and raise labour productivity. Changes in labour productivity and unit labour costs will determine changes in real wages in the medium term.

The average annual deflation equalled 0.5 per cent in September 2015 and is estimated at 0.4 per cent for the entire year. Deflation owed to the changing trends in the prices of fuel, administered and food prices. As of 2016, with a gradual recovery of energy item prices, stronger demand and rising price levels in Lithuania's main export market, the EU, the average annual inflation in Lithuania will increase moderately.

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

	2014	2015	2016
Short-term interest rate (annual average)	0.3	0.1	0.1
Long-term interest rate (annual average)	2.8	1.7	2.2
USD/EUR exchange rate (annual average)	1.33	1.08	1.07
Nominal effective exchange rate	0.8	-2.5	-0.3
World GDP growth (excl. EU), %	3.8	3.8	4.3
EU GDP growth, %	1.4	1.8	2.1
Growth of relevant foreign markets, %	1.0	0.6	1.8
World import volumes (excl. EU). %	1.9	3.4	4.9
Oil prices (Brent, USD/barrel)	99.7	54.5*	66.0

* Oil prices assumption for 2015 has been corrected in accordance with the factual data of the 7 months of 2015. In making the projections, the oil price of USD 54.45 a barrel for 2015 was applied.

** The numbers of this and all other tables in the DBP, given in parentheses, correspond to those used in the European Commission’s document of 7 October 2014 entitled “Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance report”.

Sources: Ministry of Finance of the Republic of Lithuania, European Commission

Table 2 (1a). Macroeconomic prospects

	ESA code	2014	2014	2015	2016	2017	2018
		million EUR	**Change, %**				
1. Real GDP, chain-linked volume	**B1*g**	32925.0*	3.0*	1.9	3.2	3.5	3.9
2. Potential GDP		32555.3	2.2	2.8	3.3	3.1	2.9
of which:							
- labour			0.1	0.6	0.9	0.6	0.2
- capital			1.1	1.3	1.3	1.3	1.4
- total factor productivity			1.1	1.0	1.1	1.2	1.3
3. Nominal GDP	**B1*g**	36444.4*	4.2*	1.9	4.7	5.7	6.4
Components of Real GDP (chain-linked volume)							
4. Household consumption expenditure + NPI serving households	**P.3**	21104.0*	4.1*	4.5	4.5	4.7	4.8
5. Government final consumption expenditure	**P.3**	5713.3*	1.3*	1.3	0.6	0.6	0.6
6. Gross fixed capital formation	**P.51g**	6371.8*	5.4*	6.9	4.2	4.4	5.2
7. Changes in inventories and net acquisition of valuables (% of GDP)	**P.52+ P.53**	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
8. Exports of goods and services	**P.6**	26673.3*	3.0*	0.8	3.2	4.5	5.3
9. Imports of goods and services	**P.7**	25791.2*	2.9*	3.9	4.2	5.3	5.9
Contributions to real GDP growth (chain-linked volume)							
10. Final domestic demand		-	2.9*	4.4	4.0	4.2	4.5
11. Changes in inventories and net acquisition of valuables	**P.52+ P.53**	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
12. External balance of goods and services	**B.11**	-	0.2*	-2.5	-0.8	-0.7	-0.6

* Statistics Lithuania recalculated the data of 2014 on 2 October 2015, yet the economic development scenario was developed using data collected prior to 1 September 2015.
Sources: Statistics Lithuania, Ministry of Finance of the Republic of Lithuania

Table 3 (1b). Price developments

Indicator	ESA code	Indicator value in 2014	2014	2015	2016	2017	2018
		Level	Change, %				
1. GDP deflator		110.7*	1.2*	0.0	1.5	2.2	2.5
2. Private consumption deflator		108.5*	0.1*	-0.4	1.4	1.9	2.1
3. HICP (year 2005 = 100)		140.1	0.2	-0.4	1.4	1.9	2.2
4. Public consumption deflator		107.8*	3.8*	3.0	3.0	3.0	3.0
5. Investment deflator		108.2*	1.2*	1.2	1.2	1.2	1.2
6. Export price deflator (goods and services)		111.0*	-2.3*	-2.4	1.1	1.5	1.5
7. Import price deflator (goods and services)		112.0*	-3.0*	-3.8	1.3	0.5	0.5

* Statistics Lithuania recalculated the data of 2014 on 2 October 2015, yet the economic development scenario was developed using data collected prior to 1 September 2015.
Sources: Statistics Lithuania, Eurostat, Ministry of Finance of the Republic of Lithuania

Table 4 (1c). Labor market developments

Indicator	ESA code	2014	2014	2015	2016
		Level	Change, %		
1. Employment, persons (‘000)		1319.0	2.0	1.3	0.8
2. Employment, hours worked		-	-	-	-
3. Unemployment rate (%)*		10.7	-	9.4	8.8
4. Labour productivity (real GDP per employed person), ‘000 EUR		25.0**	1.0**	0.6	2.3
5. Labour productivity, hours worked		13.6**	1.4**	-	-
6. Compensations of employees, million EUR	**D.1**	14582.9	6.5	6.1	6.0
7. Compensation per employed, EUR		11056.1	4.4	4.8	5.2

* Indicator value is given.
** Statistics Lithuania recalculated the data of 2014 on 9 October 2015, yet the economic development scenario was developed using data collected prior to 1 September 2015.
Sources: Statistics Lithuania, Ministry of Finance of the Republic of Lithuania

Table 5 (1d). Sectoral balances

Indicator	ESA code	2014	2015	2016
		% of GDP	% of GDP	% of GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	**B.9**	4.7	0.6	-1.8
of which:				
- balance on goods and services		1.9*	-1.1	-2.0
- balance of primary incomes and transfers		0.1	-1.0	-1.7
- capital account		2.7	2.7	1.9
2. Net lending/net borrowing of the private sector	**B.9**	5.4	1.5	-0.5
3. Net lending/net borrowing of general government	**B.9**	-0.7	-0.9	-1.3
4. Statistical discrepancy		0	0	0

Sources: Ministry of Finance of the Republic of Lithuania, the Bank of Lithuania

* Statistics Lithuania recalculated the data of 2014 on 9 October 2015, yet the economic development scenario was developed using data collected prior to 1 September 2015.

2. Fiscal policy

The fiscal policy envisaged in the Stability Programme will be continued: in 2015–2016, aggregate demand is being stimulated in Lithuania in anticipation of a negative output gap, while in 2017–2018 prices will be stabilised in anticipation of a positive output gap. Thus, sustainable economic growth and job creation will be ensured. Major attention will be devoted to the improvement of the quality of public finances: enhanced tax administration and higher public expenditure efficiency. The outcome of enhanced tax administration brings greater revenues to the budgets. Lithuania's medium-term objective is a structural general government deficit not higher than 1 per cent of GDP. In 2014, Lithuania achieved a medium-term objective and will maintain it throughout the 2015–2016 period. In 2017–2018, the plan is to improve the indicator of structural general government balance and to achieve a general government surplus.

Projected general government financial indicators for 2015

The projected general government balance indicator for 2015 is 0.9 per cent GDP deficit – a 0.3 per cent improvement compared with one approved in the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2015 and the one presented in the Stability Programme.

The general government structural balance indicator in 2015 is projected to be a 0.9 per cent GDP deficit.

