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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Lithuania

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalised by the Economic and Financial Committee, based on the Commission Proposal COM(2026) 215 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Lithuania

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30 April 2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Lithuania. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Lithuania as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[2] on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

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[2] OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation[3]. Recovery and resilience plans (RRPs) along with cohesion policy funding have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Lithuania. It assessed Lithuania's progress in addressing the 2025 country-specific recommendations and took stock of Lithuania's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Lithuania is facing. It also assessed Lithuania's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(6) On 8 July 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Lithuania[4]. The plan covers the period from 2025 until 2029 and presents a fiscal adjustment spread over four years. The Council recommended the following maximum growth rates of net expenditure: 6.1% in 2025, 5.2% in 2026, 4.8% in 2027, 4.5% in 2028 and 4.3% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2024 of 6.1% in 2025, 11.6% in 2026, 17.0% in 2027, 22.3% in 2028 and 27.5% in 2029.

(7) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[5] and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Lithuania, on 8 July 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Lithuania to deviate from the recommended maximum growth rates of net expenditure[6]. The period when the national escape clause is activated (2025-2028) allows Lithuania to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

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4 Council Recommendation of 8 July 2025 endorsing the national medium-term fiscal-structural plan of Lithuania (OJ C, C/2025/3959, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3959/oj).

5 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.3.2025, C(2025) 2000 final.

6 Council Recommendation of 8 July 2025 allowing Lithuania to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2025/3969, 20.8.2025, ELI: http://data.europa.eu/eli/C/2025/3969/oj).

(8) On 30 April 2026, Lithuania submitted its 2026 Annual Progress Report[7] on adherence to the recommended maximum growth rates of net expenditure and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations.

(9) Real GDP growth in 2025 was 2.9% and HICP inflation stood at 3.4%. The Commission Spring 2026 Forecast projects real GDP to grow by 3.0% in 2026 and 2.1% in 2027, and HICP inflation to stand at 4.4% in 2026 and 2.7% in 2027.

(10) Based on data provided by Eurostat[8], Lithuania's general government deficit increased from 1.3% of GDP in 2024 to 1.8% of GDP in 2025, mainly due to higher social transfers and increases in public wages. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 2.2% of GDP in 2026 and 2.7% of GDP in 2027. The increase in the deficit in 2026 and in 2027 is driven by the expenditure side, in particular by higher spending on national investments (2026), defence (2027) and social transfers and interest payments (both years).

[7] The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

[8] Eurostat-Euro Indicators, 22.04.2026.

(11) Based on the Commission's estimates, the fiscal stance[9], which includes both nationally and EU financed expenditure, was expansionary, by 1.4% of GDP, in 2025. It is projected to be expansionary, by 1.0% of GDP, in 2026, and contractionary, by 0.4% of GDP, in 2027.

(12) Based on data provided by Eurostat[10], Lithuania's general government debt increased from 38.0% of GDP at the end of 2024 to 39.5% of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects the stock-flow adjustment. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 44.6% by the end of 2026 and further to 48.4% by the end of 2027. Lithuania's public debt increase is driven by significant stock-flow adjustments mainly related to social security fund surpluses which result in asset accumulation rather than debt repayments and the pre-financing of defence expenditure, as well as increasing deficit.

(13) Based on Eurostat data[11], total general government defence expenditure in Lithuania amounted to 2.7% of GDP in 2025, corresponding to an increase of 1.2 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 2.9% of GDP in 2026, corresponding to an increase of 1.5 percentage points of GDP compared to 2021[12].

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9 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

10 Eurostat-Euro Indicators, 22.04.2026.

11 Eurostat, government expenditure by classification of functions of government (COFOG).

12 The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Lithuania has adopted a number of fiscal policy measures to mitigate the impact of high energy prices on households and firms[13]. These include an untargeted reduction in the excise tax on diesel and a targeted reduction in the excise tax on agriculture diesel, both from 16 April to 15 June 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to less than 0.1% of GDP in 2026. According to Commission estimates, if these measures were to remain in force until end-2026, their fiscal cost would amount to 0.1% of GDP in 2026.

