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Assessment of the 2013 national reform programme and convergence programme for LITHUANIA

Accompanying the document

Recommendation for a Council Recommendation

on Lithuania's 2013 national reform programme and delivering a Council Opinion on Lithuania's convergence programme for 2012-16

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After continued strong growth of 3.7% in 2012, Lithuania's economy is expected to remain resilient and grow by 3.1% in 2013 and by 3.6% in 2014, according to the Commission's spring 2013 forecast. Unemployment, though still high, is forecast to continue its gradual decline, from 13.2% in 2012 to 11.8% in 2013 and 10.5% in 2014. Inflation decreased to 3.2% in 2012, reflecting weaker growth in food and energy prices, and is expected to decrease to 2.1% in 2013 before picking up to 2.7% in 2014.

Overall, Lithuania is on track to meet its fiscal targets, as the headline government deficit dropped to 3.2% in 2012. Although this is still above the 3% of GDP threshold (as specified in the excessive deficit procedure), the cost of a systemic pension reform (estimated at 0.2% of GDP in 2012) can be taken into account when assessing compliance, since Lithuania's debt-to-GDP ratio is consistently below the 60% of GDP reference value. Moreover, the headline deficit **is expected to** improve to 2.9% in 2013 and 2.4% in 2014. The Commission estimates a decline in the structural deficit (the headline deficit, minus one-off and short-term measures) from 3.2% of GDP in 2012 to 2.8% in 2013 and 2014. Lithuania's medium-term objective is a structural deficit of 1% by 2016. According to the Commission, government debt is set to stabilise at around 40% of GDP in 2013 and 2014 (falling from 40.7% in 2012).

Key issues

Over the past twelve months, Lithuania has made limited progress in implementing the 2012 CSRs. There has been progress on correcting the excessive deficit and Lithuania has also advanced the reform of state-owned enterprises, implemented changes to the second pillar pension funds and strengthened the measures to fight youth unemployment. However, increased efforts on these measures would be welcome.

Lithuania still faces important challenges with regard to fiscal sustainability, unemployment and social exclusion, the interconnectedness of its energy sector and energy efficiency. Strengthening policies to get the unemployed back to work, increasing the quality and efficiency of education and accelerating investments in energy and transport links with the rest of Europe would help boost medium- and long-term growth prospects.

- **Public finances**: Although its deficit has improved over the years, Lithuania still lacks sufficient fiscal space to absorb adverse shocks to growth. Lithuania has a low overall tax burden (the lowest in the EU, at 26% of GDP in 2011) and there is scope to raise the share of less-distortive taxation by increasing property and environmental taxes. Revenues from environmental taxes amounted to 1.7% of GDP in 2011 (the second-lowest in the EU, where the average is 2.4%), which does little to encourage energy efficiency. Moreover, tax compliance could be further improved and the size of the shadow economy remains a concern and a major pension reform is needed to address the needs of an ageing population.

- **Labour market**: Youth and long-term unemployment rates remain high, at 26.4% and 6.7% respectively, pointing to underlying structural problems which weigh on growth.

Skills mismatches are increasingly a problem and could lead to labour shortages, hinting at insufficient relevance and quality of higher and vocational education as well as inadequate active labour market policies (ALMPs). This is further aggravated by high emigration (reducing population by more than 1% annually on average since 2005). Poverty and social exclusion are above the EU average (and increased from 29.5% of the population in 2009 to 33.4% in 2011). Adult participation in lifelong learning and early childhood education are amongst the lowest in the EU (5.4% compared to a 9.1% EU average in 2012) and action to reduce long-term unemployed remains insufficient.

- **Energy**: Electricity and gas links to neighbouring countries remain underdeveloped or non-existent. This hinders the development of competition in the energy sector and puts upward pressure on energy prices. Furthermore, energy efficiency is still an issue and the energy intensity of the Lithuanian economy is more than twice the EU average.
- **Research and innovation**: Lithuania remains considerably below the EU average when it comes to research and innovation (R&D intensity reached 0.92% of GDP in 2011, up from about 0.8% in previous years, though the Europe 2020 target is 1.9%). The Lithuanian science base performs poorly and collaboration between public research bodies and businesses is underdeveloped.

1. INTRODUCTION

In May 2012, the Commission proposed a set of country-specific recommendations (CSRs) on economic and structural reform policies for Lithuania. On the basis of these recommendations, the Council of the European Union adopted six CSRs in the form of a Council Recommendation in July 2012. These CSRs concerned public finances, the pension system, the labour market, poverty and social exclusion, state-owned enterprises, and energy. This Staff Working Document (SWD) assesses the state of implementation of these recommendations in Lithuania.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2013 (AGS)[1] and the second annual Alert Mechanism Report (AMR),[2] which were published in November 2012. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for action at national and EU level in 2013. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 14 Member States were selected for a review of developments in the accumulation and unwinding of imbalances.[3]

Against the background of the 2012 Council Recommendation, the AGS and the AMR, Lithuania presented updates of her national reform programme (NRP) on 9 April 2013 and of her convergence programme on 26 April 2013. These programmes provide detailed information on progress made since July 2012 and on the future plans of the government. The information contained in these programmes provides the basis for the assessment made in this SWD.

The programmes submitted went through a consultation process involving representatives of various ministries, the Bank of Lithuania and the national statistical office as well as the European affairs committee of the national parliament. Social and economic stakeholders and the general public were invited to submit proposals for consideration by the government. The government adopted the NRP on 3 April 2013.

Overall assessment

The analysis in this SWD leads to the conclusion that Lithuania has made limited progress on measures taken to address the CSRs of the Council Recommendation.

[1] COM (2012) 750 final.
[2] COM (2012) 751 final.
[3] 13 in-depth reviews were published on 10 April 2013. While selected for an in-depth review in the AMR, Cyprus was ultimately not reviewed under the Macroeconomic Imbalance Procedure in view of the advanced preparations for a financial assistance programme.

The general government deficit has continued to fall as a consequence of continued fiscal consolidation and overall favourable growth performance, and stood at 3.2% in 2012. Efforts were mainly concentrated on the expenditure side. Significant progress has been achieved in the reform of state-owned enterprises; however, regulatory and ownership functions still need to be separated. Only limited progress has been made in implementing the 2012 recommendations on pension reforms, labour markets and social exclusion.

Challenges identified in 2012 and reflected in the AGS remain valid. Consolidation needs to continue to increase fiscal space and the long-term fiscal sustainability of pensions has to be secured while safeguarding their adequacy. Although declining, unemployment, for youth and the low-skilled in particular, remains high and continues to weigh on the economy. Tackling skill mismatches by strengthening the emphasis on active labour market policies and increasing the quality and efficiency of education as well as accelerated investment in European energy and transport interconnections would help boost medium- and long-term growth prospects. Social exclusion remains a primary concern.

The NRP submitted by Lithuania comprehensively addresses the challenges identified in last year's SWD and lists actions subsequently undertaken. It demonstrates Lithuania's commitment to address the CSRs and confirms the willingness to tackle shortcomings though at times lacking focus and prioritisation. The CP lays out a path to improve Lithuania's budgetary position towards the MTO and to ensure the long-run sustainability of public finances in line with the Stability and Growth Pact.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In 2012 and early 2013, growth and employment in Lithuania showed continued strong performance and remained resilient despite a slowdown in the euro area and ongoing fiscal consolidation. Supported by strong export growth and initially robust private consumption, real GDP grew by 3.7%. However, despite falling unemployment, domestic demand tailed off as growth in household consumption dropped. In addition, public investment contracted partly in response to consolidation measures. Net exports remained strong, partially driven by an exceptional harvest and redirection of trade towards CIS countries. Inflation (harmonised index of consumer prices or HICP) decreased to 3.2% in 2012, reflecting weaker growth in food and energy prices. Employment continued to grow across all sectors in 2012 and the unemployment rate, though still high, decreased to 13.2% (from 15.3% in 2011). Young people and the low-skilled in particular continue to face considerable challenges on the labour market.

Economic outlook

According to the Commission 2013 spring forecast, growth is set to remain strong, but its composition is expected to change. Lithuania's real GDP is projected to grow by 3.1% in 2013 and by 3.6% in 2014. In particular, private investment is expected to pick up, as credit is in principle available, interest rates are at a historical low, and companies have significant reserves to finance potential investment. Additionally, capacity utilisation is above its long-term average, and a majority of businesses plan to increase their investment in 2013. Inflation is forecast to decrease to 2.1% in 2013 before picking up to 2.7% in 2014. Job creation is expected to continue, albeit at a slower pace, in line with economic growth and a possible lack of skilled labour. The unemployment rate is projected to decrease to 11.8% in 2013 and 10.5% in 2014.

The NRP and the convergence programme share one common macroeconomic scenario. According to this scenario, GDP growth could average 3.7% in the period 2013-16, in the absence of adverse developments in financial markets and the external environment. This is expected to further lower the unemployment rate to around 9% in 2016. However, unfavourable demographic tendencies will have the effect of reducing Lithuania's potential growth in the medium and long term. Therefore, the government will have to undertake a broad range of structural reforms in order to keep growth at the projected level.

The structural reforms listed in the NRP are not quantified and do not figure in the macroeconomic scenario of the convergence programme.

2.2. Challenges

Lithuania faces important challenges as regards growth-friendly fiscal consolidation and fiscal sustainability, unemployment and social exclusion as well as interconnectedness of its energy sector and energy efficiency. These policy challenges were already identified in the 2012 SWD and reflected in last year's CSRs issued for Lithuania. Their relevance has also been reiterated in the AGS and AMR. Overall, progress with reforms is needed to enhance the country's growth potential.

Lithuania needs to continue with prudent fiscal policies and growth-friendly consolidation to reach the MTO and increase the sustainability of public finances. Although its deficit position has improved over the years, Lithuania still lacks sufficient fiscal space to react to adverse shocks. The country has scope to raise the share of less-distortive taxation by increasing property and environmental taxes. In particular, the level of environmental taxation is below the EU average and does little to encourage reductions in the high energy intensity of the Lithuanian economy. Moreover, tax compliance could be further improved and the size of the shadow economy remains a concern. The implementation of laws strengthening the fiscal framework has been delayed while demographic factors could jeopardise the sustainability of public finances in the medium and long term. A comprehensive pension reform thus remains an important issue to be addressed.