Factors behind the improvement of the 2015 general government balance and structural general government balance against the projections made when drafting the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2015 and the Stability Programme:

1) effective tax administration measures – continuous and new ones, the latter including measures aimed at better value-added tax (hereinafter referred to as "VAT") administration;

2) the expected surplus of the local government subsector. In the first half of 2015, the local government subsector surplus amounted to EUR 108 million or 0.3 per cent of GDP (in the first half of 2014 it totalled EUR 80 million, or 0.2 per cent of GDP; in 2014, the local government subsector surplus totalled EUR 41.3 million, or 0.1 per cent of GDP). Until the end of 2015, the local government subsector balance is expected to stay positive (a deficit was projected for the local government subsector in early 2015).

3) adjustment of the projected annual financial performance result of "Indėlių ir investicijų draudimas", a State enterprise classified in the general government sector, with a positive effect on the expected general government balance for 2015.

Tax administration measures in 2015

It is expected that the revenue plan for the entirety of the State and municipal budgets in 2015 will be exceeded owing to the implementation of tax administration measures. During nine months of this year, the revenues of the State and municipal budgets amounted to EUR 101.2 million, or the plan was overperformed by 2 per cent. Revenue targets were primarily exceeded when collecting the excise duties, the personal income tax (hereinafter referred to as “PIT”) and the profit tax. VAT revenues are still behind the plan, but this lag is not surprising considering that the projections for 2015, made when drafting the 2015 budget, anticipated inflation (1.2 per cent), whereas now deflation (0.4 per cent) is being projected. Yet, despite the deflation, the VAT revenue plan has been accomplished at 97 per cent over nine months of the year.

New VAT administration measures in 2015

Since 1 May 2015, the measure “VI (VAT invoice) Register” has been launched, requiring 7 000 national enterprises selected by means of a market analysis to present, on a monthly basis, the data of received and issued VAT invoices. The first data of VAT invoices were received in June 2015. The data received from the said enterprises will be periodically reviewed and, in the light of the developments in their performance indicators, the issue of instructing other tax payers to provide data will be decided, thus expanding the number of monitored companies.

To achieve effective collection of the VAT for construction services to the State budget, the VAT Law of the Republic of Lithuania was amended on 1 July 2015, providing that the VAT must be deducted and paid to the budget by the taxable VAT payer that ordered the construction work.

The positive impact of the new discretionary VAT administration measure “VI (VAT invoice) Register” on VAT revenues was observed from the very beginning of its application: revenues started growing significantly from June 2015, when VAT invoice registers began flowing in. It is expected that over seven months of 2015 (June through December) the positive impact on the VAT collection will amount to 0.12 per cent of GDP, while the continuous effect of this measure over the first five months of 2016 will total 0.1 per cent of GDP, i.e. more than 0.2 per cent of GDP in a 12 month period. The impact of the discretionary VAT administration measure “VI (VAT invoice) Register” on the general government balance was taken into account in the general government balance projection for 2015.

Table 6. Revenue trends after the introduction of a new discretionary VAT administration measure "VI (VAT invoice) Register" in 2015

Period	VAT revenue change compared with respective period in 2014	Average VAT revenue plan implementation over the period
January – May 2015	+ EUR 18.1 million (+1.5 %)	95.1 %
June – September 2015	+ EUR 88.4 million (+9.1 %)	100.2 %

Administration of other taxes

When drafting in the autumn of 2014 the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2015, a 6.6 per cent increase in the wage bill was projected for the year 2015. In the economic development scenario published in September 2015, a slightly smaller growth in the wage bill, 6.1 per cent, was projected for 2015. Nevertheless, the VAT revenue plan for the entirety of State and municipal budgets has been exceeded over nine months of this year (by EUR 23 million, or 2.3 per cent). These above-plan results owe, among other things, to the employed tax administration measures: in the first half of 2015, the State Tax Inspectorate introduced a new model of taxpayer selection for the detection of possible evasion of VAT obligations and reinforced the control of enterprises paying some of their staff less than the minimum wage.

A positive influence on excise duty collection in 2015 was exerted by the measures applied by national control and law enforcement authorities and coordinated at Government level, aiming at a reduction in the scale of illicit circulation of goods subject to excise duties (modern border surveillance systems have been introduced, physical controls of transported goods have been reinforced at external borders and additional control of transported goods is being conducted). Over nine months in 2015, excise revenues totalled EUR 42.5 million or 5.3 per cent above the plan. In terms of quantities, the most significant increases were recorded in the sales of cigarettes and diesel fuel: 6.9 per cent more cigarettes were sold in the first eight months of 2015 (a 2.6 increase was projected when drafting the budget) compared with 2014, while the sales of diesel fuel surged by as much as 13.4 per cent (against a 5.1 per cent increase planned when drafting the budget). It is expected that the annual plan for excise revenues will be exceeded by EUR 50 million.

General government financial indicators for 2016

The general government financial indicators for 2016 were estimated in line with the national and EU legislation and presented in the DBP by consolidating the financial indicators of the budgets falling within the general government sector (in accordance with the Draft Law of the Republic of Lithuania on the Approval of Financial Indicators of the State Budget and Municipal Budgets of 2016 and the Draft Budgets of the State Social Insurance Fund of the Republic of Lithuania and the Compulsory Health Insurance Fund of the Republic of Lithuania), with regard to the projected yearly data of the general government for 2015.

The entirety of planned budgets classified in the general government sector forms general government financial indicators ensuring, for 2016:

- compliance with the medium-term objective;
- observance of the general government expenditure benchmark (considering that no deviation from the medium-term objective is envisaged in 2015);
- observance of the general government structural balance rule laid down in the Constitutional Law.

The structural deficit of the general government is expected to stay close to and not deviate from the medium-term objective. A structural general government deficit of 1 per cent of GDP (0.98 per cent of GDP, to be precise) is projected and, taking into account the fact that Eurostat recognised the stage of 2016 in the Lithuanian pension reform as an systemic part of the reform and that the costs of the 2016 stage of the reform will amount to 0.1 per cent of GDP (0.09 per cent GDP, to be precise), the total structural deficit of the general government will not exceed 1.1 per cent of GDP. When verifying compliance of the planned limitation of the general government expenditure in 2016 with the SGP provisions, the costs of financing the abovesaid stage of the pension reform were taken into account.

The general government balance estimate for 2016 is a deficit of 1.3 per cent of GDP at current prices. A surplus general government is projected to reach over the 2017–2018 period.

With the introduction in 2014 of a new general government financial statistics methodology, ESA ‘2010, the State enterprise “Indėlių ir investicijų draudimas” is classified in the general government sector and, therefore, the financial performance result of this State enterprise has an effect on the general government balance.

Table 7. Effect of the financial performance result of State enterprise “Indėlių ir investicijų draudimas” on the general government balance indicator

% GDP	**2015**	**2016**
General government balance indicator (ESA)	-0.9	-1.3
General government balance indicator, excl. the financial performance result of State enterprise “Indėlių ir investicijų draudimas“	-1.4	-1.2

Impact of tax administration measures in 2016

The impact of the discretionary VAT administration measure “VI (VAT invoice) Register” (the positive effect of which has been observed since June 2015) on the general government balance will amount to 0.1 per cent of GDP in 2016. This estimate will be adjusted according to the data for ten months of 2015 and has not yet been included in the general government balance projection for 2016.