(15) Based on the Commission's calculations, net expenditure in Lithuania grew by 10.5% in 2025. The net expenditure growth in 2025 is above the recommended maximum growth rate, corresponding to a deviation of 1.5% of GDP in annual terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, the cumulative deviation of net expenditure amounts to 0.3% of GDP.

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13 This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

(16) Based on the Commission's calculations, net expenditure in Lithuania is projected to grow by 7.2% in 2026, and 18.4% cumulatively over 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0.7% of GDP in annual terms. When considering 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 2.2% of GDP in cumulative terms. Taking into account the flexibility for higher defence spending provided for by the national escape clause, considering 2025 and 2026 together, the projected cumulative deviation of net expenditure amounts to 0.7% of GDP.

(17) The general government tax revenue remains low compared with the EU average, at 33.3% of GDP in 2024, against 40.4% in the EU. In particular, revenue from recurrent immovable property and environmental taxation, which are less detrimental to growth, remains low, at 0.3% and 1.8% of GDP respectively in Lithuania, compared with 0.9% and 2.1% in the EU. While the recent recurrent immovable property tax reform improved the updating of cadastral values to market prices, its revenue potential remains constrained by the high exemption threshold for primary residences and limited rate progressivity. At the same time, despite the positive changes introduced by the 2026 tax reform, the tax system continues to allow tax arbitrage between employment, self-employment and certain incorporated business forms, creating distortions, reducing progressivity and weakening revenue collection. Although progress in digitalising tax administration and the widespread use of electronic filing and pre-filled returns have helped reduce the VAT compliance gap to 13.2% in 2024, compliance challenges persist, and the shadow economy remains above the EU average. Despite progress in phasing out fossil fuel subsidies, several non-targeted support measures still remain in place, including reduced excise duties on natural gas used for heating and preferential tax treatment for certain fossil fuel uses. In particular, fossil fuel subsidies that neither tackle energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial to industrial competitiveness could be considered a phase-out priority.

(18) Despite recent increases, public spending on health and long-term care, social protection and general public services remains well below the EU average, limiting timely and equal access to high-quality services. Based on Eurostat data[14], in 2024, spending on social protection stood at 14.7% of GDP, compared to 19.6% in the EU, while healthcare spending amounted to 5.8% of GDP, against 7.4% in the EU and long-term care at 1.0% against 1.7% in the EU. Spending on general public services[15] remained structurally low at 3.6% of GDP, among the lowest levels in the EU. In healthcare, persistent underinvestment, including in infrastructure, continue to weigh on access, quality and outcomes. The funding model of healthcare institutions lacks effectiveness as revenues from health insurance contributions remain structurally insufficient to cover the demand for and cost of healthcare services, contributing to increasing deficit of the National Health Insurance Fund, debts of the healthcare institutions, unmet healthcare needs and one of the highest out-of-pocket payments for the patients in the EU, with pharmaceuticals and dental care each accounting for a third of these payments. In social protection, low spending continues to limit the poverty-reducing impact of transfers, while gaps persist in the provision of social services, also due to the weakness in the current funding model. Although Lithuania finances a considerable share of social services from the national budget and plans to introduce individualised social service baskets setting minimum funding levels, social services financed from municipal budgets remain uneven across municipalities, do not fully match actual demand, and are often characterised by long waiting times and insufficient municipal funding.

14 Eurostat, government expenditure by classification of functions of government (COFOG).

15 According to the COFOG classification, "general public services" refer to expenditure for the overall functioning of government, including central administration, legislative and executive bodies, fiscal and foreign affairs, public debt transactions and general transfers between levels of government.

(19) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(20) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF) in Lithuania, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Lithuania is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening in implementation, including those relating to persistent regional disparities, innovation performance outside major urban centres, transport decarbonisation, and accessibility of public services particularly in rural areas. At the same time, Lithuania needs to accelerate implementation of the JTF as resources are due for disbursement by the end of 2026. It is essential to ensure that the new investments identified by Lithuania in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[16], are deployed rapidly and effectively.