Tackling unemployment and low labour force participation is a major challenge, with young and low-skilled workers in particular suffering from high unemployment rates. Even though nominal unemployment rates continue to fall, structural challenges remain, also with regard to long-term unemployment. Unemployment is a major priority identified in the AGS and Lithuania breached the unemployment threshold in the scoreboard of the Macroeconomic Imbalances Procedure, as shown in the AMR. Skills mismatches represent a significant problem, hinting at insufficient relevance and quality of higher and vocational education as well as inadequate active labour market policies (ALMPs). Ensuing shortages of skilled labour are exacerbated by high emigration rates. Rigidities in the labour law may be negatively affecting labour market dynamism while collective bargaining and social dialogue remain underdeveloped. Adult participation in lifelong learning and early childhood education are amongst the lowest in the EU and the activation of long-term unemployed benefit recipients remains insufficient. Poverty and social exclusion remain worryingly high and risk becoming persistent, thus underlining the importance of protecting the most disadvantaged, with a particular emphasis on addressing old-age poverty and the adequacy of pensions.

Energy infrastructure needs, in particular the interconnectedness with the European network, should be urgently addressed. Electricity and gas links to neighbouring countries remain to a large extent underdeveloped or non-existent. This hinders the development of competition in the energy sector and puts upward pressure on energy prices. Furthermore, energy efficiency continues to be an issue. Progress has been sluggish and major challenges in the renovation of private housing remain.

Despite recent progress, the research and innovation performance of Lithuania remains considerably below the EU average. The Lithuanian science base is insufficiently competitive and collaboration between public research bodies and businesses and the commercialisation of research results are underdeveloped. Despite the fact that the business environment is quite good, further improvements, alongside modernisation of public administration and finalisation of the reform of SOEs, could help to boost competitiveness and growth potential.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

In its 2013 convergence programme, Lithuania confirms the commitment to further improve its fiscal position and make progress towards the MTO. Although the new programme changes the MTO from a structural general government surplus of 0.5% of GDP to a structural general government deficit of 1% of GDP, the new MTO continues to reflect the objectives of the Stability and Growth Pact. The authorities explain this adjustment in terms of the need to gain fiscal space in the short term for expenditure aimed at improving Lithuania's medium-term growth potential. The programme is geared to reaching the MTO in 2016 with planned annual progress towards the MTO higher than 0.5% of GDP in structural terms on the basis of the (recalculated) structural balance. However, according to the Commission's 2013 spring forecast the annual progress towards the MTO in 2013 amounts to only 0.3% and no progress is expected in 2014.[4] The planned nominal consolidation path in the 2013 convergence programme is marginally slower than presented in the previous programme.

Lithuania made some progress in implementing the fiscal CSR, in particular on deficit reduction. According to Eurostat data, Lithuania's general government deficit narrowed to 3.2% of GDP in 2012 from 5.5% of GDP a year before. Progress was in large part due to expenditure restraint and improvements in tax compliance, supported by solid economic growth. However, the outcome fell short of reaching the target of 3.0% of GDP set in the 2012 convergence programme, mainly because state-owned enterprises only paid half of the expected dividends to the budget and sales of carbon rights fell considerably short of plan. In addition, local governments added 0.2% of GDP to the deficit. The structural deficit as calculated by the Commission decreased from 4.9% of GDP in 2011 to 3.2% in 2012.

The 2013 budget continues to restrict expenditure growth and targets a fiscal deficit of 2.5% of GDP. Although the government has extended a public sector wage freeze, a sizeable rise in minimum wages is set to increase the public sector wage bill. This is projected to be offset by higher social contributions and personal income tax collection triggered by the minimum wage increase. On the revenue side, higher excise duties on gas oil and cigarettes are expected to compensate for reduced VAT rates on transport and media, but are not sufficient to cover an extension of reduced VAT rates for residential heating and medicines. The state social insurance is set to reduce its deficit on the back of an improving labour market. The Commission's 2013 spring forecast predicts a more moderate improvement in the fiscal position to 2.9% of GDP due to lower estimates of indirect tax revenues and higher public investment in 2013.

[4] The recalculated structural balances are based on recalculated potential output levels, which were estimated employing a different method than the one used in the CP. The difference is to a large extent the result of a divergent path in potential growth rates over the programme period. The CP assumes higher potential growth rates than the Commission.

The fiscal improvement is expected to continue in 2014 albeit at a slower pace in structural terms. In the absence of further policy measures, the Commission expects the general government deficit to narrow to 2.4% in 2014 compared with a programme target of 1.5% of GDP. The revenue-to-GDP ratio under the 2013 CP is projected to stay at 32.2% in 2013 and 2014 and the expenditure-to-GDP ratio is expected to fall from 34.7% to 33.7% of GDP. These developments are broadly in line with the Commission's forecast, which expects marginally higher revenue- and expenditure-to-GDP ratios. The Commission estimates a decline in the structural deficit from 3.2% of GDP in 2012 to 2.8% in 2013 and 2014, whereas the (recalculated) structural deficit of the programme is set to shrink in 2013 and 2014 from 2.7% to 1.9%. The difference is mainly due to the assumption that no further policy measures are undertaken.

Overall, the steps discussed above have put Lithuania on track to fulfil the Council recommendations on fiscal consolidation, even though Lithuania's average fiscal effort does not meet the Council's recommendation. The headline deficit is close to the reference value of 3.0% of GDP in 2012. Since Lithuania's debt-to-GDP ratio is consistently below the 60% of GDP reference value, Council Regulation (EU) No 1177/2011 allows the cost of a systemic pension reform to be taken into account for assessing whether effective action has been taken. This cost is estimated at 0.2% of GDP in 2012, which is sufficient to cover the gap between the deficit and the reference value. According to the 2013 spring forecast, the structural balance reached 3.2% of GDP in 2012. The corrected average annual fiscal effort over the reference period amounts therefore to 1.3% of GDP and falls considerably short of the 2¼% as specified in the Council's recommendation.

Box 1. Excessive deficit procedure for Lithuania

On 7 July 2009, the Council decided that an excessive deficit existed in Lithuania. The most recent Council Recommendation under Art. 126(7) TFEU was adopted on 9 February 2010. The Council recommended that the Lithaunian authorities should put an end to the present excessive deficit situation by 2012 in a credible and sustainable manner. Specifically, to this end, the Lithuanian authorities should: (a) implement rigorously the corrective measures planned in the budget for 2010 and adopt additional measures, if necessary, to achieve the envisaged consolidation; (b) ensure an average annual fiscal effort of at least 2¼ % of GDP over the period 2010-2012, notably by containing primary current expenditure; (c) specify and adopt the additional measures necessary to achieve the correction of the excessive deficit by 2012, cyclical conditions permitting, and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected. In addition, to limit risks to the adjustment, Lithuania should enhance the medium-term budgetary framework, as well as improve the monitoring of the budget execution throughout the year. Furthermore, the Council invited the Lithuanian authorities to implement reforms with a view to raising potential GDP growth and reduce the risks to long-term sustainability of public finances including reforms in the areas of public administration, healthcare and the social security system.

An overview of the current state of excessive deficit procedures, including additional steps adopted after the finalisation of this Staff Working Document, is available on:
http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/index_en.htm (please refer to country sections at the bottom of the page).

Box 2. Main measures

Main budgetary measures

Revenue	**Expenditure**
2012	
• Abolition of reduced VAT rate for hotels (+0.02% of GDP) • Increase in excise duties (+0.02%)	• Cuts in government spending (-0.5% of GDP) • Increase in retirement age (-0.1%) • Cuts in road investments (-0.03%) • ctd. public sector wage freeze (-0.5%) • Reversal of previous temporary cuts in social insurance pensions (+0.5%) • ctd. cuts in state pensions (-0.1%) • Reduction in social benefits, mainly health care and maternity benefits (-0.5%) • Reduction in transfers to the second pillar pension funds (-0.1%)
2013	
• Changes to land tax (+0.1% or higher) • Increase in excise duties on fuel and tobacco products. • Extension of VAT exemptions and introduction of new ones (-0.4%).	• ctd. public sector wage freeze (-0.5%). • Increase in retirement age (-0.1%) • Increase in minimum wages for public sector employees (+0.15%). • Lithuanian EU presidency (+0.1%). • Increase in transfers to the second pillar pension funds (+0.2%)
2014	
• Increase in excise duties on cigarettes	• Reversal of the public sector wage freeze (+0.5%)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the information made available in the convergence programme and, where available, of a multiannual budget.

Lithuania's 2013 convergence programme describes an adequate path towards the MTO, but fails to specify detailed measures. The 2012 recommendation on fiscal consolidation required that Lithuania's budgetary strategy for the year 2013 and beyond should ensure an adequate structural adjustment effort to make sufficient progress towards the MTO, including meeting the expenditure benchmark. The planned annual progress towards the MTO in the period 2013-16, i.e. following the correction of the excessive deficit, is higher than the benchmark of the Stability and Growth Pact of 0.5% of GDP in structural terms. The (recalculated) average annual fiscal effort between 2013 and 2016 set by the programme is around 0.8%, thus allowing the MTO to be reached by 2016. The measures to sustain such fiscal effort, however, have not been specified in the programme.

According to the programme, the growth rate of government expenditure will respect the expenditure benchmark and thus contribute to an annual structural adjustment towards the MTO of at least 0.5% of GDP. The expenditure growth rate is set to be below 0.76% in 2013 and below 0.4% in 2014 and 2015 and thus below the lower rate under the expenditure benchmark. However, according to the Commission's 2013 spring forecast, the expenditure growth exceeds the benchmark by 0.2 percentage points in 2013 and 2014, which indicates a risk of delaying progress towards the MTO.

The envisaged improvement in the fiscal position over the programme period is largely driven by restraint in expenditure growth and robust economic growth. While the Law on Fiscal Discipline limits expenditure growth, the programme does not define specific revenue measures, which might be required to offset the end of the temporary expenditure freezes as of 2014 and to reach the programme's fiscal targets until 2016.