Table 8. Measures to improve tax administration not included in the general government balance projection for 2016

List of measures	Description	ESA code	Accounting principle	Adoption status	Budgetary impact for 2016, % of GDP
"VAT Invoices Register" is the collection and verification of electronic VAT invoices	Enterprises selected on the basis of risk analysis must submit a monthly (beginning from June 2015) register of received and issued VAT invoices.	**D2**	Accrual	Approved In the process of implementation by the STI	0.10
Other new tax administration measures	Beginning from 2016, amendments to the Law on Tax Administration will enter into force, laying down preconditions for the tax administrator to automatically receive more information necessary to determine the tax obligation amount and providing possibilities to calculate tax obligations according to information supplied by third-party sources; other new measures directed towards better administration of PIT and VAT	**D2, D5**	Accrual	Approved by the Seimas Will be implemented by the STI	0.09

As of 1 January 2016, amendments to the Law on Tax Administration will come into force, enabling the tax administrator to automatically receive more information required for the calculation of the tax obligation amount (information on cash balances held in financial institutions, sales revenues, loans, etc.), simplifying the procedures of tax recovery and, also, allowing the tax administrator to calculate tax obligations not only according to the information provided by a taxpayer or the results of tax inspections, but also according to the information provided by third-party sources.

According to the provisions of the draft amendments to the Law of the Republic of Lithuania on Tax Administration, Law of the Republic of Lithuania on Value Added Tax and the Road Transport Code of the Republic of Lithuania, starting from 1 October 2016, all VAT payers will have to provide the tax administrator with a detailed information on received and issued VAT invoices as well as the data of documents for the transport of goods. These draft provisions will enable better VAT control and will reduce the amount of unaccounted income.

Changes in the tax system in 2015–2016

In 2015, excise rates were raised on all tobacco products, alcoholic beverages and gas oils used for the purpose of agriculture and fisheries. Regarding the real estate tax, the value of non-taxable real estate of natural persons has been reduced from EUR 289 620 to EUR 220 000. Also, an increase by 30 per cent has been established in the value of non-taxable real estate of families who are raising three or more children (adopted children) under 18 years of age and families with a disabled child (adopted child) under 18 years of age and, also, families raising an older disabled child (adopted child) for whom the special need for permanent nursing has been identified. Additionally, the real estate tax rate applied to the said real estate has been cut from 1 to 0.5 per cent.

In 2016, there are plans to further increase excise rates on most tobacco products, all alcoholic beverages and to impose excise duty on natural gas used for heating purposes. An increase is proposed, beginning from 1 January 2016, of the tax exempt amount (hereinafter – TEA) from EUR 166 to EUR 200, the TEA for disabled persons from EUR 175 to EUR 210 and for severely disabled persons from EUR 235 to EUR 270. It is also proposed to raise the additional TEA for children from EUR 60 to EUR 120. Another proposal is to reduce from EUR 3000 to EUR 500 the threshold of TEA from the disposal of securities and interest on deposits and debt securities. A longer retention period from 5 to 10 years is proposed for real estate other than a dwelling (the place of residence, declared according to the procedure established by legislation), so that if the property is retained during the said period, the income from its sale would be attributed to TEA.

Changes in spending policy in 2015–2016

In the period of 2015–2016, changes in the general government expenditure were mostly related to measures targeting individuals on lowest income and lowest earnings, i.e. increasing the pension base and insured income (pensions have been raised as from 1 July 2015 and will increase as from 1 January 2016), raising the minimum monthly wage (MMW) (as of 1 July 2015, MMW increased to EUR 325 and, as of 1 January 2016, will be raised to EUR 350) and increasing the wages of the lowest earning cultural and art workers, social workers, pre-school education teachers, officers of the system of internal service in the years 2015–2016. Changes in expenditure policy (together with the TEA and increase of additional TEA) will not only improve the situation of those on lowest income and earnings, but will also encourage domestic consumption.

As draft Law on Approval of Financial Indicators of the State Budget and Municipal Budgets for 2016 was prepared, consideration was made of the ending investments of EU‘s 2007–2013 programming period and the need to stimulate the country‘s economy by investment so that in planning the allocations for 2016 a significant attention was given to gross fixed capital formation by general government finances. It is projected that, apart from EU and other international financial assistance, the general government expenditure for gross fixed capital formation as a percentage of GDP will increase in 2016 (2.5 per cent of GDP) compared to 2015 (2.4 per cent of GDP).

Table 9. Funding for education, health care and employment

	Budget of 2015		**Draft budget of 2016**	
	million EUR	% of GDP	million EUR	% of GDP
Education				
In State and municipal budgets excluding EU and other international financial assistance	1100	3.0	1109	2.9
Health care				
In the State budget excluding EU and other international financial assistance	527	1.4	534	1.4
Expenditure of the Compulsory Health Insurance Fund excluding allocations from the State budget	965	2.6	1015	2.6
Total	1492	4.0	1549	4.0
Employment promotion				
Active employment promotion measures (in the State Social Insurance Fund budget)	29	0.1	29	0.1
Labour Exchange Administration (in the State budget)	21	0.1	21	0.1
Total	50	0.1	50	0.1

Table 10 (2a). General government budgetary targets broken down by subsectors

	ESA code	2015	2016
		% GDP	% GDP
Net lending (+) / net borrowing (–) (B.9) by sub-sector			
1. General government	**S.13**	-0.9	-1.3
2. Central government	**S.1311**	-0.6	-1.0
3. State government	**S.1312**		
4. Local government	**S.1313**	0.1	0.0
5. Social security funds	**S.1314**	-0.4	-0.2
6. Interest expenditure	**D.41**	1.7	1.6
7. Primary balance		0.8	0.3
8. One-off and other temporary measures		0.1	-0.1
9. Real GDP growth (%)		1.9	3.2
10. Potential GDP growth (%)		2.8	3.3
contributions:			
- labour		0.6	0.9
- capital		1.3	1.3
- total factory productivity		1.0	1.1
11. Output gap (% of potential GDP)		-0.2	-0.3
12. Cyclical budgetary component (% of potential GDP)		-0.1	-0.1
13. Cyclically-adjusted balance (1 – 12) (% of potential GDP)		-0.8	-1.2
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.9	0.4
15. Structural balance (13 – 8) (% of potential GDP)		-0.9	-1.1*

* The increase in government structural deficit in 2016 from 1 % of GDP to 1.1% of GDP is contributed by the costs of the pension reform, i.e. implementation of its systemic part in 2016.

The structural general government balance indicator was determined by subtracting the cyclical component (obtained by multiplying the output gap by the elasticity of the general government balance indicator) from the general government balance indicator. The value of elasticity of the general government balance corresponds to the respective European Commission estimate and equals 0.413. Calculation of the structural general government balance indicator took into account the following one-off measures: the revenue and expenditure of the state-owned company “Deposit and Investment Insurance“ related to insured events (in 2015, one-off receipts will exceed expenditure by 0.4 per cent of GDP; in 2016, expenditure will exceed revenue by 0.1 per cent of GDP); the revenue and expenditure of the Climate Change Programme (the revenue-expenditure gap equals 0.1 per cent of GDP in 2015 and 0 per cent of GDP in 2016); the obligations concerning compensation for wages arising from the law on the restitution of part of the wages (salaries) that have been disproportionately reduced due to economic crisis to persons of the Republic of Lithuania who are paid for work from the State or municipal budgets (in 2015 – post-tax amount of 0.2 per cent of GDP).

General government debt

It is estimated that general government debt will make up 42.9 per cent of GDP at the end of 2015. Excluding the planned funds accumulation for the redemption of Eurobonds worth EUR 1 billion at the beginning of 2016, the debt would account for 40.2 per cent of GDP. It is also estimated that the residual maturity of central government debt will account for approximately 6 years at the end of 2015, and approximately 5.9 years at the end of 2016. Short-term liabilities will account for 11 and 9 per cent, respectively. The floating interest rate debt will account for 0.2 per cent in 2015 and 2016. Taking financial derivatives into account, central government debt will amount to 100 per cent denominated in euros in 2015 and 2016.

