

LITHUANIA: THE NATIONAL REFORM PROGRAMME FOR 2018

CHAPTER I INTRODUCTION

1. The National Reform Programme for 2018 (hereinafter – NRP) summarizes the key structural reforms that are being implemented or are planned to be implemented in order to overcome the major economic and employment challenges by Lithuania as a European Union (hereinafter – EU) member state participating in the European Semester for economic policy coordination (hereinafter – European Semester). In pursuit of economic and employment growth, each year member states present their NRP to the European Commission (hereinafter – EC).

2. In 2017, the Lithuanian economic growth (3.8 percent) exceeded the EU average (1.4 percent), and an even faster growth is planned for 2018. The rate of unemployment accounted for 7.1 percent in 2017 and was 0.8 percentage point lower than in the previous year.

3. The NRP lists actions of the Government of the Republic of Lithuania (hereinafter – the Government) that were taken in the implementation of the Council Recommendation of 11 July 2017 on the 2017 National Reform Programme of Lithuania and delivering a Council opinion on the 2017 Stability Programme of Lithuania:

3.1. to pursue fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which implies to remain at its medium term budgetary objective in 2018, taking into account the allowances linked to the implementation of the systemic pension reform and of the structural reforms for which a temporary deviation is granted. Improve tax compliance and broaden the tax base to sources that are less detrimental to growth. Take steps to address the medium term fiscal sustainability challenge related to pensions;

3.2. to address skills shortages through effective active labour market policy measures and adult learning and improve educational outcomes by rewarding quality in teaching and in higher education. Improve the performance of the healthcare system by strengthening outpatient care, disease prevention and affordability. Improve the adequacy of the social safety net;

3.3. to take measures to strengthen productivity by improving the efficiency of public investment and strengthening its linkage with the country's strategic objectives.

4. The NRP was drawn up considering the Annual Growth Survey published by the EC on 22 November 2017, which starts the European Semester for economic policy coordination for 2018, and the priorities set for the entire EU and each member state individually, namely, to create the greatest possible number of jobs, to ensure a faster economic growth and investment.

5. On 7 March 2018, the EC presented “Country Report. Lithuania 2018”, which covers the overall economic assessment of Lithuania, the implementation of Council recommendations for

2017, the execution of structural reforms and progress of the implementation of the national goals under strategy “Europe 2020”. According to the assessment of the implementation of the recommendations, this year Lithuania was attributed to more advanced member states. The key challenges faced by Lithuania identified in the report include: ensuring the growth of domestic and foreign investors and increasing investments, especially in human capital, productivity and supply of labour force. The NRP lists key actions by the Government in order to tackle the challenges.

6. The NRP consists of the following parts:

6.1. Lithuanian macroeconomic outlook in line with the draft Stability Programme of Lithuania (Chapter 2 of NRP);

6.2. Policies and ongoing reforms that address the main economic challenges (Chapter 3 of NRP);

6.3. Information on the implementation of “Europe 2020” targets (Chapter 4 of NRP);

6.4. Drafting the NRP and interinstitutional cooperation (Chapter 5 of NRP);

6.5. Overview of the Action Plan of the Implementation of Council Recommendations for Lithuania for 2017-2018 (Annex to NRP).

CHAPTER II MACROECONOMIC OUTLOOK

7. The economic development scenario for 2018-2021 prepared by the Ministry of Finance stipulates that the gross domestic product (hereinafter – GDP) of Lithuania will grow by an average of 2.7 percent per year in medium term. Taking into account the formed tendencies of the development of the economy and more favourable assumptions of external environment, GDP is expected to grow by 3.2 percent in 2018 and by 2.8 percent in 2019.

8. In recent years, improving financial situation of households and good customer expectations encouraged the growth of household consumption expenditure. In 2016, it reached 3.9 percent. With wages growing faster than inflation, household consumption will remain relatively high. Household expenditure will increase by about 3.7 percent per year in 2018–2021 and will significantly contribute to GDP growth.

9. 2017 was a year of investment breakthrough. Expenditures for the formation of gross fixed capital grew by 7.3 percent. In the medium-term, the growth of economy will be supported by continuing growth level of investments in the country driven by the need to modernize and streamline business processes of enterprises due to growing foreign demand, more active use of European Strategic Investment Fund and the EU funds investments. In 2018-2021, gross fixed capital formation-related expenditure could grow by about 5.4 percent per year.

10. Lithuanian exporters will have to continue adapting to changing economic circumstances, managing currency risks, reducing costs of production and increasing operational efficiency. Persisting wide variety of export (diversification) will create the preconditions for sustainable export development in the medium time-period. It is expected that in 2018, real exports of goods and services will grow by 7 percent, in 2019 – by 5.7 percent, in 2020 – by 5 percent, and in 2021 – by 4.7 percent.

11. In order to be competitive with the increasing price of work force, business will have to increase labour productivity, efficiently use means of production and labour resources, and invest in development (innovation and qualification of human resources).

12. The average monthly salary in the country in 2017 increased by 8.5 percent (in the private sector – by 9.5 percent, in the public sector – by 6.8 percent) and it is the fastest growth since 2009. In the medium time-period, demand for labour force will continue to exceed supply, and therefore the enforcement to raise wages will remain. In 2018, the growth rate of the average wage (it is expected to grow by 6.6 percent) in the country will also be greatly affected by a rapid growth of the minimum monthly wage, which increased up to EUR 400 from 1 January 2018. The average wage is expected to grow by 6.2 percent in 2019, and in 2020 and 2021, by 6 percent.

13. With economic growth, the rate of unemployment will continue to decrease, and will account for 6.5 percent in 2018, 6.1 percent – in 2019, 5.9 percent – in 2020 and 2021.