Fiscal adjustment should be structured to support both growth and social fairness as stated in the AGS. Thus, expenditure restraint should be implemented in such a way as not to undermine medium-term growth prospects by prioritising growth-friendly expenditure. The fiscal adjustment in Lithuania could be supported by more revenue-based consolidation (see section below on taxation), as the already very low share of general government revenues as a percentage of GDP is envisaged to decline even further throughout the programme, in part due to decreasing revenues from EU funds, which are not compensated by new revenue measures. The ongoing review of the tax system is welcome, since it is an opportunity to complement the mostly expenditure-based consolidation with appropriate revenue measures as well as strengthening budget planning and improving control of its execution.

The projected consolidation path is subject to a number of risks, especially if Lithuania's economic growth evolves less dynamically than expected. The growth prospects of this small open economy depend considerably on the development of its main trading partners. The authorities' commitment to comprehensive changes in the revenue and expenditure structures is a step in the right direction, but remains to be specified.

The general government debt increased more than twofold during the crisis, but has stabilised at a level well below 60% of GDP, thus the debt reduction benchmark is not applicable. According to the Commission's forecast, general government debt is set to stabilise at around 40% of GDP in 2013 and 2014 (after 40.7% in 2012), while the 2013 convergence programme expects it to ease to 39.7% in 2013 and to decline further to 34.5% by 2016. Differences from the Commission's projection are above all the result of lower assumed deficits in the convergence programme. Medium-term debt projections (see Graph below Table V in annex) indicate that full implementation of the programme would lead to a smaller debt-to-GDP ratio by 2020.

Long-term sustainability

Lithuania does not appear to face a risk of fiscal stress in the short term. The country's sustainability risk is medium from both the medium- and long-term perspectives. Further containing age-related expenditure growth would contribute to the sustainability of public finances in the long term.

Despite a projected substantial increase in Lithuania's long-term age-related expenditure, a comprehensive pension system reform is yet to be adopted. The proportional increase in pension spending over 50 years is estimated to be about three times the EU average (in percentage points of GDP). However, recently proposed changes in contributions to different pension pillars do not sufficiently address the problem of long-term fiscal sustainability of the pension system. Assuming no change in policy, debt would increase moderately to 47.6% of GDP by 2020. Therefore, fiscal consolidation needs to continue beyond the forecast horizon to put debt on a downward path.

Fiscal framework

Lithuania's medium-term budgetary framework specifies revenues and expenditure of the national budget for three years; however, it lacks binding targets and a clear connection between the medium-term targets and the annual budgets. The framework also includes four fiscal rules, applicable separately to central and local levels of government. At the central level, the government has to respect a limit on net borrowing and take into account revenue and expenditure rules for the state budget. The revenue rule calls for the deficit of the state budget to be reduced by the estimated 'excess' revenue of the current year. The expenditure rule links expenditure ceilings to revenues. For the local governments, there is a balanced budget rule, which, however, allows deficits that cannot exceed the borrowed amounts spent for capital expenditure.

Lithuania's work on reform of budget planning and execution is ongoing, not least due to ratification of the intergovernmental Treaty on Stability, Coordination and Governance. The constitutional law on sustainability of general government sector finances in accordance with the Treaty's requirements is being drafted with the aim of elevating the structural budget-balance rule to constitutional level. The new legislation would also reinforce the binding character of the medium-term framework. The draft, however, has not yet been approved by the government, which intends to submit it to parliament during the 2013 spring session. While these plans are relevant, their implementation remains uncertain at this stage.

Tax system

The Lithuanian tax system is characterised by a low overall tax burden (the lowest in the EU, at 26% of GDP in 2011), especially on capital and to a lesser extent on labour, and a significant degree of tax evasion. Available indicators show that the shadow economy is large, with a high degree of undeclared work. In spite of a low overall tax burden, post-crisis fiscal consolidation was mainly based on expenditure restraint. Lithuania has space for more revenue-based consolidation by further broadening the tax bases and promoting tax compliance. A low tax burden for some of the least distortionary taxes, in particular environmental and recurrent immovable property taxes, may indicate some scope for tax increases in these areas.

Revenue from recurrent property taxes is significantly lower than in most EU countries.[5] In line with the CSRs, Lithuania has taken steps to increase recurrent property tax revenue. As of 1 January 2012 the tax base has been broadened: individuals owning residential real estate with a total value exceeding LTL 1 million (EUR 290 000) are taxed at a 1% rate on the excess. From 2013, Lithuania has introduced new immovable property tax rates varying from 0.3% to 3% of the taxable value of the property (previously from 0.3% to 1%). It remains to be seen how this will influence tax revenues as the exact tax rate has to be set at municipal level. Additionally, amendments to the law on land tax entered into force in 2013 changing among other things the assessment of property values from a cadastral to a market-price based system.

Environmental taxes present an additional option for increasing tax revenues in a less distortionary way and promoting reduction of greenhouse gas emissions in the transport sector. Lithuania's revenues from environmental taxes are on a downward trend and were the second lowest in the EU, at 1.7% of GDP versus 2.4% for the EU-27 in 2011, also due to the lowest level of transport taxes in the EU-27. Additionally, excise duties on fuel including petrol are significantly below the EU average. In this context, introduction of annual circulation taxes for cars could be an appropriate way to raise revenues.

Tax enforcement efforts need to continue as tax evasion remains a challenge. Lithuania's State tax inspectorate continued to implement a 'taxpayer compliance and tax collection assurance strategy' for 2011-12 whose objectives include encouraging taxpayers to pay taxes in good faith, developing services for taxpayers, reducing the scope of the shadow economy and increasing the efficiency of tax administration. In addition, cash registers were introduced in food markets and border controls were stepped up. The tax inspectorate also renewed its tax compliance action plan for 2013-14, focusing efforts on curtailing the most common tax evasion practices. The plan identifies nine major risks to tax compliance and develops 209 measures to address these risks.

The government has set up working groups to assess the scope and content of a possible tax reform and come up with proposals to reduce the shadow economy. Findings of these interdisciplinary and multi-stakeholder groups are expected by June 2013. While these arrangements are important, their relevance and ambition can be assessed only on the basis of proposals and ultimately implementation.

3.2. Financial sector

In recent years, the Lithuanian banking sector has strengthened its resilience. The closure of two domestic banks and several credit unions demonstrates the commitment of the Bank of Lithuania to adhere to strict supervision standards. Scandinavian banks continue to dominate the financial sector in Lithuania and account for about 90% of the market.

Following the economic crisis in 2008-09, all banks deleveraged significantly and the loan-to-deposit ratio dropped to 126% in 2012,[6] while the profitability of the banking sector has recovered. However, non-performing loans amounted to 13.9% of all loans at the

[5] In 2011 revenues from recurrent taxes on immovable property amounted to 0.3% of GDP whereas the corresponding EU-27 weighted average was 1.3%.
[6] down from 133% in 2011.

end of 2012, slightly above the EU average. Banks in Lithuania comfortably meet all prudential requirements. At the end of 2012 the capital adequacy ratio amounted to 14.4% (up 0.5 percentage points from 2011), while the liquidity ratio (bank's liquid assets to current liabilities) was 40.8%.

In early 2013 the largest remaining domestic bank, Ukio bankas,[7] was declared insolvent and the supervisor revoked its operating licence. Its problems were a result of risky lending during the boom years, in particular related lending, i.e. loans to businesses owned by the bank's main shareholder. The supervisor decided to transfer the insured deposits of Ukio bankas as well as its good assets to another domestic bank. The remaining uninsured liabilities and 'bad' assets were left at Ukio bankas, which will face bankruptcy proceedings. The solution allowed the exposure of the state deposit insurance to be minimised and gave customers swift access to their accounts.

In addition, in late 2012 and early 2013 irregularities emerged in certain credit unions that led to the suspension of their licences or restriction of financial activities. Credit unions' market share has doubled over the past few years (albeit to a still small 2.6%), partially due to aggressive pricing and interest rate offers. As a consequence of the latest developments, the supervisor tightened prudential requirements for all credit unions to avoid further incidents. Overall, these developments demonstrated the importance of continued attention and, if required, pre-emptive action to ensure stability of the financial system.

Credit growth in 2012 was flat as a result of both supply and demand factors. Demand for loans was subdued as economic uncertainty in key export markets induced companies to delay investments, while households continued to deleverage. On the supply side, banks tend to apply strict lending standards focusing their business on larger clients and major economic centres, whereas SMEs and rural areas receive less attention. While responsible lending on the part of banks is welcome, this should not lead to a restriction of credit once demand picks up. Attention might therefore have to be given to ensuring sufficient credit supply to SMEs, supporting investment and growth going forward. This is particularly important in view of the new EU funds financing period, where emphasis on financial engineering instruments (revolving credit funds, guarantees, export credits, etc.) may be quite significant.

3.3. Labour market, education and social policies

In 2012, the labour market situation in Lithuania improved further but youth and long-term unemployment levels remain a serious concern. Lithuania's unemployment rate dropped from 15.3% in 2011 to 13.3% in 2012, while youth unemployment dropped by 4.3 percentage points. The employment rate reached 68.7%, still falling short of the national target of 72.8% by 2020. Moreover, youth and long-term unemployment rates remain high at 26.4% and 6.7% respectively, pointing to underlying structural problems. Besides affecting the country's growth potential, continued high unemployment and inactivity put many people constantly at risk of poverty and social exclusion.

In 2012, the Council Recommendation for Lithuania contained CSRs concerning unemployment, pension reform and social exclusion. The authorities were invited to tackle

[7] 5.4% of banking sector assets and 7.8% of deposits at the time of closure

high levels of joblessness by increasing the scope and efficiency of ALMPs and improving apprenticeship schemes and labour legislation, to improve work incentives and to strengthen the links between social assistance and activation measures. They were furthermore urged to proceed with a comprehensive pension reform by aligning the statutory retirement age with life expectancy and establishing clear rules for pension indexation, and to enhance active ageing measures.

Despite relevant measures implemented in early 2012, youth unemployment is still high and further efforts with a more coordinated approach to deliver a Youth Guarantee would be welcome. Lithuania has refocused part of its EU funds on better targeting of young people, by extending successful European Social Fund measures and introducing new ones.[8] A set of 23 measures adopted in March 2012 contributed to a reduction in youth unemployment over the course of one year; however, at levels above 26% it continues to be a major concern.[9] Increased efforts to lay the groundwork for a Youth Guarantee,[10] notably by improving administrative capacity and the effectiveness of education and training as well as by providing adequate funding could help underline Lithuania's commitment to combating youth unemployment.