Table 11 (2b). General government debt development

	% of GDP	
	2015	**2016**
1. Gross debt as of year-end	42.9*	40.8
2. Change in gross debt ratio	2.1	-2.1
Contributions to changes in gross debt		
3. Primary balance	-0.6	-0.3
4. Interest expenditure	1.7	1.6
5. Stock-flow adjustment	1.8	-1.5
Implicit interest rate on debt	4.0	4.0

***** Disregarding possible accumulation of funds aimed to manage refinancing risk of the Eurobond redemptions, the general government debt would stand at 40.2 per cent of GDP at the end of 2015. The projections do not reflect the deduction of FISIM.

Taking into account the guarantees planned to be provided in 2015, including the state-supported loans in compliance with the Law of the Republic of Lithuania on Higher Education and Research, the Government-guaranteed debt is projected to remain stable at 1.1 per cent of GDP in 2015 and 2016.

Table 12 (2c). Contingent liabilities

Indicator, % of GDP	2015	2016
Public guarantees	1.1	1.1
of which: linked to the financial sector	0.0	0.0

3. Expenditure and Revenue Projections under the no-policy change scenario

Table 13 (3). General government expenditure and revenue projections at unchanged policies broken down by main components

General government (S13)	ESA code	2015	2016
		% GDP	% GDP
1. Total revenue at unchanged policies	**TR**	35.1	34.0
1.1. Taxes on production and imports	**D.2**	11.6	11.5
1.2. Current taxes on income, wealth, etc.	**D.5**	5.6	5.7
1.3. Capital taxes	**D.91**	0.0	0.0
1.4. Social contributions	**D.61**	12.0	11.9
1.5. Property income	**D.4**	0.4	0.3
1.6. Other		5.4	4.6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		29.2	29.0
2. Total expenditure at unchanged policies	**TE**	36.1	34.7
Of which:			
2.1. Compensation of employees	**D.1**	9.4	9.1
2.2. Intermediate consumption	**P.2**	5.2	5.0
2.3. Social payments	**D.62 D.632**	12.8	12.5
Of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure	**D.41**	1.7	1.6
2.5. Subsidies	**D.3**	0.3	0.3
2.6. Gross fixed capital formation	**P.51**	3.9	3.5
2.7. Capital transfers	**D.9**	0.6	0.5
2.8. Other		2.1	2.3

4. General government revenue and expenditure targets

Table 14(4a). General government expenditure and revenue targets, broken down by main components

% GDP	ESA code	2015	2016
General government (S13)			
1. Total revenue target	**TR**	35.4	34.0
1.1. Taxes on production and imports	**D.2**	11.8	11.6
1.2. Current taxes on income, wealth, etc.	**D.5**	5.7	5.5
1.3. Capital taxes	**D.91**	0.0	0.0
1.4. Social contributions	**D.61**	12.1	12.0
1.5. Property income	**D.4**	0.4	0.3
1.6. Other		5.4	4.6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		29.5	29.1
2. Total expenditure target	**TE**	36.3	35.3
2.1. Compensation of employees	**D.1**	9.5	9.3
2.2. Intermediate consumption	**P.2**	5.2	5.0
2.3. Social payments	**D.62+D.632**	13.0	12.9
Of which Unemployment benefits		0.3	0.3
2.4. Interest expenditure	**D.41**	1.7	1.6
2.5. Subsidies	**D.3**	0.3	0.3
2.6. Gross fixed capital formation	**P.51**	3.9	3.5
2.7. Capital transfers	**D.9**	0.6	0.5
2.8. Other		2.1	2.2

Table 15 (4b). Amounts to be excluded from the expenditure benchmark

Indicator	ESA code	2014		2015	2016
		EUR million	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		725.5	2.0	2.6	2.0
2. Cyclical unemployment benefit expenditure		0.0	0.0	0.0	0.0
3. Effect of discretionary revenue measures		-17.6	-0.1	0.3	0.0
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0

5. Discretionary measures included in the Draft Budget

Table 16 (5a.i). Discretionary revenue measures taken by general government

Measure	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP			
					2015	2016	2017	2018
"VAT Invoices Register" is the collection and verification of electronic VAT invoices	Enterprises selected on the basis of risk analysis must submit a monthly (beginning from June 2015) register of received and issued VAT invoices. If discrepancies have been identified, control actions shall be initiated. The measure has indirect relevance to the trade partners of the taxpayer who has been instructed to submit registers.	**D2**	Accrual	Approved, in the process of implementation by the STI	0.12	-	-	-
Increasing of the TEA rates	To increase the TEA rate from EUR 166 to EUR 200, to increase the rate of the additional TEA for children from EUR 60 to EUR 120 and to increase the individual TEA rates for the disabled.	**D5**	Accrual	Approved by the Government, provided for in the Draft Budget	-	-0.17	-	-
Raising of the minimum monthly wage (hereinafter –MMW)	To increase the MMW to EUR 350, beginning from 1 January 2016, (including the increase in MMW to EUR 325 as of 1 July 2015)	**D5**	Accrual	Approved by the Government, provided for in the Draft Budget	0.01	0.02	-	-
		D61	Accrual		0.03	0.09	-	-
Abolition of the VAT relief on domestic central heating and hot water	From 1 January 2017, the reduced 9% VAT rate for domestic central heating and hot water will be abolished.	**D2**	Accrual	Approved by the Seimas	-	-	0.14	-
Broadening of the social insurance base	Imposition of an obligation on the owners of personal enterprises, members of small partnerships and general partnerships to pay social insurance contributions derived from the declared amount of funds for personal needs which shall not be less than the minimum monthly wage and exempting from said contributions during the first year of activity	**D61**	Accrual	Approved by the Seimas	0.06	-	-	-
VAT reduction for accommodation services	As from 1 January 2015, a 9% VAT rate is applied to accommodation services.	**D2**	Accrual	Approved by the Seimas	-0.02	-	-	-
Imposition of the excise	To impose, as from 1 January 2016, the	**D2**	Accrual	Approved by the	-	0.01	-	-

Measure	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP			
					2015	2016	2017	2018
tax on natural gas used for heating purposes	excise tax on natural gas used for heating purposes			Government, provided for in the Draft Budget				
Imposition of the excise tax on gas oil used for agricultural purposes	As from 1 July 2015, a minimum excise rate has been imposed on gas oils used for agricultural purposes	**D2**	Accrual	Approved by the Seimas	0.01	0.02	-	-
Increase of excise rates on tobacco	To increase excise rates on tobacco products as from 1 January 2015, 1 March 2015, 1 March 2016, 1 March 2017 and 1 January 2018.	**D2**	Accrual	Approved by the Government, provided for in the Draft Budget	0.02	0.03	0.03	0.02
Increase of excise rates on ethyl alcohol and alcoholic beverages	To increase excise rates on ethyl alcohol and alcoholic beverages as from 1 March 2015, 1 March 2016, 1 March 2017 and 1 March 2018.	**D2**	Accrual	Approved by the Government, provided for in the Draft Budget	0.04	0.03	0.02	0.02
Other discretionary measures	Calculation of the taxable value of land derived from the average market value of land; lowering the non-taxable threshold and rate of the value of real estate of natural persons; reduction of the non-taxable threshold of interest rates on deposits and debt securities as well as the income from the sale of securities	**D5**	Accrual	Approved by the Seimas, provided for in the Draft Budget	0.01	0.01	0.01	-
TOTAL:					**0.28**	**0.04**	**0.20**	**0.05**