14. Once the effects of one-off factors that triggered a jump of average annual rate of inflation in 2017 have passed, more moderate development of prices is expected in the medium term. Assessing the changed assumptions about oil prices, the average annual inflation rate is expected to reach 2.9 percent in 2018, and 2.4 percent in 2019. In the later medium term years, the price change should stand at 2.5 percent on average per year.

CHAPTER III

POLICY MEASURES THAT HELP TACKLE MAIN ECONOMIC CHALLENGES

15. In 2018, the Government prioritised six major reforms: the structural reform of education, covering the levels of secondary education, vocational education and higher education; health reform, covering levels of all types of treatment, nursing, measures to promote healthy lifestyle; a tax reform aimed at making labour taxation more attractive for creation of job vacancies, promotion of investments and entrepreneurship; reduction of shadow economy allowing submission of measures to promote fair tax payments; a reform of the cumulative pension part that would not encourage shrinkage of the level of overall income protection in old age; innovation reform, which would stimulate investment in innovation, create a major innovation incentive package, consolidate and strengthen the research system.

FIRSTH SECTION

LABOUR MARKET AND EDUCATION POLICY

16. According to preliminary data of the Statistics Lithuania, the average monthly gross (before taxation) wage, including individual enterprises, increased by 8.5 percent in 2017, or by EUR 66 and amounted to EUR 840. The average monthly net wage (after taxation) was EUR 660 in 2017 and increased by 9.6 percent over the year, or by EUR 58. Real wage (net wage, taking into account the average change in consumer prices – 3.7 percent) increased by 5.7 percent per year. In 2017, gross wage grew more rapidly in the private sector (9.5 percent or EUR 72) and amounted to

EUR 833, while in the public sector it increased by 6.8 percent, or EUR 54, and amounted to EUR 854. The average gross monthly wage of employees in budget institutions in 2017 amounted to about EUR 831 and increased by 7.4 percent during the year. During the year, gross wages increased in enterprises of all economic activities, in particular wholesale and retail trade (by 11.1 percent) as well as information and communication (by 10.3 percent).

17. According to the Economic Activity Scenario for 2018-2021, published by the Ministry of Finance, it is expected that in the period from 2018-2021, wages will increase by 6.2 percent on average per year. Wages will be the fastest growing in private sector, especially in the areas where labour demand is high and wages are the lowest.

18. From 1 July 2017, the Labor Code came into force, the aim of which is more flexible regulation of labour relations in order to encourage employers to create new high-quality job places, while ensuring security for employees. The Labour Code introduced more new types of employment contracts, provides for the formation of more flexible working time regulation, shortening of the notice periods when dismissing employees and reduction of severance pay-offs by transferring part of the severance pay to the Long-Term Benefits Fund, and the possibility of concluding fixed-term employment contracts for permanent jobs. New provisions that provide lifelong learning opportunities, ensure a balance between family and work life, non-discrimination at work, and the protection of personal data are enshrined. One of the factors that led to a decrease in the number of minimum wage earners is the fact that the new Labour Code states that the minimum wage may be paid only for unskilled work. The wages of workers who did unskilled work and received a minimum wage till 1 July 2017, increased after 1 July 2017. In July 2017, the minimum monthly wage was received by almost 23 percent (i.e., 62 thousand) less workers compared to the same period in 2016, in July 2017, compared to December 2017, by 13 percent less, i.e. almost 27 thousand workers.

Labour market

19. Under the Interinstitutional Action Plan for the Programme of Raising the Employment 2014-2020 following measures are aimed at integrating the people facing difficulties on the labour market into the labour market are planned: support for start-ups, partially funded business investment projects are implemented in the areas with the highest unemployment level, new job places are established for local unemployed people, part of the wage is compensated to recruit people facing difficulties on the labour market, and the recruitment of socially disadvantaged people in social enterprises is supported.

20. The Lithuanian Labour Exchange, under the Ministry of Social Security and Labour (hereinafter - the Labour Exchange), will implement projects with the use of the European Social

Fund aimed at increasing opportunities for the integration of young people, the unskilled, the long-term unemployed, the elderly (54+) and people with disabilities into the labour market. During the implementation of the project “TAPK – Tavo ateities perspektyvų kūrimas” (English: CYFP – Creating Your Future Perspectives) in 2018–2020, as many as 23.5 thousand clients of the Labour Exchange – the long-term unemployed who have been looking for job for one year or more, unskilled persons and persons with disabilities – will be provided with the opportunity to obtain qualification and employment according to the acquired profession; employers who recruit the clients of labour exchange will also be provided with possibility, if necessary, to use the measure of subsidy. It is estimated that 12.2 thousand non-working population will take part in vocational training where they will acquire or improve their existing qualifications/competences in order to meet the requirements of job vacancies. 0.6 thousand persons will be able to obtain practice under apprenticeship contracts, and 1,4 thousand persons – under vocational skills traineeship. 1.4 thousand job seekers will be granted possibility to participate in the activities related to the recognition of competencies acquired by means of non-formal and self-education. 2.7 thousand persons will be offered to obtain working skills according to available or acquired profession. 7.7 thousand individuals will be involved in recruitment measure through subsidies in order to be able to return to the open labour market as soon as possible. Novelty – over 1 thousand long-term unemployed, unskilled and people with disabilities involved in the aforementioned measures will be reimbursed for travelling costs to and from work.

21. The Labour Exchange helps the elderly get back to the labour market by offering them a retraining by acquiring a profession in demand on the market or by offering a wage subsidy to a prospective employer when they are employed. It is planned that during the implementation of the “Take advantage of the opportunity” project, 4.0 thousand clients of the Labour Exchange over 54 years of age will be able to acquire profession in demand on the market or job skills in specific workplaces in 2018–2020.