The CSR seeking to redirect ALMPs towards low-skilled and long-term unemployed persons has not been implemented. The overall coverage of ALMPs and the financial allocation per individual measure remain insufficient, and measures are poorly targeted. A new system of training vouchers for the unemployed and those having received notices of dismissal was introduced in 2012 Meanwhile, the current selection of participants carries the risk of excluding the low-skilled and unskilled.

Some progress has been made in reforming the Lithuanian Labour Exchange, intending to implement result-oriented performance appraisals. The reform started in 2012 and aims at achieving faster employment of job seekers and better matching of employers and pre-selected or pre-trained employees by linking the performance assessment of labour exchange staff to the successful placement of job seekers in the labour market. While it is an important step forward, the reform is likely to be more advantageous to those who are easy to place in the labour market and could put the less-qualified at risk of being left behind.

Labour force adaptability and productivity are limited due to significant skills mismatches, exacerbated by insufficient labour market relevance of higher education and the low uptake of vocational education and training (VET) and apprenticeships.[11] Participation of adults in lifelong learning remains at one of the lowest levels in the EU,[12]

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[8] The NRP 2013 indicates that an additional amount of LTL 100 million (EUR 29 million) was allocated for this purpose in 2012. The total amount earmarked for tackling youth unemployment was LTL188 million (EUR 54.4 million) in 2012-13.

[9] Report: Youth Employment Action Teams — Update for the Spring European Council, 14-15 March 2013.

[10] The Council Recommendation of 22 April 2013 on establishing a Youth Guarantee (2013/C 120/01) calls for Youth Guarantee schemes that ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education.

[11] According to 2010 data of the European Centre for the Development of Vocational Training (Cedefop), 28% of Lithuanian pupils in upper secondary education opted for a VET path, the third worst performance in the EU (the EU average is 50%).

[12] 5.4% in Lithuania compared to 9.1% EU average in 2012.

while recommendations to make apprenticeship and VET schemes more effective have been only partially implemented, as they continue to suffer from low quality and attractiveness. The law on apprenticeships was introduced in 2007 but so far there has been little progress in its implementation. A special apprenticeship project (2013-15, part of the Practical VET Resources Development Programme, updated in October 2012) is intended to strengthen and expand this training form. This effort is complemented by a monitoring system for ensuring quality and efficiency in the provision of career services in general education and in VET as career guidance is currently insufficiently developed. Employment in medium-level qualification jobs in Lithuania is forecast to increase by 17.2% up to 2020, while high-level qualification jobs are expected to decrease (-9%), in contrast to EU developments.[13] This further accentuates the need for a well-established employee training system.

Lithuania's educational outcomes remain mixed with particular challenges in basic skills. Lithuania ranks below the EU average for pupil achievement in literacy and numeracy and performs below the EU benchmark on participation in early childhood education due to a lack of available places.[14] At the same time, Lithuania performs better than the EU average (6.6% in Lithuania compared to 12.9% EU average in 2012) in terms of early school leaving and its tertiary attainment rate (47.9% in 2012) is significantly above the EU average of 35.5%. However, significant gender differences exist.[15] So far, there have been no concrete government initiatives to address either the relatively poor performance in basic skills or gender differences in educational performance.

Lithuania has created more opportunities for concluding fixed-term contracts, facilitating short-term employment and liberalising working time regulations; however, the impact has so far been limited. Some of the measures are new and only temporary, and the adoption of more far-reaching reforms has been postponed to 2013. The percentages of employees on temporary contracts or in part-time work and self-employment remain significantly below the respective EU averages. Provisions in the labour code that allow for a certain degree of flexibility in collective agreements have had only limited effect, since collective bargaining is not common. Overall, the situation could warrant a further review of the appropriateness of labour legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements.

Considering the measures taken and planned, in terms of ambition and adequacy, Lithuania has only made limited progress in addressing the CSRs related to the labour market. Additional measures to reduce unemployment and enhance participation in the labour market, especially for young, unskilled, long-term unemployed and older workers are necessary. A stronger emphasis on reduction of skills mismatches, for example by increasing the job relevance of education and training, would be welcome. Also, it might be worthwile examining whether labour markets are flexible enough to accommodate job seekers.

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[13] Forecast of Cedefop, (2012); EU average growth for medium-level qualification jobs is forecast at +4.8%, high-level qualification jobs are expected to grow by +19.7%.

[14] 78.3% in 2011 as compared to 92.3% in the EU on average.

[15] While tertiary educational attainment among women aged 30-34 is high at 53.3% (2011, EU average 37.2%) men have a much lower tertiary educational attainment (37.6%) and an early school leaving rate that is twice as high (10.6% versus 5.0% for women in 2011).

Lithuania introduced important but isolated measures in late 2012 relating to changes in the statutory funded pension scheme in response to the CSR, and these will enter into effect in 2014. They include motivational payments from the state budget matching contributions by the insured to the second pillar pension funds.[16] This measure is a step in the right direction if properly implemented. Its fiscal impact will be challenging and this measure alone will not be sufficient to ensure adequacy of pensions in the future. Lithuania's rapidly ageing population underscores the importance of active ageing measures and the promotion of longer working lives.[17] In this context the recent lifting of the requirement to be registered as unemployed to obtain access to early retirement can be seen as a step in the wrong direction. The national strategy on overcoming the consequences of ageing expires in 2013. So far, no interim assessment has been presented. However, a detailed evaluation of outcomes is needed for developing a new action plan that is envisaged by the 2013 NRP. Linking the statutory retirement age to life expectancy, further promoting occupational and voluntary supplementary pension schemes as well as encouraging and enabling women and men to work longer could improve the adequacy and sustainability of the pension reform. Additionally, clear indexation rules would help tackle old-age poverty, improve predictability and reduce excessive politicisation of pension payments by limiting ad hoc decisions on pension increases. All in all, the recommendation on pension reform has only been partially fulfilled.

Also as regards the CSR on social assistance reform, progress was limited; there is no clear intent to fight poverty and social exclusion, and activation remains insufficient. Amendments to the Law on Cash Social Assistance include measures on work incentives, increased coverage, a new method for calculating the amount of benefits and a new model of social support distribution (in selected pilot municipalities). First results of the pilot project indicate that the efficiency of allocations may have improved, as overall payments and the number of recipients decreased.[18] However, a more detailed analysis of the reform's wider impact on poverty reduction, social exclusion and benefit fraud as well as its activation effect is necessary. In particular, it is essential to ensure that the reform does not simply incentivise municipalities to redirect funds from social assistance to other fields. The activation rate in Lithuania remains among the lowest in the EU,[19] while the scale of activation of long-term beneficiaries due to cash social assistance reform remains unclear. The recent increase in the minimum wage,[20] together with previously adopted measures,[21] might reduce the inactivity trap and potentially alleviate the risk of poverty for lower-income earners and the elderly. However, they are not sufficient to counter a substantial rise in the population facing multiple

[16] Contributions to the second pillar pension fund will change in 2014 (contribution of the state social insurance fund 2%, voluntary personal contribution 1%, motivational state contribution 1%) and further in 2016 (2/2/2) and 2020 (3.5/2/2).

[17] A decision to gradually increase the retirement age to 65 years for both men and women by 2026 was adopted in 2011. While the employment rate of older persons (aged 50-64) in LT is slightly higher than the EU average, participation in lifelong learning is significantly lower (1.9% as compared to an EU average of 4.5%).

[18] Social benefit payments in the five pilot municipalities decreased by 20.1% in 2012, while they dropped by 2.1% on average in all municipalities. The number of recipients fell by 13.6% (-0.36% overall).

[19] 4.7% in LT in 2009 and 2010, 29.3% in EU (2009).

[20] Increased by 6% in 08/2012 and an additional 18% in 01/2013, amounting now to LTL 1 000 (EUR 290).

[21] Such as the introduction of a tax exempt threshold for low-wage earners, the restoration of pensions to pre-crisis levels and an increase of social workers' salaries.

disadvantages[22] and a very high poverty gap.[23] This concerns in particular families with many children, people living in rural areas, youth and people with disabilities. In spite of this, the NRP 2013 does not contain either a comprehensive strategy or an action plan for fighting poverty.

3.4. Structural measures promoting growth and competitiveness

Lithuania's economy continued its adjustment process in 2012 and competitiveness indicators improved as subdued wage growth met with productivity increases. As a consequence, the real effective exchange rate decreased and helped sustain a rebound in exports. However, export growth is slowing and there is a risk that recent competitiveness gains may be short-lived as the labour market tightens. Greater investment is essential in order to maintain productivity gains over the long term. Further improvements in infrastructure, particularly energy, transport and broadband, higher R&D spending to spur innovation as well as continued efforts to reduce the administrative burden on businesses are essential to further enhance Lithuania's growth potential.

In 2012, the Council Recommendation for Lithuania contained CSRs on reforming SOEs, improving energy efficiency and furthering the interconnectivity with EU countries of both the electricity and gas networks. The progress is assessed in the following subsections.

State-owned enterprises

The government has been undertaking a far-reaching reform of SOEs since 2010, to restructure corporate governance, increase transparency and separate ownership and regulatory functions. The reform encompasses 140 entities with a combined asset value of around 25% of GDP and aims to increase competition and efficiency. It involves legislative and organisational changes, and performance targets. Most of the legislative aspects of the reform have been completed. Transparency and accountability have significantly improved as reports are now published on a quarterly and annual basis and clear enterprise objectives have been established. However, the separation of commercial and non-commercial activities of SOEs and guidelines on the separation of ownership and regulatory functions — envisaged in the national reform programme for 2012 — have so far not progressed decisively. In addition, monitoring tools to assess full compliance with the reform and its effectiveness need to be made operational. As a result, despite significant progress, the corresponding CSR has only been partially implemented.

Energy efficiency

Lithuania has made limited progress on improving the energy efficiency of buildings and only partially implemented the Council Recommendation. While the renovation of public buildings did continue, progress remained slow with respect to the JESSICA Holding Fund (financed by the European Regional Development Fund), under which approximately 1 000 private buildings are expected to be upgraded. At the beginning of 2013 only ten multi-

[22] Population in the intersection of all three sub-indicators (at risk of poverty, severe material deprivation and living in households with low work intensity) in 2011: 3.2% in LT, (EU: 1.6%); since 2008 fairly stable in the EU (+ 0.2 percentage points) compared to a significant increase in LT (+ 1.9 percentage points).