[16] Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(21) As a country on the eastern external border of the EU, Lithuania faces additional challenges hindering its prospects for economic and social development as existing structural challenges are exacerbated. Impact from Russia's war of aggression against Ukraine increases security pressures, disrupts cross-border economic activities and decreases investment attractiveness and further limits access to finance. Security concerns for people and critical infrastructure require investments in civil protection, preparedness and military mobility across the whole country, which could provide opportunities for the regions' economies, while adding further pressure on the financing of public services.

(22) Lithuania faces several challenges related to improving access to finance for small and medium-sized enterprises (SMEs), strengthening innovative capacity, boosting energy efficiency and renewable energy uptake, strengthening social protection and healthcare systems, and addressing disparities in education and job-market-relevant skills.

(23) The banking sector remains strong by EU standards, but access to finance is hindered by high risk aversion and structural constraints. Despite ample liquidity and deposits, banks convert a relatively small share into lending, reflecting persistent inefficiencies. At the same time, Lithuanian capital markets remain shallow and illiquid despite efforts to foster regional integration with Estonia and Latvia. Market capitalisation on Nasdaq Vilnius stands at around 6.2% of GDP (Q3 2025), well below pre-2009 levels (30%) and the EU average (69.9%) and is constrained by a low number of listed companies, limiting investment opportunities and local capital raising. Furthermore, the Lithuanian Parliament (Seimas) amended the Law on the Accumulation of Pensions in June 2025, replacing automatic enrolment in the second pillar with voluntary participation and allowing broad partial and full withdrawals of pension savings. These changes have significantly reduced participation (by 38% in Q1 2026) and have further eroded Lithuania's already very low level of savings accumulated in the pension funds, which stood at 12.2% of GDP at the end of in 2024 before the reform.

(24) Lithuania continues to face moderate levels of innovative activity, lagging behind the EU average on several research and innovation (R&I) indicators. While public research and development (R&D) investment is on track to meet national targets, R&D intensity in Lithuania (around 1% of GDP) is well below the EU average (2.24%), mainly due to low levels of business investment in R&D (one third of the EU average). Similarly, the number of patent applications is still three times below the EU average. Although Lithuania provides generous R&D tax incentives, their uptake remains limited among SMEs. To review and streamline tax incentives, a reform has been proposed by the Ministry of Economy and Innovation to simplify the application process for obtaining such incentives, but it has not yet passed the Government vote. In order to further encourage private R&D investment, Lithuania could additionally fine-tune tax incentives to support young firms that are still loss-making.

(25) Enrolment in tertiary education for science, technology, engineering and mathematics (STEM) fields remains low (25% compared to EU target of 32%), with large gender disparities (women comprise only 27.3% of STEM students compared to the EU average of 32.2%). Coupled with high dropout rates and relatively low labour market absorption of STEM graduates, this contributes to persistent labour shortages in key transition and growth sectors, notably information and communications technology. While additional STEM scholarships have been introduced for students in regions outside Kaunas and Vilnius, further targeted measures are needed to incentivise enrolment, close the gender gap, and reduce dropout rates.

(26) Lithuania's rate of public-private scientific co-publications ranks lowest in the EU, while public expenditure on R&D financed by business enterprises stands at one third of the EU average, both pointing to weak science-business linkages. An important contributing factor is the structural and institutional weakness of the public science base, with research and innovation capacity spread across numerous universities and research institutions. Lithuania plans to carry out a comprehensive performance evaluation of the entire public research base – universities, colleges, and research institutes. However, this exercise will begin in 2028. In addition, while Lithuania's current intellectual property (IP) regime allows shared ownership between universities and businesses, businesses are not always aware of this flexible regime, which hinders science-business cooperation.