22. By Q IV of 2018, it is planned to prepare the cooperation and integrated assistance model, and an action plan for its implementation thereof municipal administrations that organize and provide monetary social assistance and social services, develop and implement raising the employment programs, and labour exchanges implementing active labour market policy measures. This model will combine the promotion of employment and motivation services for unemployed and persons receiving social support.

23. In 2018, the optimization of the activities of Labour Exchange and territorial labour exchanges will be continued by eliminating excessive management chains, redistributing human resources and directing them to the direct work with clients as much as possible. From 1 October 2018, structural changes will take place and employment promotion policy will be implemented by

the Employment Service under the Ministry of Social Security and Labour. Following the structural changes, the burden on the load per employee would be reduced to 275 clients (now 405).

24. The Ministry of Social Security and Labour has drafted a Strategy for the Demography, Migration and Integration of 2018–2030 (hereinafter – the Strategy), which is submitted for consideration to the Parliament. The goal of the project is to solve systematically the demographic challenges in the country, to increase birth rate, reduce emigration, promote return migration and improve the quality of life of the elderly. The Strategy analyzes current situation and identifies the main problems: declining number of population, changing age structure of the population, decreasing number of children and increasing number of elderly people. Taking into account the current situation, the main goal of the Strategy is to ensure a positive change in the population and a proportional age structure of the population. Other goals are to create a family-friendly environment, ensure the management of migratory flows in line with the needs of the state, enable the elderly to integrate into society. Measures to achieve these goals are also set in the Strategy. The Government intends to prepare an Action Plan for the implementation of the Strategy till 24 May, 2018.

Improving the quality of education and science

25. In order to ensure the implementation of general education financing methodology throughout the country, a working group has been formed which has to prepare the restructuring of preschool, early childhood and general education financing.

26. According to international statistics, Lithuania is one of the countries paying the lowest wages to teachers. More than half of the teachers' wages range from EUR 400 to 800, and only about one-third of teachers are paid at least EUR 1000. In order to create more favourable conditions of the payment for teachers' work, it is expected that from 1 September 2018 a new staff remuneration system will be applied throughout Lithuania. The aim is optimize inefficiently used educational infrastructure and direct the saved funds to educational needs.

27. The average salary of Lithuanian researchers is 4 times lower than the EU average. In 2017, for the first time since 2008, the wages of researchers have been increased – an additional amount of EUR 3.1 million has been allocated. In 2018, the target is to increase the funding of basic research and experimental development (hereinafter – R&D) financing by 20 percent.

28. The working group has drafted proposals for changing the methodology for financing of studies. The implementation of the principle of state-funded bachelor's study of free higher education is planned in 2018. The preliminary number of study places was approved on 13 April 2018 which will allow to guarantee free studies in the areas important for the country.

29. In order to create favourable conditions for qualitative vocational training, in view of the needs of the labour market, a review of the financing of vocational training is planned. The preparation of a new financing procedure is envisaged by the end of 2018.

30. On 19 December 2017, the Parliament adopted the amendment of Law on Education (came into force on 1 February 2018). It provides for the possibility to start early children institutional education (from 5 years) from September 2018 and, accordingly, primary education (from 6 years).

31. In order to improve the quality of education, strengthen competences of the pupils, a longer term of education process is validated from September 2017: in classes 1-11, the number of days of education was increased by 10 days in 2017/2018, in 2018/2019 – by 5 days. In 2018, it is planned to update general education programs, prepare and start implementing a full-time school model. In order to improve digital skills of children, a pilot project on the development of informative skills in primary schools is being launched in 10 schools.

32. In 2017, a sequence of integrated assistance for children and families was created, and the position of interinstitutional co-ordinator in municipalities was established.

33. In order to promote the implementation of programmes for the prevention of violence, bullying and the introduction of integrated social emotional competences into the general educational content, the introduction of 8 preventive programmes has started in 265 schools.

34. In order to enhance the development, diversity, accessibility of non-formal education and improve the quality, a review and increase of the funding for non-formal education is planned by reducing the differences of non-formal education possibilities between urban and rural areas. In 2018, a model for ensuring the quality of non-formal education of children and activities of their suppliers is planned to be approved.

35. It is planned to create and implement a system for training and qualification improvement for teachers. In 2018, it is planned to approve the qualification improvement priorities, prepare a draft model for the assessment of the activities of teachers and assistance to a pupil (except for psychologists). In Q III of 2018, admission to the 3 National Teacher Training Centers should be launched in Vilnius, Kaunas and Šiauliai.

36. In pursuance of better conformity of the education system with the demand of the labour market, the EC project on national coordination “National Coordination of the Adult Education Action Plan” is being implemented. The qualifications of adult education coordinators will be improved in the regions of Lithuania. The aim will be to strengthen adult education at local level, considering the needs of the labour market and the local population in order to increase the number of learners and to develop accessibility and supply of learning services in municipalities to adults.

37. According to the Survey of Adult Skills (PIAAC) data, the training cycle will be continued in the regions by involving the coordinators. It is planned to update the Adult Learning Information System (SMIS) and publish examples of good regional experiences there.

38. On purpose to promote adult learning through the expansion of non-formal adult education services, in 2017 a tender for the financing of non-formal adult education programmes was organized. It is planned to announce tender in 2018. The amount planned to be allocated is EUR 145 thousand.

39. In order to develop a modern vocational education system, an Action Plan for the Development of Lifelong Learning 2017–2020 was approved. The review of the status of vocational education and training was performed for the first time. An electronic centralized system for admission to vocational education and training has been developed, and the preparation of 6 standards has been launched. At the end of 2017, the contracts were concluded with the persons who prepared the vocational education and training curricula. The preparation of the action plan for the development of sectoral practical training and enhancement of apprenticeship has been commenced.

40. The preparation of the Procedure for Presentation of Vocational Guidance is planned in 2018. It is also envisaged to prepare a procedure for the validation of short-term professional studies.