*Discrepancies possible due to rounding

Table 17(5a.ii). Discretionary expenditure measures taken by general government

Measure	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP BVP			
					2015	2016	2017	2018
Raising of the MMW of the employees of the State budget and municipal budget appropriation managers	To increase the MMW of the employees of the State budget and municipal appropriation managers to EUR 350, beginning from 1 January 2016 (including the increase of MMW to EUR 325 as of 1 July 2015)	**D1**	Accrual	Approved by the Government, provided for in the Draft Budget	-0.03	-0.10	-	-
Raising of the pensions paid from the State Social Insurance Fund budget	Increase of pensions as a result of raising the basic pension and the increase of insured income as from 1 July 2015 and from 1 January 2016	**D62 + D632**	Accrual	Approved by the Government, provided for in the Draft Budget	-0.09	-0.27	-	-
Raising of salaries of culture and art workers	Increase of salaries of culture and art workers as from 1 July 2015 and as from 1 July 2016	**D1**	Accrual	Approved by the Government, provided for in the Draft Budget	-0.01	-0.03	-	-
Raising of wages of officers of the system of internal service and implementation of the provisions amending the Law on Civil Service	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 amending the Law on Civil Service	**D1**	Accrual	Approved by the Government, provided for in the Draft Budget	-	-0.06	-	-
Raising of pensions and social benefits financed from the State budget	State pensions to mothers who have raised 5 children up to age 8 and have brought them up properly; social benefit payments resulting from increases in the basic pension and insured income will be financed from the State budget	**D62 + D632**	Accrual	Approved by the Government, provided for in the Draft Budget	-0.03	-0.04	-	-
Implementation of the systemic pension reform	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 will be transferred to pension funds	**D62 + D632**	Accrual	Approved by the Seimas	-	-0.09	-	-
End of payments from Structural Funds support for the 2007-2013 financial period after the year 2015	Co-financing expenditure for investment of the Structural Funds support for the 2007-2013 financial period will not be continued after the year 2015	**D1, P2, P51**	Accrual	Approved by the Government, provided for in the Draft Budget	-	0.11	-	-
Raising the wages of social workers	Increase of wages of social workers as from 1 January 2016	**D1**	Accrual	Approved by the Government, provided for in the Draft Budget	-	-0.02	-	-
TOTAL:					**-0.16**	**-0.49**	**-**	**-**

6. Links between Lithuania's Draft Budgetary Plan and targets set by the European Union's Strategy for Growth and Jobs and country specific recommendations

Table 18 (6.a). Recommendations to Lithuania (country specific recommendations, CSRs)

CSR	List of measures	Description of direct relevance
1. To avoid deviation from the medium-term objective in 2015 and to ensure that the 2016 deviation is limited to the allowance linked to the systemic pension reform. To expand tax framework and to improve tax compliance	**1.1.** To improve public finance monitoring system by including information on the estimated indicators of the current-year municipal budget implementation provided by local government subsector entities.	The estimated current-year financial outcomes projections, as drafted and submitted by municipalities, provide a possibility to receive more accurate data to monitor public finances.
	1.2. To improve provisions of the Reserve Fund with a view to accumulating and efficient management of financial resources (reserves) for the austerity period, and to define cases for the use of these reserves.	The reserve of public financial resources (reserves) will contribute to the public financial stability during the austerity period. The draft Reserve (Stability) Fund provides for the additional sources of funds.
	1.3. To draft legal amendments to the Law on Fiscal Discipline.	It is planned to ensure, at the level of the law, to carry out monitoring of fiscal indicators of all public entities, entity groups, and the entire public level, to timely identify problems related to finance management, and to apply appropriate measures. Liability for inappropriate monitoring is foreseen. This measure will allow efficient determination of problems related to public finance sustainability.
	1.4. To draft the State Budget for 2016, the 2016 Budget of the Compulsory Health Insurance Fund, and the 2016 Budget of the State Social Insurance Fund.	All the draft budgets will ensure compliance with the legal acts regulating public fiscal discipline and the deviation from the medium-term objective that does not exceed the allowed limits.
	1.5. To make use of the findings of the cost-effectiveness analysis of the Lithuanian Government carried out by the International Monetary Fund (IMF) in June 2015, in drawing up state budget and budgets attributable to social funds sector.	Savings in the budget of education, health and social security, will serve as extra funding for structural reforms or improved government balance.
	1.6. To draft implementing legislation amendments for the Law on Tax Administration regulating information provided by financial market participants (opening and closing of individual accounts, turnovers, balances, interest, debt obligations, securities, insurance premiums); information provided by legal persons (personal monetary contributions, liabilities, as well as services delivered by foreign legal persons from abroad), and information provided by the people (about the sources of income and acquisitions, and supporting information) to the tax administrator.	Streamlined provision of information to the tax authorities to collect enough data for fast identification of tax default risks; to control the validity of sources of assets and income; to tax unreported income, including the one acquired through illegal "shadow" activities.
	1.7. To provide the tax administrator with the right to formulate a tax	More efficient recovery of due taxes, restricting possibilities for default

	obligation to the tax payer based on the available information, and enforce its recovery if the taxpayer fails to submit the tax return. To enable the tax administrator to instruct the taxpayer to make non-cash settlement, where there is a risk of default in the case of cash settlement. The law will enter into force on 1 January 2016.	in cash paying cases.
	1.8. To restrict cash settlements.	Reduction of scale of unaccounted economy.
	1.9. To introduce the latest technological solutions based on the tax administration information system (Smart System of Tax Administration, i.MAS): - To draft amendments, for the purpose of i.MAS, to the Law on Tax Administration, as well as to the implementing laws on Value Added Tax and the Road Transport Code. - To introduce analysis and risk management subsystems for electronic invoicing, electronic bills of lading.	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, thus enabling 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.
	1.10. To carry out a VAT invoice-related project obliging high-risk taxpayers to periodically submit the details of VAT invoices.	Based on the obtained data, the VAT invoice cross-check is done to identify risky transactions with fraud suspects or tax defaulters.
	1.11. To introduce a standard accounting data file, which is compiled and given for tax inspection purposes.	More efficient tax administration, decreased control procedures, introduction of a standard of reporting to public administration institutions.
	1.12 To carry out the following specific projects: “Wheels”, “Transparent Production”, “Show Without Shadows”, “Responsible Construction”, “Unprofitable Business”, “Sports”, “Wood”.	Proper and timely taxpayer compliance and tax collection assurance.
2. To 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, as well as through improved generic skills-related results and health care results; to reduce the heavy tax wedge on low-income earners by shifting the tax burden to	**2.1.** To launch a new apprenticeship enhancement project (master training, wage compensation, compensation for training material used by companies for apprenticeship purposes).	Wider application of work-based learning, thus involving employers more closely in the process of vocational training.
	2.2. To participate and implement the Estonian-Latvian-Lithuanian project “Work-based learning, WBL-BALT” for improved vocational training.	Experience exchange between the Baltic countries in reforming vocational training, especially as regards practical work-based learning and apprenticeship.
	2.3. To adjust vocational training programmes to the economic and regional needs: to develop 20 modular training programmes and 5 professional standards.	Development of a modern system of vocational training.
	2.4. To achieve a better match of workforce skills with the labour market demands, provide for vocational activation services under the ESF project “Creation and Development of Career Education and Monitoring Models in General Education and Vocational Training”.	Better availability and quality of vocational (career) guidance.