(27) Regional disparities in Lithuania remain significant and are widening, as Vilnius and a few larger cities concentrate population, higher incomes and quality public services, while other counties, especially rural areas, lag behind. Although the legal basis for intermunicipal cooperation has been strengthened, cooperation in practice remains limited and fragmented, constrained by underdeveloped cost-sharing arrangements, uneven administrative capacity and high fiscal centralisation. Implementation so far has largely relied on ad-hoc agreements, delegation or contracting models and sector-specific arrangements, rather than a systematic framework for durable joint service provision across several municipalities. A stronger institutional support, combined with adequate incentives, would help pool resources, improve the provision of public services and infrastructure, and attract investment to lagging regions.

(28) Lithuania has made progress in expanding domestic renewable energy capacity, which increased by more than 30% compared to 2024 to 6 121 MW in 2025, driven by strong growth in solar and onshore wind. The country has also expanded decentralised renewable generation. Lithuania is progressing to reduce its reliance on imported electricity, but challenges remain in expanding system flexibility and ensuring market integration for renewable energy projects. This exposes the country to external price fluctuations and reinforces the need to protect critical infrastructure to avert potential supply risks. Lithuania has strengthened its electricity system, including through reforms to streamline permitting, investments in transmission infrastructure and storage, and the synchronisation with the Continental European Synchronous Area. Nevertheless, constraints in grid capacity, system flexibility and cross-border interconnections continue to limit the integration of renewable energy and contribute to price volatility.

(29) Residential energy consumption continues to increase as the housing stock expansion and growing floor area of existing buildings outweigh efficiency gains from renovation measures. Heating and cooling account for 79% of the residential energy consumption, still largely natural gas-based even with a growing penetration of renewable sources. Despite significant efforts made in recent years – to improve coordination of and advance building renovations – Lithuania is at risk of missing its targeted (15%) reduction in primary energy consumption by 2030, which in turn, impedes progress in addressing energy security and energy poverty. Further and accelerated roll out of building renovations is needed to lower energy demand and costs of heating and cooling. Implementation of measures in this vein faces structural challenges, including implementation bottlenecks, such as labour shortages, which will need to be addressed.

(30) Lithuania faces challenges in its transition towards a circular economy and a net-zero industry. Progress on reuse and recycling has stalled and treatment remains concentrated in the lower levels of the waste hierarchy. Resource productivity in Lithuania is two times lower than the EU average and the fourth lowest in the EU, impacting industries' resource efficiency and production costs. The circular material use rate is three times lower than the EU average and has stagnated at the same level for the past 10 years. Industry is not a major source of emissions in Lithuania, but its emission intensity is nearly twice the EU average. Still, a harmonised approach to promoting decarbonisation of industrial production, circular techniques and net-zero technologies, combining policy incentives and funding mechanisms, is lacking. Meanwhile, industrial transition could be coupled with a shift to a more circular economy especially in packaging, construction materials and bioeconomy value chains. Lithuania's supply chains are more dependent on ecosystem services than the EU average, while the vulnerability of transport infrastructure to climate-related risks is among the highest in the EU. Investment in the protection of natural capital and climate adaptation is therefore important for economic competitiveness.

(31) Transport emissions in Lithuania remain persistently high, with road transport accounting for 44% of effort-sharing emissions in 2024. Despite initial steps to increase the uptake of sustainable transport, passenger travel is characterised by extreme car dependency, with 92.1% of journeys made by private vehicles in 2024. This reliance is sustained by one of the oldest and most polluting car fleets in the EU, where over 27% of vehicles are at least 20 years old and 63.4% remain diesel-powered. The adoption of cleaner alternatives remains slow, as newly registered battery-electric vehicles accounted for only 5.9% of the market in 2024, significantly below the EU average of 13.6%. Fiscal barriers, such as the absence of an annual car pollution tax, continue to disincentivise fleet renewal, while the lack of implemented e-tolling for heavy-duty vehicles hinders the uptake of green freight alternatives. Efforts to improve the coordination and attractiveness of public transport are ongoing but have not yet resulted in a significant modal shift. Public transport uptake is hampered by poor inter-municipal connectivity and fragmented planning. Rail transport continues to hold untapped potential for decarbonisation, yet its environmental impact is limited by a low electrification rate of 7.9%, compared to the EU average of 56.9%. While projects like the electrification of the Kaišiadorys-Klaipėda line are progressing, the cross-border Rail Baltica project faces delays and is not expected to be completed before 2030.

