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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Delegations will find attached document COM(2020) 463 final.

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2020/0216 (NLE)

Proposal for a

COUNCIL IMPLEMENTING DECISION

granting temporary support under Council Regulation (EU) 2020/672 to Lithuania to mitigate unemployment risks in an emergency situation following the COVID-19 outbreak

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Council Regulation 2020/672 ("SURE Regulation") lays down the legal framework for providing Union financial assistance to Member States, which are experiencing, or are seriously threatened with, a severe economic disturbance caused by the COVID-19 outbreak. Support under SURE serves for the financing, primarily, of short-time work schemes or similar measures aimed at protecting employees and the self- employed and thus reducing the incidence of unemployment and loss of income, as well as for the financing, as an ancillary, of some health-related measures, in particular in the workplace.

On 7 August 2020, Lithuania requested Union financial assistance under the SURE Regulation. In accordance with Article 6(2) of the SURE Regulation, the Commission has consulted the Lithuanian authorities to verify the sudden and severe increase in actual and planned expenditure directly related to short-time work schemes and similar measure. In particular, it concerns:

(1) a scheme to pay subsidies to employers to cover estimated wages for each employed person facing idle time. The employer could decide whether to avail of subsidies to cover 70% of the salary, up to a maximum of 1.5 times the minimum wage, or 90% of the salary (100% in the case of employees aged 60 and above), up to a maximum of the minimum wage. Employers that have participated in the scheme must retain at least 50 % of their employees for at least 3 months after the pay subsidy ends.

(2) subsidies for employees returning from idle time, for up to six months following their return to work. Subject to a cap of the minimum wage or two times the minimum wage depending on the economic activity performed by the employer, the amount of the subsidies paid in the first and second months following return can be as high as 100% of an employee's salary, in the third and fourth month, 50% and in the fifth and sixth month, 30%.

(3) benefits for the self-employed, including the self-employed engaged in agricultural activity with an agricultural holding or farm of no less than four economic size units, amounting to EUR 257 a month and paid during the quarantine period and the following two months.

(4) benefits for the self-employed engaged in agriculture with an agricultural holding or farm of less than four economic size units, who were not covered by the aforementioned measure. The measure consists of a one-time payment of EUR 200, for those small farmers who had no other employment, or of EUR 200, for each of the three months of the quarantine and period of state emergency if they were employed, in addition to their self-employed agricultural activity, and earned not more than the minimum wage.

Lithuania provided the Commission with the relevant information.

Taking into account the available evidence, the Commission proposes to the Council to adopt an Implementing Decision to grant financial assistance to Lithuania under the SURE Regulation in support of the above measures.

- **Consistency with existing policy provisions in the policy area**

The present proposal is fully consistent with Council Regulation 2020/672, under which the proposal is made.

The present proposal comes in addition to another Union law instrument to provide support to Member States in case of emergencies, namely Council Regulation (EC) No 2012/2002 of 11 November 2002 establishing the European Union Solidarity Fund (EUSF) ("Regulation (EC) No 2012/2002"). Regulation (EU) 2020/461 of the European Parliament and of the Council, which amends that instrument to extend its scope to cover major public health emergencies and to define specific operations eligible for financing, was adopted on 30 March.

- **Consistency with other Union policies**

The proposal is part of a range of measures developed in response to the current COVID-19 pandemic such as the "Coronavirus Response Investment Initiative", and it complements other instruments that support employment such as the European Social Fund and the European Fund for Strategic Investments (EFSI)/InvestEU. By making use of borrowing and lending in this particular case of the COVID-19 outbreak for supporting Member States, this proposal acts as a second line of defence to finance short-time work schemes and similar measures, helping protect jobs and thus employees and self-employed against the risk of unemployment.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this instrument is Council Regulation 2020/672.

