COUNCIL OF
THE EUROPEAN UNION

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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject:	COUNCIL RECOMMENDATION on the National Reform Programme 2012 of Lithuania and delivering a Council opinion on the Convergence Programme of Lithuania, 2012-2015

COUNCIL RECOMMENDATION

of

on the National Reform Programme 2012 of Lithuania
and delivering a Council opinion
on the Convergence Programme of Lithuania, 2012-2015

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 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[1], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation[2] on Lithuania's National Reform Programme for 2011 and delivered its opinion on Lithuania's updated Convergence Programme for 2011-2014.

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1 Maintained for 2012 by Decision 2012/238/EU of 26 April 2012 on guidelines for the employment policies of the Member States (OJ L 119, 4.5.2012, p. 47).

2 OJ C 210, 16.7.2011, p. 1.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of *ex ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[1], adopted the Alert Mechanism Report, in which it did not identify Lithuania as one of the Member States for which an in-depth review would be carried out.

(5) On 1 December 2011, the Council adopted conclusions calling on the Social Protection Committee, in cooperation with the Employment and other Committees, to present its views on actions recommended within the Europe 2020 policy cycle. These views form part of the opinion of the Employment Committee.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 15 February 2012, adopted a resolution on employment and social aspects in the Annual Growth Survey 2012 and a resolution on the contribution to the Annual Growth Survey 2012.

[1] OJ L 306, 23.11.2011, p. 25.

(7) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration. It invited Member States to implement the Council's country-specific recommendations for 2011 and to translate those priorities into concrete measures to be included in their Stability or Convergence Programmes and in their National Reform Programmes.

(8) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and in their National Reform Programmes.

(9) On 27 April 2012, Lithuania submitted its Convergence Programme covering the period 2012-2015 and, on 30 April 2012, its 2012 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in that Programme is plausible. It is broadly in line with the Commission services 2012 spring forecast for 2012 and 2013. The objective of the budgetary strategy outlined in the Convergence Programme is to correct the excessive deficit by 2012 as recommended by the Council and progressing towards the medium-term budgetary objective (MTO) thereafter. The Convergence Programme confirms the previous MTO, namely a structural general government surplus of 0,5 % of GDP, which adequately reflects the requirements of the Stability and Growth Pact, and outlines a consolidation of at least 1 percentage point per year, planning a balanced budget by 2015. While the budgetary plans are in line with a timely correction of the excessive deficit, the average annual fiscal effort in 2010-2012, based on the (recalculated) structural budget balance[1], is expected to be lower than the 2,25 % of GDP required by the Council in its recommendation of 16 February 2010. The planned annual progress towards the MTO in the years following the correction of the excessive deficit is slightly higher than 0,5 % of GDP in structural terms, that is, the benchmark of the Stability and Growth Pact.

1 Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Programme, using the commonly agreed methodology.

The planned rate of growth of government expenditure, taking into account discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in 2013 and 2014, but not in 2015. General government debt is projected to remain below 60 % of GDP over the Convergence Programme period, increasing to nearly 41 % of GDP in 2013, according to the Commission services 2012 spring forecast, while the Convergence Programme targets the debt to decrease to around 35 % by 2015. The reform of budget planning and execution is progressing but the Government has still to approve the proposed laws. These laws would improve accountability within the fiscal framework, by establishing an independent body, and tighten rules on treasury reserves.

(11) Based on a comprehensive tax compliance strategy, measures were implemented in 2011, which reinforced tax compliance and yielded additional revenue. However, continuing implementation will be required to advance significantly against tax evasion.

(12) Demographic developments cast serious doubts on the sustainability of the pension system. Although Lithuania adopted a gradual increase in the pension age to 65 years by 2026, this alone will not ensure a sustainable and adequate retirement income in the future and needs to be complemented by additional measures. Those measures could include linking the statutory retirement age and future benefits to demographic factors; establishing clear rules for indexation; introducing a closer link between contributions and benefits; and eliminating incentives to take early retirement. Lithuania could in addition make better use of supplementary voluntary pension provision. Supplementary retirement savings via individual pre-funded private pension schemes and/or the establishment of occupational pension schemes could ease the burden of the social security system and at the same time improve the adequacy of future pension incomes. Disincentives to continuing to work longer have been removed.