(32) Lithuania's healthcare system is characterised by a high rate of treatable and preventable mortality, and a life expectancy at birth that is below the EU average. The country's healthcare outcomes are also marked by a higher working-age mortality rate than the EU average, and a significant proportion of the population facing challenges in accessing quality healthcare services. Furthermore, the healthcare system is affected by a shortage of health professionals, particularly in remote areas, and an ageing nursing workforce, which impacts the provision of healthcare services. The uneven geographical distribution of doctors and the relatively low remuneration of general practitioners also limit access to care. Additionally, the long-term care (LTC) system faces significant challenges, with a low number of LTC workers per 100 individuals aged 65 and above, and the comprehensive and integrated LTC model is still under implementation.

(33) While recent reforms, including the minimum income reform, are being implemented, Lithuania continues to face significant challenges in addressing income inequality, poverty and social exclusion, with progress so far remaining limited. In 2025, the share of people at risk of poverty or social exclusion increased for the second consecutive year reaching to 26.3%, well above the EU average, putting Lithuania's 2030 poverty reduction target at significant risk. Income inequality also remains one of the highest in the EU. Vulnerable groups are particularly affected, notably persons with disabilities, whose risk of poverty or social exclusion remains the highest in the EU, people aged 65 and above, and people living in rural and remote regions. These challenges point to weaknesses in the coverage, adequacy and effectiveness of the social protection (including pensions) system. The poverty-reducing impact of social benefits remains limited despite a small rebound in 2025. The adequacy of key benefits remains low, as average unemployment benefits, old-age pensions, and social assistance remain below the poverty threshold, while gaps in coverage persist, notably among the self-employed. Recent changes to the second pillar pension scheme, including ending automatic enrolment and expanding withdrawal options, may further weaken future pension adequacy. Significant territorial disparities in access to social services persist across municipalities. The provision of social services remains uneven, while their financing is too dependent on EU funds and insufficiently aligned with local demand. These weaknesses are compounded by the lack of comprehensive local-level data, a centralised database and an effective centralised monitoring system for social services, limiting the oversight, planning and management of social service provision across the country.

(34) Lithuania continues to face a very high number of applicants for social housing and long waiting times. In 2025, 10 750 families were on waiting lists, and the average waiting time for social housing was 5.53 years in 2025. Although considerable amounts of EU funding have been earmarked to improve access to and the quality of social housing, these efforts are expected to address the problem only partially. This underscores the need for further measures, including through construction of additional housing units and appropriate social policy, to ensure that social housing meets basic quality and safety standards and is accessible to vulnerable groups.

(35) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Lithuania can contribute to the implementation of the Council Recommendation on human capital in the Union.

(36) Lithuania's general education system faces persistent challenges, including inequity and significant urban-rural disparities. Rural areas experience lower participation in early childhood education and care, weaker educational outcomes. While RRF funded initiatives, such as the Millennium Schools Programme, have enhanced inclusivity and learning outcomes in some schools, recent policy adjustments allowing smaller classes in rural gymnasiums risk undermining the progress of improving the quality, equity and efficiency of the schools network.

(37) The teaching profession faces persistent shortages, particularly in rural areas and STEM disciplines. With nearly half of young teachers intending to leave the profession within five years and a workforce that has the highest proportion of ageing teachers in lower secondary schools in the EU, the education system faces significant challenges. To address these shortages, targeted measures to attract and retain teachers are essential.

(38) Labour shortages in key sectors such as healthcare, public administration, transport, and finance, underscores weaknesses in the current skills training system. Lithuania's vocational education and training (VET) remain insufficiently attractive, directly contributing to labour shortages. This lack of appeal in VET programs exacerbates workforce gaps that hinder economic productivity and growth. Strengthening career guidance in schools through practical measures like VET job shadowing and employer visits training could significantly improve students' awareness of vocational opportunities and enhance the attractiveness of VET. With important reforms in higher education, Lithuania has taken steps to increase the labour market relevance of higher education, but improved outcomes in terms of labour market alignment are only expected as of 2028. Continuous strengthening of the labour market relevance and coverage of adult education, especially for unemployed, low-skilled, and other vulnerable groups, is essential to addressing skills gaps and labour shortages.