41. A working group has been formed, which has to prepare proposals for a new procedure of admission to art studies and proposals for the preparation of art specialists for regions. It is also planned to update the procedure for admitting students to higher education institutions.

42. It is expected to validate the network of joint schools, approve the reorganization plan of vocational education and training network and optimize the network of science and study institutions. The Parliament approved the Plan for the Optimization of the Network of National University on 29 June 2017. The measures for the implementation of the Plan for the Optimization of National University Network were approved by the Government on 22 November 2017. The measures include the optimization of national university network, financial support from the state budget and the EU Structural Funds for the period 2014-2020, and co-financing funds are foreseen. The universities participating in the reform by proposal of the Ministry of Education and Science have prepared and submitted action plans for their restructuring in 2017–2020.

43. The draft Resolution amending the Resolution On the Approval of Description of Awarding and Administration Procedure of Social Scholarships for the Students of Higher Education Schools was prepared that aims at increasing the availability of studies and encouraging students from disadvantaged families, orphans and students with disabilities. Project has been submitted to the Government.

44. Regulations of the Research Doctoral Studies were approved on 8 March 2017. Regulations of Doctoral Studies in Arts were approved on 8 February 2017. The participation of foreign science and study institutions in the doctoral process in Lithuania has been adjusted more thoroughly, requiring a real contribution from them. The requirements of international articles for dissertations have been enhanced.

45. A model for financing the studies of citizens of Lithuania in the strongest schools of higher education in Lithuania based on the commitment to work for Lithuania for a specified period is expected to be developed and the introduction thereof will be commenced in 2018.

46. In the implementation of the provisions of the Law amending the Law on Vocational Education and Training adopted on 14 December 2017 the Research and Higher Education Monitoring and Analysis Centre (hereinafter – MOSTA) is authorized to carry out the forecast for the needs of qualifications. The activities related to updating the means for forecast for the needs of qualifications using the data of National Human Resources Monitoring are expected to be commenced in 2018.

SECOND SECTION SOCIAL AND HEALTH POLICY

Reducing poverty, social exclusion and income inequality

47. From 1 January 2018 the amount of state-supported income increased from EUR 102 to EUR 122; the minimum monthly wage – from EUR 380 to EUR 400, the minimum hourly wage - up to EUR 2.45; a new basic pension was set at EUR 152.92 – by 17.7 percent more compared to December 2017; the minimum monthly maternity, paternity and parental leave allowance has increased as well, it may not be less than EUR 228; a new basic wage (salary) for the employees of budgetary institutions has been established – it is increased from EUR 130.5 to EUR 132.5.

48. The amendments to the Law on Establishment of Reference Values and Basic Rate of Fines and Penalties of Social Security Benefits entered into force from 1 January 2018, which established a new starting rate for social security benefits – the size of minimum consumption needs (hereinafter – MVPD) and valid starting rates of social security benefits – basic social benefits, bases of relief pensions, the target compensation bases, link of state-sponsored income with this size. The law stipulates that starting from 2019, the basic social benefit may not be less than 16 percent, the relief pension base may not be less than 54 percent, the target compensation base may not be less than 47 percent, state-sponsored income may not amount to less than 50 percent than last year's MVPD. This means that the MVPD will be calculated on annual basis and the amount of social support will increase depending on the increasing annual inflation, the prices of food and non-food products and services.

49. A new wording of the Law on Benefits for Children entered into force from 1 January 2018. The new version of the law validate the payment of child benefit (child money) of EUR 30, as a universal benefit, to all children from birth to 18 years of age or older if they learn according to general education programme, but not longer before they reach the age of 21 years. Families who raise and (or) foster one or two children will be entitled to an additional child benefit if the family income per person per month is lower than the 1.5 state-supported income size (from 2018 – less than EUR 183): for a child from birth to 2 years – EUR 28.5, from 2 to 18 years of age and older if they learn according to general education programme, but not longer before they reach the age of 21 years – EUR 15.2. In addition, a child benefit for families raising and (or) fostering three or more children is paid without considering the income of the family. It is estimated that in 2018, 410 thousand children (a total of 530.8 thousand children) will receive an additional child benefit and the risk of poverty among children from birth to the age group of 18 will decrease by about 2.7 percentage points (from 25.6 to 22.9 percent).

50. Considering the results of the monitoring of the implementation of the legal regulation of social assistance, in order to increase the scope and adequacy of provision of monetary social assistance, ensure better financial support to families raising children, and motivate the active integration of recipients of benefits into the labour market, Law on Monetary Social Support for Deprived Citizens has been amended. From 1 January 2018, it is established that when allocating monetary social support, the families raising children will receive a higher social benefit and compensations for heating, hot and drinking water costs, as child benefit paid according to the Law on Benefits to Children, is not included in the family income. The following tolerable income level has been established: the part of income related to the employment relationship (depending on the family composition and the number of children in the family from 15 to 35 percent) is not included in the family (personal) income. In order to make monetary social assistance more effective, the list of types of additional social support in new forms has been expanded, providing for a legal basis for municipalities to allocate not only an one-off benefit, but also targeted, periodic and conditional benefits. Changes will particularly affect working families and families with children: the size of monetary social support (the social benefit per person per month is expected to increase by about 22 percent in 2018 (from EUR 65.5 to EUR 80) will increase and the real income of needy families will increase as well (due to the part of the income from work and benefits to the child not included in the family income). In addition, about 20 thousand residents of Lithuania will receive monetary social support.