other sources of taxation that have lower adverse effect on economic growth	**2.5.** To open thirteen labour market training centres.	Guaranteed high-quality skills in the education and training system.
	2.6. To launch the project under EEA scholarship programme "Transfer of Norwegian experience in adult education in Lithuania", intended to develop adult non-formal education services.	Development of non-formal adult education services.
	2.7. To draft by-laws to implement the Law amending the Law on Non-formal Adult Education and Continuing Education: Non-formal adult education and continuing education development programme for 2015-2022; Methodology for funding of learning under the non-formal adult education and continuing education programmes; Description of procedures for quality assurance in publicly (state or municipality) funded non-formal adult education and continuous education, self-assessment, external assessment, participants' progress and achievements.	Development of adult lifelong learning scheme to help adults adjust to the changing labour market requirements. The increased level of lifelong learning among those in the age bracket 25-64.
	2.8. To develop the current platform for adult non-formal distance learning: Adult Learning Information System (SMIS).	Promotion of provision of generic skills for lifelong learning to different target groups.
	2.9. To co-ordinate and promote initiatives for the development of institutional partnership-based lifelong learning in vocational training establishments and universities.	Implementation of non-formal adult education programmes.
	2.10. To launch the project: "Implementation of Agenda for Adult Learning 2015-2017"	Coordinated inter-institutional cooperation in adult lifelong learning.
	2.11. To participate in international and national lifelong learning and adult education studies.	More targeted approach applied in developing non-formal education and training programmes.
	2.12. To create and develop high-school graduates' employment and career monitoring system, to regularly update the Lithuanian economic projections, to plan higher education admissions based on the data of the system: to introduce links with databases of State Social Insurance SODRA, the State Tax Inspectorate, Lithuanian Labour Exchange, Residents' Register (this will facilitate the transition to continuous monitoring of graduate career) and to draw up analysis of tracking the link between graduate qualifications and actual jobs.	Specialist qualification mapping results will be used for the implementation of public policy in the fields of formal and non-formal education, qualifications frameworks, lifelong learning, R&D, including for planning of state-funded admissions, ear-markings for studies, external assessment and accreditation of research and academic institutions, study programmes, establishment of research and studies institutions, reformation, issuing licences to provide studies and/or engage in studies-related activities and their monitoring, information of the public and the stakeholders on graduate career, education supply and other issues, as well as other functions provided for by law.
	2.13. To link occupations subgroups of the Lithuanian Classification of Occupations with the study and training programmes.	Conditions to establish whether employee works according to the qualifications acquired will be provided.
	2.14. To implement 2007–2013 programme on reducing morbidity and mortality from major non-communicable diseases as well as from external	The investment will provide for reduced morbidity and mortality from major non-communicable diseases, preserve the maximum ability to

	causes, which aims to deliver essential high-quality and affordable health care services, through the investments in the modernization of health care infrastructure and introduction of modern technologies, improvement of the prevention of major non-communicable diseases, with a view to reducing negative impact of health problems.	work and extend healthy life expectancy. Early diagnosis, a shorter time for precise diagnosis, emergency aid by qualified and specialized health care services will have a positive impact on labour productivity in the country.
	2.15. 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.
	2.16. To develop a more efficient and more accurate monitoring model for health inequality indicator.	The model developed will enable faster measurement and more uniform interpretation of the scale of inequalities and a more accurate selection of interventions for their reduction by directing them to priority problem territories.
	2.17. To develop a model for evaluation of health condition outcomes.	Preconditions will be provided for objective assessment of health care activities against final health care performance results.
	2.18. To develop measures to reduce and eliminate unofficial payments in health care.	Introduced single system for monitoring and evaluation of corruption instances in health care. It is expected to achieve corruption intolerance rate among health care workers (percentage of all medical staff) in 2016 – 50 per cent; 2017 – 45 per cent; 2018 – 40 per cent; 2019 – 35 per cent., and the Lithuanian population that have bribed public officials over the 12 months (percentage of Lithuania's population) in 2016 – 24 per cent; 2017 – 23 per cent; 2018 – 22 per cent; 2019 – 21 percent.
	2.19. To implement the anti-corruption initiative of "Clean Hands" among the Lithuanian national health institutions.	Regulation of assessment of health care institutions in terms of corruption, and establishment of anti-corruption index.
	2.20. To draw up proposals on increased non-taxable income rate (NPD), and submit them together with draft laws on financial indicators of state and municipal budgets.	Increased non-taxable income rate would alleviate the current tax burden for the low-income individuals.
	2.21. To tax landfill operators through a landfill tax.	Expanding environmental tax base.
	2.22 To increase excise tax rate for alcohol and tobacco.	Increased excise taxes will enable shifting the taxation burden on those sources that are of lower economic detriment.
	2.23. To draft conclusions on regulations on fees for environmental pollution from transport, in view of the ongoing study on the criteria for the level of the fee based on the experience of other countries and the available statistics, and proposals on vehicle taxation in Lithuania, justifying the proposed tariff levels and projected outcomes.	Environmental pollution fee and vehicle taxation would allow shift the tax burden on those sources on those sources that are of lower economic detriment.
3. To carry out a comprehensive reform of the	**3.1.** To draft legislation with a view to reforming social security pensions, strengthening the link between the contribution and the benefit: to separate	Long-term increase of financial sustainability in pension scheme and sufficiency of benefits.

pension scheme, which would also address the problem of the adequacy of pensions. To increase the coverage and adequacy of unemployment benefits and cash social assistance of and to facilitate employment for job seekers.	basic pension share from that of social insurance, and to finance them from general taxes.	
	3.2. To extend the retirement age.	In 2015, the retirement age of women – 61 year and 4 months, men – 63 years and 2 months. The long-term goal is to achieve, by 2026, 65 years of the retirement age. Post 2026, to continue increasing it depending on the growing life expectancy.
	3.3. To establish clear indexation, based on clear criteria, taking into account the economic conditions and demographic indicators.	Provided annual automatic indexation of social security pensions against rolling average of payroll growth.
	3.4. To change calculation of work incapacity pension.	Provisions for work incapacity pensions to be linked to the established individual capacity level.
	3.5. To improve legal regulation on cash social assistance to the deprived residents, by extending the list of circumstances preventing from proportional reduction of cash social assistance.	Ensured adequacy of cash social assistance, i.e. the deprived become subject to state support, where their unemployment relies on objective reasons.
	3.6. To provide greater social security to the unemployed through the increased (in terms of amount, time and recipient coverage) unemployment insurance benefit.	Increased adequacy of unemployment insurance benefit, along with a wide coverage of recipients.
	3.7. To regulate labour relations more flexibly in the Labour Code.	Preconditions provided for growing employment.
	3.8. To facilitate a more efficient employment of social assistance recipients through municipally-organized employment encouragement programmes, as well as through active labour market measures and through prepaid service vouchers.	Increased inclusion of social beneficiaries in active labour market measures.
	3.9. To apply active labour market policy measures for individual groups of the unemployed under priority selection procedures, with consideration to the age of the unemployed, duration of unemployment, qualifications.	Faster integration into the labour market of senior, lower-skilled and long-term unemployed.
	3.10. To introduce a new apprenticeship recruitment employment measure, where individual practical training is organized in the workplace, and the theoretical part is provided in vocational education school.	Greater inclusion of employees through the learning mechanism will help maintain and enhance their skills.
	3.11. Arrange for internships of up to 6-month as unpaid period of work-placement for the development, restoration or improvement of professional skills or professional qualifications.	Increased motivation among the unemployed to gain work-skills through the internship, thus helping them to avoid long-term unemployment.
	3.12. To provide for the compensation for increased travel and accommodation expenses incurred by the unemployed due to the new job or apprenticeship or job training or participation in supported employment measure.	Increased motivation among the unemployed to work away from the place of residence.

	3.13. To develop a programme for motivation of the seniors and their involvement in volunteering.	Extended participation of the seniors (54+) in the labour market, and facilitated return for those who have left it.