[23] 28.7% in 2011 (EU: 23.3%).

apartment renovation projects had been finalised. As a consequence, in January 2013 the government approved a revision of the Law on Multi-Apartment Building Modernisation. The new approach allows municipal entities to take loans on behalf of apartment owners in order to implement municipal multi-apartment modernisation programmes. In addition, in order to strengthen the incentives for residents to improve energy efficiency of their apartments, the government is planning to revise the existing legal base related to energy cost subsidies for low-income households. While these are relevant steps, further substantial and speedier efforts are needed to improve overall energy efficiency, considering that there are more than 30 000 multi-apartment dwellings with very low energy efficiency performance.

Infrastructure

Lithuania's gas and electricity market continues to suffer from isolation and lack of supply alternatives and progress is slow. Insufficient interconnections hinder competition in energy markets, in particular as concentration in both electricity and gas retail markets is high. In the gas sector, the government has started several investment projects to improve the transmission system and interconnection capacity to diversify natural gas supply. Notably, in June 2012, Lithuania joined NordPool gas trading to further its integration into international markets. Moreover, the government is developing an LNG terminal and plans to construct a Lithuanian-Polish interconnector. In the electricity sector, the planned interconnections with Poland and Sweden should improve the situation once they are in place. Currently, electricity network costs are among the highest in the EU and account for a significant proportion of the final retail price. Electricity prices will remain regulated until 2015. The government transposed the directives of the Third Energy Package in early 2012, but additional efforts are needed for their implementation in either the electricity or gas sector. Since the creation of interconnections is still at an initial stage and progress in market liberalisation is slow, recommendations can only be considered partially implemented. To accelerate the process, a scaling up of political efforts while ensuring adequate and timely financing (also considering EU funds) is required.

The transport infrastructure in Lithuania remains underdeveloped as only 7% of rail tracks are electrified and a North-South rail connection is missing. The Rail Baltic project would connect the main EU networks with north-eastern Europe as part of the TEN-T policy and is planned to be to be taken forward during the next financing period of 2014-2020. The project should be completed by 2023. Though some existing lines have been upgraded, efforts slowed markedly in 2012. Funding of the overall projects and regional political commitment remain major concerns. Moreover, obstacles to efficient functioning of the internal market should be removed and the transparency of procurement increased. There are still administrative, technical and regulatory obstacles in the rail sector and competition is limited. Further strengthening of the rail regulator and an independent body for traffic management could improve market functioning. Furthermore, introduction of incentive and performance schemes for operators could lead to increased service quality for consumers.

Business environment, R&D and innovation, and the environment

Lithuania has implemented some measures to address shortcomings in the business environment, R&D and environmental policies, however, challenges remain.

The regulatory burden for business remained roughly the same in 2012, with a slight improvement compared to the previous year. The cost of completing business procedures fell in most cases, particularly for 'starting a business', while the required level of paid-in capital is still comparatively high. Reforms enacted in 2012 include online registration for limited liability companies, lifting of notary requirements and revising of export and import procedures in order to reduce administrative delays and costs. Additionally, reforms aiming at consolidating and streamlining business inspection procedures have been launched. Progress includes steps to introduce uniform telephone consulting, standardised checklists and a grace period for newly established businesses. In 2013, priority will be given to the consolidation of business supervisory bodies. The reform is planned to be completed by 2014. Current plans to standardise enforcement tools of administrative bodies that monitor and impose sanctions on businesses have to allow for specificities of competition procedures to maintain their effectiveness. The government's intention to review access restrictions in relation to regulated professions is welcome and could have positive effects on employment and competition.

Lithuania's R&D intensity increased substantially in 2011 after five years of relative stagnation, yet it is still largely below its target for 2020.[24] Most of the increase in 2011 was due to progress in implementing research and innovation-related projects in the public sector financed by EU Structural Funds. Additional government support for investment in R&D and in new technologies by enterprises is provided through R&D tax incentives. The impact on business R&D intensity has however been limited, and levels remain almost unchanged since 2006. The current research and innovation system is characterised by a poorly performing science base with limited international orientation, dispersed investment, weak market orientation of research, insufficient marketing and commercialisation of R&I results, and low participation of enterprises in the international market. Recently, initiatives have been launched to strengthen knowledge transfer and boost the exploitation of research results. Seed and venture capital funds and mentoring schemes have been set up to finance and support the creation and growth of innovative firms. In addition, new legislation and guidelines are being drawn up to develop public procurement of innovative products and services. The development of innovation and entrepreneurial culture and skills, in particular through the formal education system, is key to the success of these initiatives. In addition, the efficient use of the new research infrastructure in the Valleys remains a major challenge, in particular concerning the management and financing for their regular operation and attracting highly qualified staff. Focusing resources on science and technology areas where Lithuania could be internationally competitive could help increase their scientific, technological and economic impact.

While Lithuania remains one of the most energy and CO_2-intensive economies in the EU, it is well on track to meet its total renewable energy target for 2020, but might miss the greenhouse gas (GHG) emissions target. The energy intensity level of the Lithuanian economy is more than twice the EU average and considerable efforts are still needed in respect of energy efficiency. In 2010, Lithuania's renewable energy share was well above its overall interim 2011/2012 target (16.6%). However, preliminary data point to a significant

[24] R&D intensity reached 0.92% of GDP in 2011, up from about 0.8% in previous years. Europe 2020 target 1.9%.

decrease for 2011 (from 19.7% in 2010 to 18.6% in 2011). Progress on renewable energy use in the transport sector is not satisfactory and has dropped to 2007 levels (3.6% in 2010). Progress on non-cost barriers to large-scale development of renewable energy is relatively slow with improvements needed particularly in the electricity sector, where the highest growth is expected. Based on recent data, Lithuania might fail to limit the increase in GHG emissions in sectors not covered by the Emissions Trading System to 15% (compared to 2005) by 2020. According to the latest national projections based on existing measures, emissions will increase by 20% in 2020 compared to 2005.

Waste management remains heavily dependent on landfilling and recycling levels are among the lowest in the EU (6% in 2010), far below the 2020 target of 50% for municipal waste. Limited alternative waste treatment infrastructure and low resource efficiency place Lithuania among the five Member States with the largest implementation gaps. In 2012, the Parliament amended the Law on Waste Management. However, to reach EU targets and reap economic gains from using waste as a resource, it is crucial to create further economic incentives via landfill taxes and fees and plough investments into the waste management infrastructure, other than landfills. Similarly, separate collection, sorting and recycling could be improved through a better design of producer responsibility schemes and by providing targeted incentives for municipalities and households. In the water and waste water sector, insufficient cost-recovery limits the scope for long-term investments. Consolidation of water utilities could reduce costs for consumers.

3.5. Modernisation of public administration

Concrete steps to further improve the efficiency of public administration are lacking and dependent on the implementation of the civil service reform. Lithuania plans to introduce systemic changes in its administration through implementing the Public Management Development Programme for 2012-20 adopted in February 2012. Additionally, the government has announced that it will continue improving the efficiency of public administration and its citizen orientation, to improve impact assessment and public financial management, simplify administrative procedures for citizens and businesses and increase public involvement in decision-making processes. The civil service reform will include a partially centralised selection procedure and is aimed at improving performance assessment and career planning tools and reorganising the remuneration of civil servants. Ambition and credibility of these reforms will depend on the action plan which is currently being drafted. Furthermore, extra efforts are necessary to tackle corruption, including in public procurement, as surveys and indicators continue to suggest corruption levels above the EU average.[25]

The progress in EU fund payments to Lithuania is very positive with nearly 77% of payments already made by the Commission. The level of contracting is high at more than 90% in the European Regional Development Fund and Cohesion Fund programmes, although

[25] Lithuania ranks 79th in the 2012-13 Global Competitiveness Report regarding the diversion of public funds (20th among EU Member States) and 48th regarding irregular payments and bribes (18th among EU Member States - http://reports.weforum.org/global-competitiveness-report-2012-2013/#). In the 2011 Eurobarometer, 27% of respondents said they had been asked or expected to pay a bribe over the previous 12 months (as opposed to an EU average of 8%); 81% said government efforts against corruption were ineffective (as opposed to an EU average of 68%) and 52% considered that corruption is widespread among officials awarding public tenders (EU average: 47%, http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf).

some sectors, such as R&D as well as railway networks, need further attention. Funding priorities generally mirror the challenges as identified in this SWD. With a total allocation of nearly EUR 6.8 billion in the period 2007-13, Lithuania continues to benefit significantly from the cohesion policy focusing on innovation and balanced growth.

4. OVERVIEW TABLE

2012 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Ensure planned progress towards the timely correction of the excessive deficit. To this end, fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. Thereafter, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective, including meeting the expenditure benchmark, while minimising cuts in growth-enhancing expenditure. In that respect, consider increasing taxes least detrimental to growth, such as housing and environmental taxation, including car taxation, while reinforcing tax compliance. Strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework.	**Some progress in the implementation of the CSR.** The general government deficit in 2012 for EDP purposes was reduced to 3.0% when taking into account the cost of systemic pension reform. A decision on EDP abrogation is pending and the structural effort was far below requirements. While the downward trend of the structural deficit is visible, progress towards the MTO according to the latest Commission forecast is below the minimum requirement of 0.5pp for 2013. No major progress on taxation was made in 2012. An announced review of taxes in 2013 is welcome, but has yet to bring concrete results. The effect of (minor) changes in housing taxation and an extended strategy to improve tax compliance remains to be assessed by the authorities. The adoption of fiscal stability laws has been postponed and further action on the creation of credible expenditure ceilings is needed.
CSR 2: Adopt legislation on a comprehensive pension system reform. Align the statutory retirement age with life expectancy, establish clear rules for the indexation of pensions, and improve complementary savings schemes. Underpin pension reform with active ageing measures.	**Limited progress in the implementation of the CSR.** Legal amendments to complementary pension savings adopted in late 2012 are a step in the right direction and now need to be properly implemented. However, legislation on a more comprehensive pension system reform has yet to be introduced. Linking the statutory retirement age with life expectancy should be a priority. Issues of active ageing have not been appropriately considered.
CSR 3: Tackle high unemployment, in particular among youth, low-skilled and long-term unemployed, by focusing resources on active labour market policies while improving their efficiency. Enhance the effectiveness of apprenticeship schemes. Amend the labour legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements.	**Limited progress in the implementation of the CSR.** The government took numerous steps to tackle youth unemployment, with some positive results. ALMP measures were not refocused. The promotion of apprenticeships remains insufficient. Changes to the labour code were limited and will have no major impact. Further reforms are necessary. Initial reforms to support liberalisation of fixed-term contracts in the private sector were undertaken but are not sufficient.
CSR 4: Increase work incentives and strengthen the links between the social assistance reform and activation measures, in particular for the most vulnerable, to reduce poverty and social exclusion.	**Limited progress in the implementation of the CSR.** The implementation of cash social assistance reform measures has been launched. A pilot project that has led to considerable savings should, however, also focus on redirecting funds to the most needy and include activation measures. Increases in wages of social workers and the general minimum wage are the only policy actions with a potential poverty impact. There is no clear strategy or action plan to reduce poverty and social exclusion.
CSR 5: Implement all aspects of the State-Owned Enterprise reform package and in particular ensure a	**Significant progress in the implementation of the CSR.** The government implemented large parts of