51. By amending the Law on Social Insurance Pensions, the social insurance pension system is being reformed. Amendments to the law entered into force on 1 January 2018: the procedure for calculating social insurance pensions is changed, it becomes clearer and more transparent; pension

rates are more closely linked to the paid pension insurance contributions; it is expected to create conditions ensuring the financial sustainability of the pension system and the adequacy of pension rates. Also, the amendments to the law provide for automatic indexation of pensions based on clear criteria. Social insurance pensions will be automatically indexed each year according to the floating 7-year average fund growth rate of the wage. Under the new pension indexation procedure, from 1 January 2018, social insurance pensions were indexed by 6.94 percent. The procedure for calculating the amount of incapacity for work has changed as well – instead of the distribution of pension amounts by 3 groups, the amounts of these pensions are directly related to capacity for work determined to person by 5 percent interval.

52. The automatic mechanism for indexation of social insurance pensions will maintain the social security pension system financially sustainable in the medium and long terms. However, in the medium term, a 0.64 percent of GDP deficit resulting from relief allowances and state pensions is projected. In this regard, the Plan of the Implementation of the Programme of the Government of the Republic of Lithuania provides for the systematic evaluation of the state pension system and submission of proposals for its improvement. By using EC technical assistance for fulfilment of structural reforms, the assessment of the financial liabilities of the state pension system is performed in Q II of 2018.

53. From 1 January 2018, the Ministry of Finance has taken over all the debts of the budget of State Social Insurance Fund. It is verified in the Law on Approving the Financial Indicators of the State Budget and Municipal Budgets for 2018. This takeover will not change the amount of consolidated national debt. In recent years, the budget of State Social Insurance Fund has been balanced. Transferring debt to the state budget will allow seeing financial flows clearer, easier planning of changes in contributions and payments. Also, the costs of financial administration will decrease and the fund will save more than EUR 100 million per year, which was comprised of the interest. At the end of 2017, the debt of the budget of State Social Insurance Fund amounted to EUR 3.7 billion: it comprised EUR 3.682 billion loan and EUR 3 million interest.

54. The tax reform introduced by the Government in 2018 aims at making labour taxation more attractive to creation of job places, the consideration of the issue of maximum income from which the social security contributions would not be calculated is considered: it is discussed whom and under what conditions the “ceiling” for social security contributions could be set.

55. The social housing fund will be expanded: the housing available on the market will be rented, incentives to the tenants will be introduced, and all persons and families entitled to receive support for renting the housing will be entitled to receive compensation for part of the housing rental.

Health protection

56. On purpose to prolong the years of healthy life, it is necessary to actively promote healthy lifestyle by developing such skills from birth, improve mental health of the society, and reduce the use of psychoactive substances:

56.1. from 1 January 2018, the requirements for selling alcohol and advertising it have been tightened: persons under the age of 20 may not buy, possess and use alcoholic beverages, the time of sale of alcoholic beverages has been defined, and the advertising all types of alcohol has been prohibited. In 2018–2019, active prevention of the use of psychoactive substances will continue. It is planned that the consumption of alcohol per one resident of the country over 15 years of age, in litres of absolute alcohol will decrease from 17.8 (in 2014) to 12.4 (in 2020);

56.2. improving the accessibility and quality of public health care services, in 2018 special attention is paid to improving the health of pupils. It is planned that the share of school-age children who eat vegetables will increase from 36.5 percent (in 2016) to 45 percent (in 2020), while the share of school-age children, who do sports 60 minutes or longer every day after the lessons will increase by 0.5 percent every year from 9.7 percent in 2016 and will reach at least 11.7 percent in 2020;

56.3. while improving public mental health, the aim in 2018 will be to reduce the number of suicides, by developing the system for early identification of possible suicides and provision of complex assistance through introduction of innovative preventive measures for strengthening mental health. It is planned that suicide mortality (mortality rate per 100 thousand inhabitants) will decrease from 30.8 (in 2015) to 19.5 (in 2020). According to preliminary data, in 2017 the value of this indicator is 26.7;

56.4. by expanding the supply of healthy lifestyle, the research to prove the effectiveness of natural spa resort factors will be carried in the years 2018-2020. This will strengthen the use of spa factors in rehabilitation and health promotion processes.

57. In order to improve the quality, safety and availability of personal healthcare services, the consolidation of the network of healthcare institutions is continued:

57.1. from 1 November 2017, five independent centres for addictive disorders started operating as a single institution – the National Centre for Addictive Disorders. This will allow the optimization of the management of budget institutions operating in the field of personal health care, improvement of the prevention of addictive disorders and the availability of treatment services provided in the area of personal health care to all population as well as the quality of these services;

57.2. the Fourth Plan of Health Care System Development and Hospital Network Consolidation was carried out in 2016–2017. The final results of the plan implementation will be

seen in QII of 2018. But already comparing the indicators of the nine months of 2014 with the indicators for the nine months of 2017, the increase in the number of outpatient services by 3.32 percent is seen. According to preliminary data, the number of beds for in-patients per 100 thousand population was 468.3 in 2017 compared with 483.9 per 100 thousand population in 2016;

57.3. the development of complex personal health care centres (disease clusters) is being implemented. Significant decrease in mortality rate within 30 days after hospitalization is seen;

57.4. the Government continues to work on the restructuring the hospital network. By Q IV of 2019, the modernization of the network and infrastructure of hospital admissions emergency departments, abandonment of surplus infrastructure, development and implementation of regional planning and management model for secondary level outpatient services through implementation of reorganization of the provision of secondary level health services is planned;

57.5. the development of family health care services, the transfer of non-medical functions to family physicians and nurses, reduction of administrative burden (prolongation of medicines by telephone, reduction of surplus referrals to specialists) is in progress. Increase of independence of nurses. By reducing the number of population served by family physician and increasing the team of family physicians, it is anticipated that in the year 2019, the time of access to the family physician will be reduced from 15 days to 7 days.