Table 19 (6.b). Targets set by the Union's Strategy for growth and jobs

National targets under the Europe 2020 strategy	List of measures	Description of direct relevance to address the target
National employment target is 72.8 per cent.	To modernize the regulation of labour relations by adopting a new Labour Code: • Extended list of the types of employment contracts; • Simplified dismissal procedure; • Change of Employment contracts; • Regulation of overtime work.	Liberalization and simplification of employment relations will stimulate the creation of new jobs and demand for labour.
	To support the Professional development of employees ("Human Resources Invest LT+", "Competency Vouchers", "Innovation Training", "Apprenticeship", "Competence LT"). For the implementation of these measures in 2016, it is planned to allocate 15.6 million EUR from EU Structural Funds.	Different types of measures will be introduced to support the professional development and improvement of competence of employees of business entities.
	To target active labour market policy measures to certain groups of the unemployed on the basis of the priority selection procedure and taking into account the unemployed person's age, duration of unemployment and qualifications.	Participation of the unemployed labour resources in the labour market will be increased.
	To implement the Youth Guarantee Action Plan.	A swift and sustainable school-to-work transition of young people will be ensured, youth unemployment will be reduced.
	To promote the development of adult education services and adult learning. For the implementation of this measure in 2016, it is planned to allocate 261 000 EUR from EU Structural Funds.	General and basic competencies of adults will be improved and provision of education services to different groups of learners will be expanded.
National R&D investment target is 1.9 per cent of GDP.	To support activities which promote the innovative potential of business. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 681 000.	Measures will be implemented to encourage business investment in R&D infrastructure. Support will be provided to applied research promoting the development of innovation, establishment and development of high value-added business, participation in international innovation-related programmes and projects. The legislative and taxation framework as well as the regulatory and other environment, which is conducive to the implementation of innovation, will be improved. The state and business companies will share investment risk, which is taken

		on by business companies as they seek to become innovative, create new products, implement new technologies and modernise production. Possibilities for the cooperation of business and scientific institutions by applying various forms and models of partnership as well as commercialisation of innovation will be expanded. The procedures for the issue of patents and licensing will be improved and clusterization and networking will be encouraged.
	To achieve a stable annual growth of 0.04-0.05 per cent of public financing of R&D so as to attain the share of public funding of R&D of 1 per cent of GDP in 2020.	Public investment in R&D, particularly, in R&D infrastructure, is a fundamental pre-condition for attracting private investment in R&D – for an increase in private investment additional measures are necessary.
	To increase the share of private funding of R&D: • to improve the accounting and declaration of R&D services and results by business companies; • to improve the accounting and declaration of R&D services and results by public research organizations; • to create an attractive and efficient performance-oriented remuneration system in public research organizations, to enable the organizations to earn in the market and reinvest their earnings. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 1.99 million.	A significant part of earnings from R&D received by institutions of science and study (ISS) and, particularly, by business companies are not brought into their books of account and, therefore, are not included in statistical data, do not reflect the actual situation and thus contribute to a negative view of effectiveness of support to R&D activities. The Ministry of Education and Science, in order to implement EU Structural Funds measures for 2014-2020 intended for supporting R&D activities carried out by ISS, will request from ISS (project applicants) to record the income earned from R&D results in separate accounts. A favourable organizational structure, individual reward system and cultural environment will be implemented: institutions of science and study (hereinafter – ISS), having the status of a public institution, will be able to generate income by bringing to the market R&D results obtained by their research staff and use these earnings for R&D activities, in addition to the support granted by the state.
	To facilitate R&D specialization, encourage innovations based on R&D. For the implementation of this measure in 2016, it is planned to allocate EUR 14.583 million from EU Structural Funds.	To direct national resources towards the most promising fields of science and knowledge-intensive businesses that generate high added value.
	To increase the integration of the Lithuanian R&D system into the EU R&D services markets. For the implementation of this measure in 2016, it is planned to allocate EUR 3.277 million from the State Budget, of which EUR 1.547 million will be the Swiss financial assistance.	Development of competencies of scientists and other researchers related to their participation in international R&D programmes. Development of adequate R&D infrastructure conducive to cooperation and integration into international infrastructures.
	To extend the commercial and non-commercial use of R&D results.	The planned establishment of a science popularization system should bring society closer to science. The R&D results produced by researchers of ISS may benefit many aspects of social life (including medicine, food

		safety, transport system, public administration, etc.), also, if used appropriately, these results may provide a large commercial benefit to national economic entities. The visible benefit of R&D activities to society and economic development should stimulate the increase in the volume of R&D orders.
	To enhance the human potential for the development of smart specialization strategies. For the implementation of this measure in 2016, it is planned to allocate EUR 5.915 million from EU Structural Funds.	- promoting children’s interest in technological sciences, in researcher’s, science manager’s, etc. profession; - training of future scientists and other researchers in order to enhance research potential; - training of science managers as well as researchers with managerial skills; - training of private and public sector specialists who will use the generated R&D results (for public needs, introduction in the market, etc.) (also, supplying trained employees to rapidly growing industries, such as IT sector).
National greenhouse gas emissions (change in emissions from the 2005 levels in per cent and in millions of tonnes of CO_2) target is 15 per cent.	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; 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; Sectoral programmes and plans: 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; 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; 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.	Results to be achieved in 2016: - Industries excluded from the EU ETS will not exceed the annual permitted GHG emissions threshold of 14.019 million tonnes of CO_2 equivalent, established for Lithuania; - The share of renewable energy sources in the final energy balance will make up 25 per cent; - The efficiency of final energy consumption will increase by 9 per cent compared to 2010; - The share of GDP intended for the implementation of climate change mitigation and adaptation will make up 0.32 per cent.
National renewable energy sources consumption target is 23 per cent.	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.	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

	The Action Plan for the Implementation of the National Strategy for the Development of Renewable Energy Sources in 2010–2015 approved by Oder No 1-180 of the Minister of Energy of the Republic of Lithuania of 23 June 2010. The Law No *XI-1375* of the Republic of Lithuania on Energy from Renewable Sources. Envisaged promotion measures: • fixed rate; • purchase of energy from renewable sources; • reimbursement of the costs of connection of renewable energy installations to energy grids or systems; • reservation of the capacity and transfer capability or other relevant technical parameters of energy grids or systems for connection of renewable energy installations; • priority of transmission of energy from renewable sources; • release of electricity generators from responsibility for balancing of generated electricity and/or reservation of electricity generation capacities during the promotion period; • support for production and processing of agricultural commodities, namely, raw materials for the production of biofuels, biofuels for transport, bio lubricants and bio oils; • the requirements in relation to mandatory use of renewable energy sources for energy production and/or mandatory consumption of energy from renewable sources, also the requirements for the use of biofuels for transport; • support of investments in renewable energy technologies; • other privileges established by laws (e.g. excise duty relief for biofuels)	imported polluting fossil fuels and thus increase the safety of energy supply, energy independence and contribute to the international efforts to reduce the emissions of greenhouse gases. Ensuring a 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.
National energy efficiency target is 740 ekWh	The Programme for the Renovation (Modernization) of Apartment Blocks; The Energy Efficiency Enhancement Programme. For the implementation of this measure in 2016, it is planned to allocate EUR 115.3 million, of which EUR 11.3 million will come from the State Budget and EUR 104 million from EU Structural Funds.	Renovation of apartment blocks and public buildings in order to increase the efficiency of energy consumption. The energy performance of modernized buildings has to be in class C.
	Modernization of Street Lighting Systems.	Modernization of street lighting systems to reduce electricity consumption. After implementation of the project, electricity consumption has to decrease by at least 40%.
The National target is to	To increase children's access to pre-primary and pre-school education. For the	Modernized pre-primary and pre-school education spaces, spaces in