- **Subsidiarity (for non-exclusive competence)**

The proposal follows a Member State request and shows European solidarity by providing Union financial assistance in the form of temporary loans to a Member State affected by the COVID-19 outbreak. As a second line of defence, such financial assistance supports the government's increased public expenditure on a temporary basis in respect of short-time work schemes and similar measures to help them protect jobs and thus employees and self-employed against the risk of unemployment and loss of income.

Such support will help the population affected and helps to mitigate the direct societal and economic impact caused by the present COVID-19 crisis.

- **Proportionality**

The proposal respects the proportionality principle. It does not go beyond what is necessary to achieve the objectives sought by the instrument.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

Due to the urgency to prepare the proposal so that it can be adopted in a timely manner by the Council, a stakeholder consultation could not be carried out.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out.

4. BUDGETARY IMPLICATIONS

The Commission should be able to contract borrowings on the financial markets with the purpose of on-lending them to the Member State requesting financial assistance under the SURE instrument.

In addition to the provision of Member State guarantees, other safeguards are built into the framework in order to ensure the financial solidity of the scheme:

- A rigorous and conservative approach to financial management;
- A construction of the portfolio of loans that limits concentration risk, annual exposure and excessive exposure to individual Member States whilst ensuring sufficient resources could be granted to Member States most in need; and
- Possibilities to roll over debt.

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak [1], and in particular Article 6(1) thereof,

Having regard to the proposal from the European Commission,

Whereas:

(1) On 7 August 2020, Lithuania requested financial assistance from the Union with a view to complementing its national efforts to address the impact of the COVID-19 outbreak and its socio-economic consequences for workers.

(2) The COVID-19 outbreak and the extraordinary measures implemented by Lithuania to contain the outbreak and its socio-economic and health-related impact are expected to have a dramatic impact on public finances. According to the Commission's 2020 Spring forecast, Lithuania was expected to have a general government deficit and debt of 6.9% and 48.5% of gross domestic product (GDP) respectively by the end of 2020 According to the Commission's 2020 Summer interim forecast, Lithuania's GDP is projected to decrease by 7.1% in 2020

(3) The COVID-19 outbreak has immobilised a substantial part of the labour force in Lithuania. This has led to a sudden and severe increase in public expenditure in Lithuania in respect of wage subsidies during and after idle time and benefits to the self-employed, including benefits for the self-employed engaged in agricultural activities, as set out in recitals 4 to 7.

(4) "Law on Employment No XII-2470", as it is referred to in Lithuania's request of 7 August 2020, introduced a scheme to pay subsidies to employers to cover estimated wages for each employed person facing idle time. The employer could choose between subsidies to cover 70% of the salary, up to a maximum of 1.5 times the minimum wage, or 90% of the salary (100% in the case of employees aged 60 and above), up to a maximum of the minimum wage. Employers that have participated in the scheme must retain at least 50 % of their employees for at least 3 months after the pay subsidy ends.

(5) Subsidies are also paid for employees returning from idle time, for up to six months following their return to work. Subject to a cap of the minimum wage or two times the minimum wage depending on the economic activity carried out by the employer, the

[1] OJ L 159, 20.5.2020, p.1.

amount of the subsidies paid in the first and second months following return can be as high as 100% of an employee's salary, in the third and fourth months, 50% and in the fifth and sixth months, 30%. Those subsidies can be considered a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as they aim to provide income support to employees and help maintain existing employment relationships.

(6) The authorities have also introduced benefits for the self-employed, including the self-employed persons engaged in agricultural activity with an agricultural holding or farm of no less than four economic size units, amounting to EUR 257 a month and paid during the quarantine period and the following two months. The benefits for the self-employed can be considered a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as they aim to protect the self-employed or similar categories of workers from reduction or loss of income.

(7) Finally, benefits have been introduced for self-employed persons engaged in agriculture with an agricultural holding or farm of less than four economic size units, who were not covered by the measure described in recital 6. The measure consists of a one-time payment of EUR 200, for those small farmers who had no other employment. For small farmers who were employed, in addition to their self-employed agricultural activity, and did not earn more than the minimum wage, the measure consists of a payment of EUR 200, for each of the three months of the quarantine period and of the period of state emergency. The measure can be considered a similar measure to short-time work schemes, as referred to in Regulation (EU) 2020/672, as it aims at protecting the self-employed or similar categories of workers from reduction or loss of income.