separation of ownership and regulatory functions and a separation of commercial and non-commercial activities. Install appropriate monitoring tools to assess the effectiveness of the reforms and ensure compliance of all State-Owned Enterprises with the requirements of the reform.	the SOE reform. However, it still has to complete the proposed actions on the separation of commercial and non-commercial activities of SOEs, guidelines on separation of ownership and regulatory functions, and to ensure 100% compliance with reporting requirements.
CSR 6: Step up measures to improve the energy efficiency of buildings, including through removing disincentives and a rapid implementation of the Holding Fund. Promote competition in energy networks by improving interconnectivity with EU countries for both electricity and gas.	**Limited progress in the implementation of the CSR** On energy efficiency, steps have been taken to speed up renovations. An amendment to the Law on State Support for the Renovation (Modernisation) of Multifamily Buildings broadens the numbers of persons/entities eligible for loan financing for renovation and efficiency upgrades. While Lithuania has removed legal impediments for granting specific loans to certain categories of owners, the measures taken are not sufficient to address the overall recommendation as regards energy efficiency. On energy networks, steps have been taken but the rate of implementation remains to be seen. A feasibility study into the viability of Baltic States integration will be completed in 2013. Work on interconnections is in progress, but much remains to be done. Concerning natural gas, a regional agreement is to be achieved on infrastructure projects.
Europe 2020 (national targets and progress)	
Employment rate target: 72.8%	The employment rate of the population aged 20-64 was 64.4% in 2010, 67.2% in 2011 and 68.7% in 2012. The objective of 72.8% by 2020 is ambitious. The key tools for improving employability — active labour market policies and training of employees — have contributed towards the objective, but the high number of unemployed (especially low-skilled, youth and long-term) is still a challenge. Little progress has been made towards achievement of the target.
R&D target: 1.9%	Gross domestic expenditure on R&D reached 0.92% in 2011. Thus Lithuania still has to more than double its R&D intensity to reach its national target, which remains very challenging despite a recent positive trend. Progress is particularly needed in the business sector.
Greenhouse gas emissions target: +15% compared to 2005 emissions, ETS (Emissions Trading System) emissions are not covered by this national target	Non-ETS greenhouse gas emissions were reduced by 4% between 2005 and 2011. According to the latest national projections based on existing measures, emissions will increase 20% in 2020 compared to 2005. The target is consequently expected to be missed with a 5 percentage points gap.
Renewable energy target: 23 % Share of renewable energy in the transport sector: 10 %	Share of total renewable energy in gross final energy consumption was 20.3 % in 2011 and 3.7 % in the transport sector. (Source: Eurostat. April 2013. For 2011, only formally reported biofuels

	compliant with Art. 17 and 18 of Directive 2009/28/EC are included).
Indicative national energy efficiency target for 2020: 17% reduction in final energy use compared to 2009 level (reduction of 740 ktoe). This implies reaching a 2020 level of 5.445 Mtoe final energy consumption.	Lithuania has set an indicative national energy efficiency target in accordance with Articles 3 and 24 of the Energy Efficiency Directive (2012/27/EU). It has provided, as required, the level final energy use and information on the basis on which data this has been calculated. However, this target is not expressed as required by Article 3 of Directive 2012/27/EU, in terms of absolute primary energy consumption..
Early school leaving target: <9%	Early leavers from education and training (percentage of population aged 18-24 with at most a lower secondary education and not in further education or training) stood at 6.6% in 2012. Lithuania's early school leaving rate remains below the EU average and has fallen steadily over the last few years. The target has been achieved.
Tertiary education target: 40%	Tertiary attainment rate stood at 47.9% in 2012 continuing its steady rise over the last few years. The target has been achieved.
Risk of poverty or social exclusion target: 814000	Due to the increase in the number of people who live in households with very low work intensity or are severely materially deprived, the national target has become more ambitious and difficult to reach. The number of people at risk of poverty or social exclusion increased from 985000 in 2009 (29.5% of total population) to 1080000 in 2011 (33.4% of total population). This means that no progress has been made towards achievement of the target.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2009	2010	2011	2012	2013	2014
Core indicators								
GDP growth rate	4.7	7.0	2.7	1.5	5.9	3.6	3.1	3.6
Output gap [1]	-2.7	-1.1	3.7	-8.2	-2.1	-0.5	0.2	1.3
HICP (annual % change)	10.5	0.6	5.5	1.2	4.1	3.2	2.1	2.7
Domestic demand (annual % change) [2]	7.2	7.8	2.0	2.1	5.8	-0.5	3.3	3.9
Unemployment rate (% of labour force) [3]	9.8	14.3	7.2	18.0	15.3	13.3	11.8	10.5
Gross fixed capital formation (% of GDP)	21.8	20.6	23.8	16.4	17.8	16.7	17.1	17.9
Gross national saving (% of GDP)	12.8	14.3	15.2	17.4	16.8	16.6	16.8	17.0
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.5**	**-2.3**	**-2.9**	**-7.2**	**-5.5**	**-3.2**	**-2.9**	**-2.4**
Gross debt	**16.0**	**21.8**	**19.6**	**37.9**	**38.5**	**40.7**	**40.1**	**39.4**
Net financial assets	**33.1**	**9.6**	**5.9**	**-14.7**	**-19.4**	**n.a**	**n.a**	**n.a**
Total revenue	35.6	33.0	33.8	35.2	33.3	32.9	32.6	32.4
Total expenditure	40.1	35.3	36.7	42.4	38.8	36.1	35.6	34.8
of which: Interest	0.9	1.3	0.8	1.8	1.8	1.8	1.8	1.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-6.4**	**-2.8**	**-1.0**	**6.7**	**6.6**	**n.a**	**n.a**	**n.a**
Net financial assets; non-financial corporations	**-86.5**	**-85.3**	**-98.4**	**-97.8**	**-80.5**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-2.4**	**-1.7**	**-0.3**	**3.2**	**0.7**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.3	13.7	15.7	10.8	13.8	n.a	n.a	n.a
Gross operating surplus	23.8	31.0	32.9	36.1	38.5	n.a	n.a	n.a
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**0.8**	**-0.7**	**-2.5**	**4.0**	**-1.3**	**n.a**	**n.a**	**n.a**
Net financial assets	**37.1**	**42.0**	**38.6**	**47.4**	**42.4**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	31.2	31.3	34.4	33.5	31.7	n.a	n.a	n.a
Net property income	10.1	17.3	13.4	16.1	14.0	n.a	n.a	n.a
Current transfers received	10.7	11.3	14.2	18.0	15.5	n.a	n.a	n.a
Gross saving	1.8	2.4	0.4	6.4	0.8	n.a	n.a	n.a
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-10.1**	**-5.7**	**-6.5**	**3.5**	**-0.4**	**1.8**	**1.3**	**0.7**
Net financial assets	**19.4**	**35.8**	**54.7**	**63.2**	**58.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-10.3	-6.1	-8.8	-2.0	-2.8	0.7	0.9	0.6
Net primary income from the rest of the world	-1.5	-1.7	-1.7	-2.0	-3.7	-4.3	-4.9	-5.2
Net capital transactions	-0.1	0.3	2.2	3.8	3.3	2.3	2.3	2.2
Tradable sector	53.5	55.5	53.0	55.4	56.6	58.2	n.a	n.a
Non tradable sector	35.0	33.8	37.1	34.4	33.2	31.7	n.a	n.a
of which: Building and construction sector	6.6	5.8	8.3	5.3	5.9	5.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	73.5	90.7	110.3	105.7	104.8	101.6	103.1	103.2
Terms of trade goods and services (index, 2000=100)	82.9	92.8	98.4	97.0	96.1	95.4	95.7	95.8
Market performance of exports (index, 2000=100)	83.8	87.2	104.2	121.2	127.4	139.5	143.9	146.5

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table II. Comparison of macroeconomic developments and forecasts

	2012		2013		2014		2015	2016
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)[1]	3.6	3.6	3.1	3.0	3.6	3.4	4.3	4.0
Private consumption (% change)	4.7	4.7	2.9	2.0	3.8	5.5	5.7	6.1
Gross fixed capital formation (% change)	-2.5	-2.5	4.8	5.4	6.7	10.5	7.1	3.3
Exports of goods and services (% change)	11.2	11.2	5.4	14.2	6.9	8.1	6.9	3.3
Imports of goods and services (% change)	5.6	5.6	5.6	14.8	7.3	10.0	7.7	4.1
Contributions to real GDP growth:								
- Final domestic demand	2.7	-0.5	2.9	3.4	3.9	5.1	5.1	4.8
- Change in inventories	-3.2	n.a.	0.3	n.a.	0.0	n.a.	n.a.	n.a.
- Net exports	4.2	4.2	-0.1	-0.4	-0.3	-1.7	-0.8	-0.8
Output gap[2]	-0.5	-0.1	0.2	0.2	1.3	0.5	1.5	2.3
Employment (% change)	1.8	1.8	1.3	0.6	1.4	0.6	0.6	0.3
Unemployment rate (%)	13.3	n.a.	11.8	11.5	10.5	10.5	9.8	9.1
Labour productivity (% change)	1.8	4.9	1.8	2.4	2.1	2.8	3.7	3.6
HICP inflation (%)	3.2	3.2	2.1	2.4	2.7	2.8	3.2	3.2
GDP deflator (% change)	2.7	2.7	2.4	2.4	3.0	2.9	3.4	3.6
Comp. of employees (per head, % change)	2.4	3.2	4.1	5.0	3.8	5.2	5.8	6.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.8	0.9	1.3	0.2	0.7	-1.4	-1.8	-2.2