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	implementation of this measure in 2016, it is planned to allocate EUR 1.299 million from the State Budget, of which EUR 1.194 million from EU Structural Funds.	learning institutions are better adapted to the providers of pre-primary and pre-school education programmes, needs of families when combining work and family responsibilities are better met. Modernized pre-school education schools (renovated institutions, new school places created at schools providing pre-primary and/or pre-school education programmes). New innovative pre-school education models will be adopted.
	To legalize compulsory pre-school education for children who reach 6 years of age in that calendar year. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 1.448 million.	Legal pre-conditions will be created to guarantee equal opportunity for all children to prepare to study under the primary education programme and help parents (guardians) to create the conditions for early childhood education.
	To develop and introduce an up-to-date education content and new forms of educational organization. For the implementation of this measure in 2016, it is planned to allocate EUR 242 000 from the State Budget, of which EUR 213 000 from EU Structural Funds.	Education process implemented in a different way: productive learning model will be implemented (in 7 schools), schools will be provided with methodological support. Thus, students' learning options will be increased, the educational needs of students experiencing difficulties in learning and those who have lost motivation for learning will be met by combining their studies at school and practical training in a workplace. Flexible modular vocational training programmes based on practical training in a workplace will be developed considering the household supply and employers' demands as well as increasing the accessibility of vocational training programmes to youth and adults, the working and the unemployed. Employers' involvement will be achieved by implementing theoretical and practical training in a workplace as well as education organized in the form of an apprenticeship, low-skilled individuals will be provided with more flexible conditions to gain qualifications in a workplace, thus reducing the risk of their withdrawal from the labour market or the educational system.
	To enhance the learning opportunities of children with special education needs. For the implementation of this measure in 2016, it is planned to allocate EUR 1 million from EU Structural Funds.	A variety of education forms will be developed and access to educational support in general education schools will be improved. Provision of integrated educational assistance, social, health care services to children and their parents will be developed in municipalities. Reduction of the number of children in special schools and special education centres 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.
	To implement bullying, bad habit prevention and other prevention as well as pupil assistance programmes.	Increased variety of preventive programmes and coverage of schools participating in the implementation of violence and bullying prevention programmes.
	To increase the variety and accessibility of non-formal education of children. For the implementation of this measure in 2016, it is planned to allocate EUR 476 000 from EU Structural Funds.	More children participate in non-formal education of children and improve general and subject competencies.
	To provide career development services. For the implementation of this measure in 2016, it is planned to allocate EUR 290 000 from EU Structural Funds.	Ensuring 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 update vocational training programmes according to household and regional needs. For the implementation of this measure in 2016, it is planned to allocate EUR 681 000 from EU Structural Funds.	For the creation of a well-developed modern 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.
National target is to achieve that the percentage of persons aged 30–34 with tertiary or equivalent education reaches 48.7 per cent.	To modernize the infrastructure of studies with a view to improving the quality of studies. For the implementation of this measure in 2016, it is planned to allocate EUR 1.17 million from the State Budget, of which EUR 994 400 from 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. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 9.833 million.	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 improve the competitiveness of higher education. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 927 000.	Better match to labour market needs. Increasing (international) knowledge about and the prestige of the Lithuanian higher education schools, popularization of studying in Lithuania.

	To promote the development of adult education services and adult learning. For the implementation of this measure in 2016 it is planned to allocate from the State Budget EUR 290 000.	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 develop the system of monitoring the assessment of the progress of science and study. For the implementation of this measure in 2016, it is planned to allocate EUR 456 000 from the State Budget, of which EUR 387 600 will come from EU Structural Funds.	Better quality and accessibility of studies.
National poverty reduction target – to reduce the number of persons in poverty to 814 000.	Implementation of pension reform.	Stronger relationship between social insurance pension contributions and benefits, establishment of clear indexation rules in order to retain the buying power of pension benefits. The formula for calculation of social insurance pension for lost working capacity will be changed so that the pension amount is better related to the percentage of the loss of working capacity and thus the adequacy of these pensions improved.
	Enhancement of social security of persons by adopting a new draft law on social insurance against unemployment.	Increasing the adequacy of the unemployment social insurance benefit and the coverage of recipients by increasing, in the case of unemployment, the unemployment insurance benefit and duration of its payment and expanding the benefit's coverage.
	Improvement of legal regulation of monetary social assistance to low-income residents.	Expansion of the list of circumstances in which the scheme of proportional reduction of cash social assistance would not be applied will help to ensure the adequacy of cash social assistance, i.e. state support will be guaranteed to low-income persons in the case when due to objective reasons the persons cannot get employment.
	Implementation of the transition from institutional care to family and community-based services for the disabled children and children without parental care. For the implementation of this measure in 2016, it is planned to allocate from the State Budget EUR 4 million.	Creation of a system of integrated services enabling every child's, disabled person's or his family's (guardians', carers') access to individualized services according to needs and required assistance in the community.

7. DBP and Stability Programme indicators

The general government deficit in 2015 (0.9 per cent of GDP) is projected to be lower than that set out in the Stability Programme (1.2 per cent of GDP). A better than expected outcome has been observed this year in implementation of the tax administration improvement measures that had been envisaged in the preparation of the Stability Programme, accounting for the shrinkage of the projected general government deficit in 2015 by at least 0.1 per cent of GDP. Taking into account the interim data, the local government sub-sectoral balance in 2015 is expected to be in surplus (by 0.1 per cent of GDP), though the local government sub-sector balance projection in the Stability Programme was a deficit (0.1 per cent of GDP). The revised revenue and expenditure of the state-owned company "Deposit and Investment Insurance" for 2015 contribute to the reduction of the general government deficit by 0.1 per cent of GDP. A small increase in the general government deficit (0.1 per cent of GDP) is attributable to spending for the Climate Change Programme, financed from the funds received from the sale of emission allowances and collected during previous years.

The structural general government balance indicator projected in this DBP for 2016 does not deviate from the deficit target set in the Stability Programme and will not go beyond 1.1 per cent of GDP deficit, including the costs of the systemic pension reform (0.1 per cent of GDP).

Based on the assessment of the general government nominal balance indicator for 2016, due to changes in the projected cash flows related to the state-owned company "Deposit and Investment Insurance", the general government deficit will be higher by 0.2 per cent of GDP.

Table 20 (7). Comparison of DBP and Stability Programme indicators

	ESA code	2014	2015	2016
		% of GDP	% of GDP	% of GDP
GDP growth:				
Stability Programme		2.9	2.5	3.2
Draft Budgetary Plan		-	1.9	3.2
Difference *		-	-0.6	0.0
Target general government net lending (-) /net borrowing(+)	**B.9**			
Stability Programme		-0.7	-1.2	-1.1
Draft Budgetary Plan		-	-0.9	-1.3
Difference*		-	0.3	-0.2
General government net lending (-) /net borrowing(+) projection at unchanged policies	**B.9**			
Stability Programme		-0.7	-1.2	-1.1
Draft Budgetary Plan		-	-1.0	-0.9
Difference *		-	0.2	0.2

In comparison of Budgetary Plan and Stability Programme indicators, a positive value means improvement of an indicator and a negative means worsening.

8. Methodology

Table 21 (8). Methodological aspects

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

Revenue and tax forecasts are prepared according to macroeconomic forecasts, statistical data, revenue dynamics and the information provided by state institutions. Account is also taken of the impact of the provisions of draft amendments of tax legislation, submitted together with the draft state budget plan, on the revenues for the forecasted year. 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. 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 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.