58. On purpose to reduce costs of residents spent on medicines and improve accessibility:

58.1. the amendments of the Description of the procedure for calculating basic prices of medicinal products administered for outpatient treatment and medical aid measures and the extra pay of patients for them were approved by the Government on 17 September 2018. From 1 July 2017, after commencing the application of the abovementioned changes (based on the price list of Reimbursable Medicinal Products), the extra pays of patients decreased by about 20 percent;

58.2. the Guidelines for Medicines Policy were approved on 28 August 2017, under which the main objective of the development of medicines policy is to increase and improve the health of people with the use of the medicines of high added therapeutic benefits, to ensure better access to medicines, rational use of the state budget and the funds of population. The Plan for the implementation of Guidelines for Medicines Policy to implement the development directions will be approved in 2018;

58.3. description of the procedure for calculating basic prices of medicinal products administered for outpatient treatment and medical aid measures and extra pay of patients for them has been amended so as to replace the current pricing system for reimbursable medicines by promoting competition between manufacturers and setting maximum extra pay of patient. These provisions will come into force from 1 July 2018. It is planned that after this implementation the extra pays of patients will fall by another 20 percent;

58.4. The preparation of amendments to legislation the implementation of which would improve the availability of medicines to low-income receiving population and reduce the costs of these people for medicines is planned by quarter IV of 2018.

THIRD SECTION AMENDMENTS TO TAXES AND THEIR ADMINISTRATION

59. In 2017, the tax system in Lithuania has been improved in a favourable direction for economic growth as well as in pursuance of more effective tax administration.

60. Amendments to the Law on Personal Income Tax have been adopted in order to reduce the taxation of the least-paid persons, by which, the monthly tax-exempt amount of income increased from EUR 310 to EUR 380 from 1 January 2018, and the amount of additional tax-exempt amount of income was waived thereby moving to targeted child benefits that are paid for all children without evaluating the family income.

61. With the view of distributing the burden of taxes for small businesses more evenly, from 1 January 2018, the principle of taxation of individual income tax was changed – the taxation by kind of professional activity was waived, by setting the income of individual activities at the same rate of 15 percent and adjusting the real burden of taxation by a progressive tax credit, the amount of which would be calculated according to the established formulas.

62. In order to further promote productive investments and entrepreneurship supporting regional development, amendments to the Law on Corporate Income Tax were adopted, by which, from 1 January 2018, the income tax-relief (by reducing the taxable profit up to 100 percent) is maximized for investors investing in the technologic renewal, an additional exemption for enterprises investing in R&D is planned (by applying a reduced income tax rate of 5 percent on revenue generated from R&D activities), an exemption applied to capital investments is extended, and a one-year income tax “holiday” for a new small business is set. In addition, alternative financing for business are provided with favourable conditions by exempting all income from collective investment undertakings and risk and private capital entities from income tax as well as without taxing their profit to be distributed to participants – legal entities.

63. On purpose to achieve a higher level of tax system, from 1 January 2018, progressive real estate tax rates for non-commercial real estate of natural persons were established, continuing to exempt from taxing the value of such property up to EUR 0.22 million, by applying current rate of 0.5 percent to the part of the value of such property in excess of EUR 0.22 million, but not exceeding EUR 0.3 million, applying a new 1 percent rate to the part of the value of such property in excess of EUR 0.3 million, but not exceeding EUR 0.5 million, applying a new 2 percent rate to the part of the value of such property in excess of EUR 0.5 million.

64. In order to expand the tax base that is less harmful to economic growth and, at the same time, to contribute more by taxing measures to the implementation of environmental objectives through the adopted amendments to the Law on Excise Duty, excise duty rates for gas oil were increased up to EUR 347/1000 l of product from 1 January 2018 (including gas oil used in agriculture, aquaculture or commercial fishing in inland waters, for which the excise duty rate was increased to EUR 56/1000 l of product), the exemption for excise duty rate for environmentally harmful coal, coke and lignite was abolished. Also, the excise duty rate for smoked tobacco increased to EUR 60.24 per kilogram of product from 1 January 2018, and from 2018 onwards, excise duty rates for cigarettes (up to EUR 96 per 1 000 cigarettes), cigars and cigarillos (up to EUR 37 per kilogram of product) increased from 1 March 2018.

65. By encouraging voluntary payment of taxes and improving tax collection, the provision of services on formation of preliminary value-added tax (hereinafter – VAT) and advance income tax declarations and cross-checking the VAT invoice data for taxpayers were commenced in 2017. The implementation of updated strategy for educating and raising awareness of taxpayers of the State Tax Inspectorate under the Ministry of Finance in 2017–2021 was commenced. The IT means for exchange of taxes and related data between the EU and non-EU states have been created.

66. In 2018, it is planned to continue works in order to improve the tax system favourable for economic growth, increase the system of tax administration and promote voluntary payment of taxes also taking into account the proposals on tax reform, promotion of fair tax payment and reduction of the shadow economy submitted by the Working Group.

FOURTH SECTION PROMOTING PRODUCTIVITY GROWTH

67. Labour productivity growth in Lithuania in 2000–2016 was 4 percent and was one of the highest among EU countries. In 2016, the rate of nominal labour productivity per hour accounted for 62.5 percent of the EU average. According to the preliminary data of 2017, the nominal labour productivity per worked hour in Lithuania grew the fastest among all EU Member States and almost 8 times exceeded the EU average (11.0 percent and 1.4 percent respectively). The country has the potential to increase productivity by making higher investments in innovation, R&D, attracting foreign direct investment (hereinafter – FDI) and promoting exports.