Note:

[1]Since the publication of the Commission spring forecast, 2012 GDP growth has been revised upwards to 3.7%

[2]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission services' 2013 spring forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2012	2013		2014		2015	2016	Change: 2012-2016
	COM	COM	CP	COM[1]	CP	CP	CP	CP
Revenue	**32.9**	**32.6**	**32.2**	**32.4**	**32.2**	**31.5**	**31.1**	**-1.8**
of which:								
- Taxes on production and imports	11.2	11.0	11.2	11.0	11.3	11.2	11.1	0.0
- Current taxes on income, wealth, etc.	4.9	4.9	4.9	4.9	4.9	4.9	5.0	0.0
- Social contributions	11.3	11.4	11.4	11.3	11.3	11.2	11.1	-0.3
- Other (residual)	5.5	5.3	4.6	5.1	4.6	4.2	3.9	-1.6
Expenditure	**36.1**	**35.6**	**34.7**	**34.8**	**33.7**	**32.0**	**30.6**	**-5.6**
of which:								
- Primary expenditure	34.3	33.7	32.8	33.0	31.8	30.2	28.8	-5.5
of which:								
Compensation of employees	9.6	9.6	9.7	9.5	9.3	9.1	8.8	-0.9
Intermediate consumption	5.2	5.0	5.6	4.7	5.4	5.2	5.1	-0.1
Social payments	13.9	13.5	13.3	13.3	12.6	12.1	11.7	-2.2
Subsidies	0.3	0.3	0.3	0.3	0.3	0.3	0.2	-0.1
Gross fixed capital formation	3.9	3.7	2.9	3.6	3.2	2.6	2.2	-1.6
Other (residual)	1.4	1.7	0.9	1.7	1.0	0.9	0.8	-0.6
- Interest expenditure	1.8	1.8	1.9	1.8	1.9	1.8	1.7	-0.1
General government balance (GGB)	**-3.2**	**-2.9**	**-2.5**	**-2.4**	**-1.5**	**-0.5**	**0.5**	**3.7**
Primary balance	**-1.4**	**-1.1**	**-0.6**	**-0.7**	**0.4**	**1.3**	**2.2**	**3.6**
One-off and other temporary measures	0.1	-0.2	0.2	0.0	0.3	0.3	0.2	0.2
GGB excl. one-offs	**-3.3**	**-2.8**	**-2.7**	**-2.4**	**-1.8**	**-0.8**	**0.3**	**3.6**
Output gap[2]	-0.5	0.2	0.2	1.3	0.5	1.5	2.3	2.8
Cyclically-adjusted balance[2]	-3.1	-3.0	-2.6	-2.8	-1.6	-1.0	-0.2	2.9
Structural balance (SB)[3]	**-3.2**	**-2.8**	**-2.7**	**-2.8**	**-1.9**	**-1.2**	**-0.5**	**2.7**
Change in SB	*1.7*	*0.3*	*0.4*	*0.0*	*0.8*	*0.7*	*0.8*	-
Two year average change in SB	*0.8*	*1.0*	*1.1*	*0.2*	*0.6*	*0.8*	*0.7*	-
Structural primary balance[3]	-1.3	-1.0	-0.8	-1.0	-0.1	0.6	1.3	2.6
Change in structural primary balance		*0.3*	*0.5*	*0.0*	*0.8*	*0.6*	*0.7*	-
Expenditure benchmark								
Applicable reference rate[4]	0.76	0.76	0.76	0.40	0.40	0.40	1.88	-
Deviation[5] (% GDP)	-2.8	0.2	-0.1	0.2	-0.5	-0.2	-0.1	-
Two-year average deviation (% GDP)	-2.1	-1.3	-1.5	0.2	-0.3	-0.4	-0.2	-

Notes:

[1] On a no-policy-change basis.

[2] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

[3] Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A positive sign implies that expenditure growth exceeds the applicable reference rate.

Source :
Convergence programme (CP); Commission services' 2013 spring forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2007-2011	2012	2013		2014		2015	2016
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**27.6**	**40.7**	**40.1**	**39.7**	**39.4**	**41.2**	**39.6**	**34.5**
Change in the ratio	4.1	2.2	-0.5	-0.9	-0.8	1.4	-1.6	-5.1
Contributions[2] *:*								
1. Primary balance	**4.1**	**1.4**	**1.1**	**0.6**	**0.7**	**-0.4**	**-1.3**	**-2.2**
2. "Snow-ball" effect	**0.0**	**-0.5**	**-0.3**	**-0.2**	**-0.7**	**-0.5**	**-1.1**	**-1.1**
Of which:								
Interest expenditure	1.2	1.8	1.8	1.9	1.8	1.9	1.8	1.7
Growth effect	-0.3	-1.3	-1.2	-1.2	-1.3	-1.3	-1.6	-1.5
Inflation effect	-0.9	-1.0	-0.9	-0.9	-1.1	-1.1	-1.3	-1.3
3. Stock-flow adjustment	**0.1**	**1.2**	**-1.3**	**-1.3**	**-0.7**	**2.3**	**0.9**	**-1.7**
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation				0.0		0.0	0.0	0.0
Val. effect & residual								

	2012	2013		2014		2015	2016
		COM / CP[3]	CP[4]	COM / CP[3]	CP[4]	CP	CP
Gap to the debt benchmark[5,6]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
Structural adjustment[7]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.
To be compared to:							
Required adjustment[8]	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[3] Assessment of the consolidation path set in CP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the CP assuming growth follows the CP projections.

[5]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections for the previous years are achieved.

Source :

Convergence programme (CP); Commission services' spring 2013 forecasts (COM); Commission services' calculations.

Table V. Sustainability indicators

	LT		EU27	
	No-policy change scenario	**Programme (SCP) scenario**	**No-policy change scenario**	**Programme (SCP) scenario**
S2	5.7	3.5	3.0	1.3
of which:				
Initial budgetary position (IBP)	1.8	-0.3	0.8	-0.9
Long-term cost of ageing (CoA)	3.9	3.8	2.2	2.2
of which:				
Pensions	3.1	3.0	1.0	1.1
Health care	0.4	0.4	0.9	0.8
Long-term care	0.7	0.7	0.6	0.6
Others	-0.3	-0.3	-0.4	-0.3
S1 (required adjustment)*	1.0	-2.1	2.2	0.5
of which:				
Initial budgetary position (IBP)	1.5	-1.1	0.0	-1.8
Debt requirement (DR)	-1.2	-1.7	1.9	1.9
Long-term cost of ageing (CoA)	0.7	0.8	0.3	0.4
S0 (risk for fiscal stress)**	0.22		:	
Debt, % of GDP (2012)	40.7		87.0	
Age-related expenditure, % of GDP (2012)	18.3		25.8	

Note:
The 'No-policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the Commissions' spring 2013 forecast until 2014. The 'Programme (SCP)' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.
* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.
** The critical threshold for the S0 indicator is 0.44.

Source:
Commission services; 2013 stability programme.

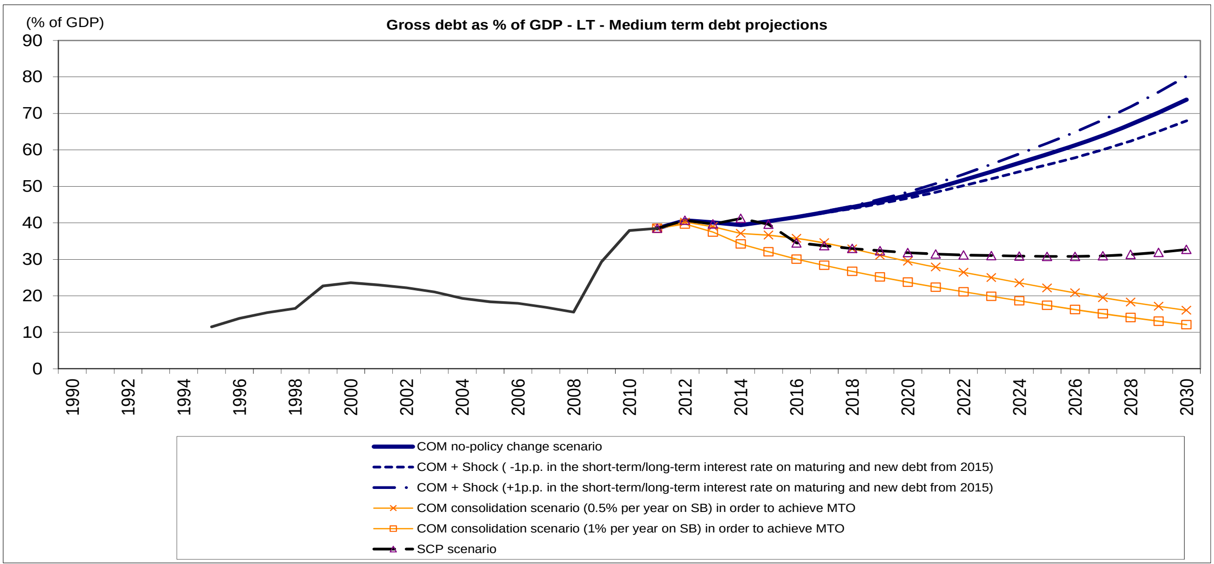

Table VI. Taxation indicators

	2002	2006	2008	2009	2010	2011
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	28.3	29.2	30.1	29.2	27.0	26.0
Breakdown by economic function (% of GDP)[1]						
Consumption	11.6	10.8	11.3	11.1	11.5	11.3
of which:						
- VAT	7.3	7.6	8.0	7.4	7.9	7.9
- excise duties on tobacco and alcohol	1.2	1.3	1.5	1.5	1.5	1.4
- energy	2.0	1.6	1.5	1.9	1.8	1.6
- other (residual)	1.1	0.3	0.4	0.3	0.3	0.3
Labour employed	14.7	14.2	14.3	14.8	13.2	12.6
Labour non-employed	0.2	0.2	0.1	0.1	0.1	0.1
Capital and business income	1.2	3.5	3.8	2.7	1.7	1.5
Stocks of capital/wealth	0.8	0.6	0.5	0.7	0.6	0.6
p.m. Environmental taxes[2]	2.8	1.8	1.6	2.0	1.9	1.7
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	52.3	55.0	57.9	46.3	49.0	50.8