(39) Persistent unemployment, including long-term unemployment, signals weaknesses in the functioning of active labour market policies. In Lithuania, demand for active labour market policies consistently exceeds the actual number of participants, which negatively affects the coverage of these policies and, consequently, the labour market integration of the unemployed. While active labour market policies rely heavily on EU funding, this funding is being depleted, which together with insufficient budget allocation and rising policy costs constitute main factors behind the low coverage of active labour market policies. In 2025, participation in these policies fell to nearly one-third of 2024 levels and is expected to remain at this level also in 2026. Increasing national financing and developing a sustainable funding model could improve active labour market policy coverage and help reduce unemployment. Rapidly ageing society and the projected shrinking of the labour force calls for additional efforts to boost the labour market integration of people with disabilities, youth not in education, employment, or training, and other vulnerable groups, which need efforts beyond active labour market policies. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework[17].

(40) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026 the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the 2026 Recommendation on the economic policy of the euro area. For Lithuania, the recommendation (1) helps implement the first, the second and the third recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the fifth, seventh and eleventh recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (5) and (6) help implement the fifth recommendation on the euro area,

[17] SWD(2026)122 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2026.

HEREBY RECOMMENDS that Lithuania take action in 2026 and 2027 to:

1. Take action to control net expenditure so that it respects the maximum growth rates recommended by the Council on 8 July 2025, given the deviation recorded by 2025 and the material deviation projected for 2026 by the Commission vis-à-vis the recommended net expenditure ceiling, while making use of the flexibility under the national escape clause activated by the Council. Reinforce overall defence and security spending and readiness, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Continue to broaden general government revenue by increasing the role of taxes less detrimental to growth, by improving tax compliance, by further rationalising and simplifying special tax regimes, and by continuing the phase out of non-targeted fossil fuel subsidies. Provide adequate financing for healthcare, social protection and general public services, and improve the funding models of social services and healthcare institutions.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework. Address the unique socio-economic, security and civil preparedness challenges affecting regions on the EU's external eastern border, including the need to invest in dual-use infrastructure.

3. Improve access to finance for small and medium-sized enterprises, including by stimulating competition in financial services, enhancing capital market liquidity, encouraging greater participation in financial markets. Facilitate private investment in R&D, including by reviewing existing tax incentives. Develop incentives for business-science collaboration, inter alia, by reinforcing capacity of the public science base to contribute to business innovation. Incentivise enrolment in post-secondary education STEM fields in particular for women. Address regional disparities by strengthening institutional support and incentives to promote intermunicipal cooperation for shared public services provision and attracting investments to regions.

4. Further reduce reliance on fossil fuels and imported energy and ensure sufficient capacity in and access to the electricity grid to support the deployment of renewable energy. Accelerate and scale up building renovations, including by addressing implementation bottlenecks, such as labour shortages. Advance the clean industrial transformation and the shift to a circular economy, including by increasing resource productivity. Accelerate transport decarbonisation, especially road and rail, including through the completion of Rail Baltica, and improve the coordination and attractiveness of public and sustainable transport to increase its uptake.

5. Strengthen access to primary, preventive and community-based care and increase the availability of health and long-term care professionals, particularly in remote areas. Address income inequality and poverty by increasing the coverage and adequacy of the social protection system, further developing a centralised monitoring system for social services, and expanding quality affordable and social housing.

6. Improve the quality, equity and efficiency of the general education system, particularly by addressing the urban-rural achievement gap, while increasing the attractiveness of the teaching profession to address shortages. Address skills shortages by increasing the labour market relevance of higher education, increasing the attractiveness of VET, improving adult learning, including for vulnerable groups, and increasing the coverage of active labour market policies.

Done at Brussels,

For the Council
The president