(13) The Law on Temporary Employment Agencies, designed to facilitate short-term employment, entered into force on 1 December 2011. However, its impact may not be significant, since temporary work agencies were already operating in Lithuania before then. A comprehensive review of labour law could identify unnecessary restrictions and administrative hurdles that prevent flexible contractual agreements, dismissal provisions and flexible working time arrangements. Additional measures to enhance participation in the labour market, especially for young people, unskilled persons and older workers, and to improve labour market flexibility are necessary.

(14) The challenge of youth unemployment (above 30 %) and low-skilled unemployment became especially evident during the crisis. The Government is implementing a number of measures to promote youth employment, such as first job subsidies and reduced social security contributions. Nevertheless, activation rates remain too low and the financial allocations for active labour market policies could be used more effectively by targeting public works to the most vulnerable. To ensure a better transfer from education to the labour market, apprenticeships and internships could be made more attractive and a qualification demand forecasting system put in place. Measures should be in line with the findings of the Lithuania - Commission joint action team on youth unemployment.

(15) Around one third of the Lithuanian population is facing the risk of poverty and long-term exclusion. This is the fourth highest figure in the Union. In 2011, Lithuania amended the Law on Cash Social Assistance to reform the social support system as of January 2012. It has launched a pilot model of social support distribution, changed the method for calculating the amount, introduced certain work incentives and increased coverage. The social assistance reform is a step towards reducing disincentives to work. It is necessary to set in place a monitoring system to assess its efficiency and its impact on poverty alleviation. The reform should also link with activation measures that enhance participation, in particular for long-term social beneficiaries.

(16) The Government has been undertaking an ambitious reform of state-owned enterprises since 2010, aiming to restructure corporate governance, increase transparency and separate ownership and regulatory functions, and increase competition and efficiency. The reform is relevant, involving legislative as well as organisational changes. Major progress has been made in transparency and accountability as reports are now published on a quarterly and annual basis. Clear enterprise objectives have been established. However, the Government has postponed some parts of the reform, in particular the separation of commercial and non-commercial activities of state-owned enterprises, and intends to implement them in 2012.

(17) Lithuania has made some progress in improving the energy efficiency of buildings. A Multi-Apartment Building Modernisation Programme was adopted by the Government in December 2011, but it is weakened by counteracting subsidies available in other policy areas that reduce incentives for inhabitants of residential buildings to improve energy efficiency. Further substantial and accelerated efforts are needed to improve energy efficiency of buildings.

(18) There is scope for shifting taxation towards energy use as revenue from environmental taxes is the third lowest in the Union, while transport taxes are the lowest in the Union. The implicit tax rate on energy consumption was the seventh lowest in the Union in 2010 whereas energy taxes in GDP terms are only slightly below the EU average.

(19) The country's energy system infrastructure lacks competition and interconnections and this is a factor that hinders growth. Insufficient interconnections hinder the emergence of competition in energy markets. Concentration remains high (above 90 %) in both the gas and electricity markets.

(20) Lithuania has made a number of commitments under the Euro Plus Pact. The commitments, and the implementation of the commitments presented in 2011, relate to fostering competitiveness and employment, improving public finance sustainability and reinforcing financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations below.

(21) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Lithuania's economic policy. It has assessed the Convergence Programme and the National Reform Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Lithuania but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(22) In the light of this assessment, the Council has examined the Convergence Programme, and its opinion[1] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Lithuania take action within the period 2012-2013 to:

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1 Under Article 9(2) of Regulation (EC) No 1466/97.

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 MTO, including meeting the expenditure benchmark, while minimising cuts in growth-enhancing expenditure. In that respect, review and consider increasing those taxes that are least detrimental to growth, such as housing and environmental taxation, including introducing 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.

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.

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.

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.

5. Implement all aspects of the reform package of state-owned enterprises and in particular ensure a 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.

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 the Member States for both electricity and gas.

Done at Brussels,

For the Council
The President