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2013) Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2012), Tax reforms in EU Member States, European Economy 6/2012 and Taxation Papers 34/2012 for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2008	2009	2010	2011	2012
Total assets of the banking sector (% of GDP)	81.8	98.3	93.1	80.2	74.4
Share of assets of the five largest banks (% of total assets)	81.3	80.5	78.8	84.7	…
Foreign ownership of banking system (% of total assets)	84.8	83.4	…	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans)[1),2)]	4.6	19.3	19.7	16.3	18.6
- capital adequacy ratio (%) [1)]	11.6	12.9	14.8	14.2	15.2
- return on equity (%) [1), 3)]	13.5	-48.4	-4.7	17.5	7.0
Bank loans to the private sector (year-on-year % change)	18.1	-8.5	-6.5	-1.1	2.3
Lending for house purchase (year-on-year % change)	24.7	-0.2	-0.8	0.2	-0.7
Loan to deposit ratio	196.1	168.8	154.4	133.3	125.8
CB liquidity as % of liabilities	0.0	0.0	0.0	0.0	0.0
Banks' exposure to countries receiving official financial assistance (% of GDP)	…	…	…	…	…
Private debt (% of GDP)	62.5	69.1	63.8	52.3	…
Gross external debt (% of GDP)[4)]					
- Public	8.5	20.3	29.1	29.5	35.9
- Private	24.6	23.2	21.4	20.3	19.6
Long term interest rates spread versus Bund (basis points)*	1.6	10.8	2.8	2.6	3.3
Credit default swap spreads for sovereign securities (5-year)*	529.2	482.6	258.9	234.9	204.0

Notes:

[1)] Latest data (September 2012).

[2)] 2007 - loans overdue 60 days and more. From 2008 onwards, non-impaired loans overdue more than 60 days plus impaired loans.

[3)] After extraordinary items and taxes. Branches of foreign banks are excluded.

[4)] Latest data 2012Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2007	2008	2009	2010	2011	2012
Employment rate (% of population aged 20-64)	72.9	72.0	67.2	64.4	67.0	68.7
Employment growth (% change from previous year)	2.8	-0.7	-6.8	-5.1	2.0	-6.7
Employment rate of women (% of female population aged 20-64)	69.5	68.8	67.5	65.1	66.6	67.9
Employment rate of men (% of male population aged 20-64)	76.5	75.5	66.9	63.6	67.5	69.4
Employment rate of older workers (% of population aged 55-64)	53.4	53.1	51.6	48.6	50.1	51.8
Part-time employment (% of total employment, 15 years and more)	8.6	6.7	8.3	8.1	8.9	9.4
Part-time employment of women (% of women employment, 15 years and more)	10.2	8.6	9.5	9.3	10.6	11.3
Part-time employment of men (% of men employment, 15 years and more)	7.0	4.9	7.0	6.7	7.1	7.5
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	3.5	2.4	2.2	2.4	2.8	2.6
Transitions from temporary to permanent employment	1.9	2.0	0.5	0.9	:	:
Unemployment rate1 (% of labour force, age group 15-74)	3.8	5.3	13.6	18.0	15.3	13.3
Long-term unemployment rate2 (% of labour force)	1.2	1.1	3.2	7.4	8.0	6.5
Youth unemployment rate (% of youth labour force aged 15-24)	6.8	12.2	29.0	35.3	32.2	26.5
Youth NEET rate (% of population aged 15-24)	7.0	8.9	12.4	13.5	11.5	11.1
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	7.4	7.4	8.7	8.1	7.2	6.5
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	38.0	39.9	40.6	43.8	45.8	48.7
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	2.0	1.0	1.0	2.0	1.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	18.0	8.0	9.0	11.0	6.0	:
Labour productivity per person employed (annual % change)	6.8	3.6	-8.6	7.0	3.8	1.7
Hours worked per person employed (annual % change)	1.1	1.6	-2.3	1.0	-1.3	-8.5
Labour productivity per hour worked (annual % change; constant prices)	5.7	1.9	-6.5	5.9	5.2	11.1
Compensation per employee (annual % change; constant prices)	4.8	4.3	-6.7	-2.4	-1.7	-0.3
Nominal unit labour cost growth (annual % change)	6.6	10.4	-1.5	-6.9	-0.1	1.9
Real unit labour cost growth (annual % change)	-1.9	0.7	2.0	-8.8	-5.3	-0.7

Notes:

[1] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.

[2] Long-term unemployed are unemployed persons for at least 12 months.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2006	2007	2008	2009	2010
Sickness/Health care	4.13	4.33	4.65	5.47	4.72
Invalidity	1.34	1.43	1.61	2.07	1.82
Old age and survivors	5.71	6.52	6.94	9.02	8.06
Family/Children	1.09	1.16	1.83	2.77	2.18
Unemployment	0.40	0.39	0.39	0.90	0.80
Housing and Social exclusion n.e.c.	0.00	0.00	0.00	0.00	0.00
Total	12.88	14.00	15.60	20.60	18.30
of which: means tested benefits	0.23	0.20	0.26	0.49	0.00
Social inclusion indicators	**2007**	**2008**	**2009**	**2010**	**2011**
At-risk-of-poverty or social exclusion[1] (% of total population)	28.7	27.6	29.5	33.4	33.4
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	29.9	29.4	31.0	34.3	33.4
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	39.1	38.1	35.8	30.0	32.5
At-Risk-of-Poverty rate[2] (% of total population)	19.1	20.0	20.6	20.2	20.0
Severe Material Deprivation[3] (% of total population)	16.6	12.3	15.1	19.5	18.5
Share of people living in low work intensity households[4] (% of people aged 0-59)	6.4	5.1	6.9	9.2	12.3
In-work at-risk-of poverty rate (% of persons employed)	8.0	9.4	10.4	12.3	10.1
Impact of social transfers (excluding pensions) on reducing poverty	25.1	26.5	29.9	36.5	37.1
Poverty thresholds, expressed in national currency at constant prices[5]	6787	8163	8485	6867	6696
Gross disposable income (households)	60377	71514	66155	66625	67887
Relative median poverty risk gap (60% of median equivalised income, age: total)	25.7	25.7	23.1	32.6	28.7

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

Sources:
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2003-2007	2008	2009	2010	2011	2012
Labour productivity[1] total economy (annual growth in %)	6.3	3.6	-8.6	7.0	3.8	11.1
Labour productivity[1] in manufacturing (annual growth in %)	8.4	1.0	-3.3	18.2	8.4	12.2
Labour productivity[1] in electricity, gas, steam and air conditioning supply (annual growth in %)	3.7	-0.6	11.3	16.9	-9.5	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	7.0	5.8	-26.2	23.3	18.5	-0.2
Total number of patent[2] applications per million of labour force	7.0	10.0	11.4	13.2	n.a.	n.a.
Policy indicators	**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Enforcing contracts[3] (days)	210	210	275	275	275	275
Time to start a business[3] (days)	26	26	26	22	22	20
R&D expenditure (% of GDP)	0.8	0.8	0.8	0.8	0.9	n.a.
Tertiary educational attainment (% of 30-34 years old population)	34.3	39.9	40.6	43.8	45.8	47.9
Total public expenditure on education (% of GDP)	4.93	4.87	5.64	5.38	n.a.	n.a.
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Total number of patent applications to the European Patent Office (EPO) per million of labour force

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate Energy, Transport and Communications Regulation (ETCR).

*figure for 2007.

Source:
Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

		2002-2006	2007	2008	2009	2010	2011
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.54	0.44	0.42	0.45	0.36	0.35
Carbon intensity	kg / €	1.31	1.19	1.10	1.06	1.09	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.20	2.27	2.35	1.86	n.a.	n.a.
Waste intensity	kg / €	n.a.	n.a.	0.29	n.a.	0.29	n.a.
Energy balance of trade	% GDP	-1.7%	-4.2%	-5.8%	-4.2%	-7.2%	-7.8%
Energy weight in HICP	%	n.a.	13	13	13	14	15
Difference between change energy price and inflation	%	n.a.	5.2	9.1	12	6.4	6.9
Environmental taxes over labour taxes	ratio	16.7%	12.4%	10.8%	13.3%	14.2%	n.a.
Environmental taxes over total taxes	ratio	8.6%	6.1%	5.3%	6.8%	7.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.22	0.20	0.18	0.17	0.18	n.a.
Share of energy-intensive industries in the economy	% GDP	8.6	9.0	8.7	8.1	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.07	0.08	0.09	0.10	0.10
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.02	0.04	0.03	0.03	0.04
Public R&D for energy	% GDP	n.a.	0.00%	0.00%	0.00%	0.00%	0.00%
Public R&D for the environment	% GDP	n.a.	0.02%	0.02%	0.01%	0.00%	0.00%
Recycling rate of municipal waste	ratio	1.1%	3.8%	4.0%	4.4%	5.0%	n.a.
Share of GHG emissions covered by ETS*	%	n.a.	22.9%	24.4%	28.3%	30.2%	25.9%
Transport energy intensity	kgoe / €	n.a.	0.61	0.59	0.52	n.a.	n.a.
Transport carbon intensity	kg / €	n.a.	1.80	1.73	1.54	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	n.a.	61.3%	58.1%	50.3%	82.0%	81.8%
Diversification of oil import sources	HHI	n.a.	0.82	0.87	0.94	0.91	n.a.
Diversification of energy mix	HHI	n.a.	0.27	0.27	0.28	0.30	0.29
Share renewable energy in energy mix	%	n.a.	10.3%	10.9%	12.3%	15.5%	15.0%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
*Provisional data (15 April 213). Commission Services and EEA.
** For 2007 average of S1 & S2 for DE, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for IT, NL, FI, SE & UK. Other countries only have S2.