68. At the end of 2017, the Lithuanian National Productivity Board (hereinafter – the NPB) was established at the Ministry of Economy that performs an analysis of the development of competitiveness and productivity as well as the factors stimulating them and prepares proposals for improvement of further policies. It is planned that by the end of 2018, the NPB will draw up its first annual productivity report, which will be shared with other national and EU Member States’

authorities. It is also planned to strengthen the analytical capabilities of the NPB through the development of cooperation with the authorities of other EU Member States, Global Productivity Forum of OECD, the OECD experts performing the productivity analysis with the view of more active analytic discussion between Lithuania and the OECD, the participation of Lithuanian experts in OECD productivity events and wider opportunities for Lithuanian experts to use the OECD productivity statistics.

69. On purpose to increase the productivity growth of very small, small and medium-sized industrial enterprises (hereinafter – SMEs), SMEs are provided with the possibility to use the EU-funded measure “Dizainas LT” (English: Design LT) supported activities of which are the inducement of development and/or deployment of non-technological innovation in production processes and/or services by customizing original product or service design solutions. The call for tenders under this measure is due in Q IV of 2018 (EUR 2.9 million is planned).

70. Industrial SMEs will also be able to use the “Regio potencialas LT” (English: Regio Potential LT) measure, the supporting activity of which will be the implementation of modern technologies by adapting existing ones and developing new production capacities for the manufacture of new and existing products. The financing will encourage the companies to invest in the acquisition and deployment of new production technological lines, modernization of existing production lines, installation of internal engineering networks required for the installation of new technological lines of production or the modernization of existing ones. The call for tenders for this measure is due in Q III of 2018 (EUR 17.8 million is planned).

Promoting research, development and innovation

71. The implementation of the Government Programme aims at to consolidate the fragmented system of science, technology and innovation (hereinafter – STI) as follows: to arrange the legal regulation, to purify the functions of state institutions responsible for this area and to define clearly the responsibilities. The works accomplished in 2017 and Q I of 2018:

71.1. the Strategic Council for Research, Development and Innovation (hereinafter – the RDI Strategic Council) was renewed, which coordinates the development of studies, research, experimental development and innovation at strategic level (hereinafter – RDI), as well as assessing the process of implementation of the strategic documents on the guidelines for the change of Lithuanian science and innovation policy, studies, science, technologies and innovations, and provides recommendations to the Government on improving their implementation. In carrying out its functions, the RDI Strategic Council should consult with an expert working group consisting of 6 persons delegated from associations of science and study institutions and 6 persons delegated from business associations. MOSTA monitors and analyzes the processes of state RDI policy

formation and implementation, analyses them and submits proposals to the RDI Strategic Council on policy improvement;

71.2. encouraging public sector procurement organizations to develop demand-orientated innovative products, a list of 15 state projects worth EUR 10.17 under measure “Pre-Commercial Purchase LT” was made. The application of this procurement method will help address public concerns in areas such as healthcare, energy use and safe traffic;

71.3. by encouraging enterprises to carry out their innovative activities more actively and take advantage of the opportunities offered by science and business cooperation, in Q II of 2018, it is planned to announce the tender under “Inočekiai” (English: InoCheques) (budget EUR 5 million). Under the same measure, innovative cheques will be provided for performance of technical feasibility studies and for the implementation of R&D projects, as well as for the projects with a Quality Mark from the EC (Seal of Excellence) according to measure “MVĮ instrumentas” (English: SME Instrument), but for those who did not receive the support for the implementation of Stage 1 (Phase) activities (technical and commercial feasibility studies) of the measure “MVĮ instrumentas”. Continuous selection of projects is planned. In addition, on purpose to encourage joint research and business R&D projects that produce higher value added products, in Q II of 2018, it is planned to call for tender under “Intelektas LT2” (English: Intellect LT2) (budget EUR 50 million). During the implementation of the activities of the measure, R&D will be supported, as well as initial investment of enterprises in infrastructure (which is not publicly available) and fundamental research (joint R&D projects of mature science and mature business);

71.4. In 2017, the restructuring of the institutional structure of R&D system was initiated. The purpose of this restructuring is to implement the provision of the Government Program, which aims at legitimization of the competence of the Ministry of Education and Science to retain issues related to support for fundamental (scientific) research, and the Ministry of Economy – issues related to support for the practical development and marketing of new products. Consolidation of policy-making institutions is foreseen;

71.5. a Long-term Research and Innovation Development Programme (hereinafter – RDI programme) and a draft plan for its implementation are being developed. While consolidating the four strategic documents regulating the RDI field – The Programme for the Implementation of Priority Research and Experimental (Social, Cultural) Development and Innovation Development (Smart Specialization) Directions and Their Priorities; Innovation Development Program for 2014–2020; the Programme for the Development of State Studies, Research and Experimental (Social, Cultural) Development for 2013–2020; and the Programme for the Development of Science, Technologies and Innovations in the Field of Aerospace for 2016–2020 – the most ambitious objectives of these programs were included in the RDI programme project also focusing on current

topical priorities and responding to the latest trends in the future. It is a step towards the formation and implementation of an integral and sustainable state RDI policy. The RDI program is expected to be approved in Q II of 2018 and implemented during the 2018–2030.

72. Currently, the process of Smart Specialization Strategy review is being actively implemented. Continuous expert discussions are held, analyses and evaluations of the priorities of Smart Specialization are carried out. The objective is to evaluate the impact of the subjects operating under the priorities of the Smart Specialization on the economy of Lithuania through factors such as export, created number of highly qualified job places, etc. The information gathered will allow adoption of reasoned decisions so that the money would effectively be invested according to the Smart Specialization areas, which will have the greatest effect on the economy of Lithuania not only at present, but also in the future. According to the above analyses and follow-up monitoring, a detailed interim assessment of the implementation of the Smart Specialization Strategy will be carried out in Q III of 2018 and, if necessary, the required adjustments will be made. After analyzing the assessment results and assessing the potential of individual priorities and future perspectives, appropriate solutions will be formed for further investments in the relevant directions or the formulation of new thematic directions.