(8) Lithuania fulfils the conditions for requesting financial assistance set out in Article 3 of Regulation (EU) 2020/672. Lithuania has provided the Commission with appropriate evidence that the actual and planned public expenditure has increased by EUR 746 660 000 as of 1 February 2020 due to the national measures taken to address the socio-economic effects of the COVID-19 outbreak. This constitutes a sudden and severe increase because the new measures cover a significant proportion of undertakings and of the labour force in Lithuania. Lithuania intends to finance EUR 144 350 000 of the increased amount of expenditure through Union funds.

(9) The Commission has consulted Lithuania and verified the sudden and severe increase in the actual and planned public expenditure directly related to short-time work schemes and similar measures, in accordance with Article 6 of Regulation (EU) 2020/672.

(10) Financial assistance should therefore be provided with a view to helping Lithuania to address the socio-economic effects of the severe economic disturbance caused by the COVID-19 outbreak.

(11) This decision should be without prejudice to the outcome of any procedures relating to distortions of the operation of the internal market that may be undertaken, in particular under Articles 107 and 108 TFEU. It does not override the requirement for Member States to notify instances of potential State aid to the Commission under Article 108 TFEU.

(12) Lithuania should inform the Commission on a regular basis of the implementation of the planned public expenditure, in order to enable the Commission to assess the extent to which Lithuania has implemented that expenditure.

(13) The decision to provide financial assistance has been taken taking into account existing and expected needs of Lithuania, as well as requests for financial assistance pursuant to Regulation (EU) 2020/672 already submitted or planned to be submitted by other Member States, while applying the principles of equal treatment, solidarity, proportionality and transparency

HAS ADOPTED THIS DECISION:

Article 1

Lithuania fulfils the conditions set out in Article 3 of Regulation (EU) 2020/672.

Article 2

1. The Union shall make available to Lithuania a loan amounting to a maximum of EUR 602 310 000. The loan shall have a maximum average maturity of 15 years.
2. The availability period for financial assistance in line with this Decision shall be 18 months starting from the first day after the entry into force of this Decision.
3. The Union financial assistance shall be made available by the Commission to Lithuania in a maximum of eight instalments. An instalment may be disbursed in one or several tranches. The maturities of the tranches under the first instalment may be longer than the maximum average maturity referred to in paragraph 1. In such cases, the maturities of further tranches shall be set so that the maximum average maturity referred to in paragraph 1 is respected once all instalments have been disbursed.
4. The first instalment shall be released subject to the entry into force of the loan agreement provided for in Article 8(2) of Regulation (EU) 2020/672.
5. Lithuania shall pay the cost of funding of the Union referred to in Article 4 of Regulation (EU) 2020/672 for each instalment plus any fees, costs and expenses of the Union resulting from any funding.
6. The Commission shall decide on the size and release of instalments, as well as on the size of the tranches.

Article 3

Lithuania may finance the following measures:

(a) wage subsidies during and after idle time, as provided for in Article 41 of the Law on Employment No XII-2470;

(b) benefits to the self-employed, as provided for in Article 5-1 of the Law on Employment No XII-2470;

(c) benefits to the self-employed engaged in agriculture, as provided for in Article 5-2 of the Law on Employment No XII-2470.

Article 4

Lithuania shall inform the Commission by [*DATE: 6 months after date of publication of this Decision*], and every 6 months thereafter of the implementation of the planned public expenditure until such time as that planned public expenditure has been fully implemented.

Article 5

This Decision is addressed to the Republic of Lithuania.

Article 6

This Decision shall be published in the *Official Journal of the European Union*.

Done at Brussels,

For the Council
The President