73. In January 2018, the innovation platform www.inovacijos.lt was launched. This is a set of mutually harmonized tools that enable business, academic, governmental representatives and the public to receive up-to-date information on innovation, ideas are yet to be developed, support for the creation, deployment and development of innovation, changes in the innovation ecosystem and changes in legal regulation, recommendations of experts and specialists in one place. The website is equipped with a search engine that allows to perform searches related to innovations and development thereof in databases such as the Network of European Enterprises, CORDIS, HORIZON2020, as well as receiving the most relevant information about ongoing R&D projects at national and European level, finding like-minded persons, potential partners, as well as to raise own competitiveness and, thus, of the entire country.

Digital transformation of industry

74. By continuing the digitization work of the industry and in order to create conditions for business productivity growth an invitation under measure “Pramonės skaitmeninimas LT” (English: Industry Digitization LT) (EUR 38.8 million is planned to be allocated) will be published in the Q II of 2018. Under this measure, two activities will be supported. Firstly, possibility to audit an industrial SMEs possibility for digitization of their manufacturing processes and prospects thereof. The second supportive activity is the installation of production process equipment of industrial SMEs with integrated digitization technologies such as robotics, artificial intelligence, automation

and automation technologies, intelligent sensors, clouds, the Internet of things, cyber-physics systems, etc. It is expected that according to the measure “Industry Digitization LT”, the share of digital technology acquisition compensated from the EU Structural Funds will be 35 percent, where the applicant is medium-sized enterprise, and 45 percent, where the applicant is a very small and small enterprise.

75. Lithuania has signed 2 agreements with the EC in March 2018, according to which the granted support will be focused on the implementation of projects aimed at promoting the digital transformation of the industry. During the implementation of the first project (under the Structural Reform Support Programme for the period 2017–2020 Lithuania was granted EUR 0.03 million), a strategic plan for the implementation of the Action Plan of Implementation of National Industrial Digitization Initiative will be prepared in 2018, and recommendations will be drawn on how to strengthen and increase the competitiveness of industry through digitization. The Strategic Action Plan will be developed in line with the direction of activities of the National Industry Digitization Platform “Pramonė 4.0” (English: Industry 4.0), i.e. digital manufacturing, services promoting digitization, human resources, standardization and legal regulation, and cyber-security. Estimated duration of the implementation of the project is 6 months.

76. In the context of the second project of EU pilot on industrial transition, representatives of Lithuania and the EC will cooperate in addressing issues related to industrial digitization. For the implementation of this project, a support of up to EUR 0.2 million will be allocated to Lithuania, under which the external consultancy services in preparing an industrial transformation strategy will be funded. After successful implementation of first stage, another support of EUR 0.3 million will be allocated in 2019 for the implementation of specific actions provided for in the strategy. The Strategy for the Industrial Transition will be prepared by the Ministry of Economy in cooperation with experts from the Platform “Industry 4.0” and EC representatives.

Development of start-up ecosystem

77. There were 380 start-ups in the “Enterprise Lithuania” database as at 1 January 2018. The goal of 2018 is to have 500 start-ups. A working group was formed on 22 February 2018 in order to submit proposals on start-ups, their legal regulation and other issues related to the activities of start-ups that is delegated to submit proposals related to the development of start-ups ecosystem.

78. Promoting the development of start-ups ecosystem, the following works related to creation of a favourable business environment for the start-ups and their access to financing sources are being implemented:

78.1. it is planned to define the concept of start-ups in legal acts and regulate their activities (draft of the corresponding legislation is planned to be presented to the Parliament in the 2018 spring session);

78.2. it is planned to provide high-quality consulting services for the start-ups and implement training programs in order to improve the qualifications of the start-ups (Q III of 2018);

78.3. it is planned to create a Startup Employee Visa procedure, which will allow start-ups to attract highly skilled workers from abroad (Q IV of 2018);

78.4. the Acceleration Fund is being established. It is a new venture capital financial instrument that will include acceleration activities: the authors of the ideas will be provided with active business acceleration services (mentoring, expert consultations, legal assistance, marketing strategy preparation, etc.), allowing further investment in the implementation of ideas of very small and small business. The investments will be made in equity capital of the very small and small business or partially in the authorized capital at pre-development and preparatory stages of enterprises. The first investment is expected at the end of 2018/at the beginning of 2019, when fund managers will be selected, who will attract the required amount of private funds and with whom the contracts will be signed;

78.5. it is planned to enable start-up to allow and publicly distribute equity securities through co-funded platforms (by the end of 2019);

78.6. the possibilities in relation to the legal regulation of the following issues are under consideration and, if necessary, amendments to the Law on Companies will be prepared: review of the minimum amount of authorized capital to be applied to private limited liability companies (Q IV of 2018); review of the legal regulation of the classes of shares of private limited liability companies (Q 4 of 2018); review of the legal regulation of rights of companies to acquire their shares (Q IV of 2019).

Improving business environment

79. In Doing Business 2018 Report published in 2017, Lithuania ranks 16th and is among top 20 of 190 countries in the world. Compared with 2017, Lithuania has climbed up 5 positions – it was ranked 21st last year. Among the EU Member States Lithuania ranks 6th and is outpacing countries like Ireland (17), Latvia (19) and Germany (20).

80. Doing Business 2018 Report indicates that Lithuanias position improved because of the implementation of four business-enhancing reforms in the period 2016–2017 in the fields of obtaining construction permits, getting electricity, protecting minority investors and paying taxes. The time required to issue the construction permits was reduced, rights of small shareholders (a requirement to disclose information about participation of board members in the management of other companies, main place of work was introduced) were enhanced, smart tax system “i.Mas” has

been introduced and terms of connection to the electricity network have been shortened. In the European and Central Asian region, Lithuania is the second in terms of the number of reforms that have been implemented to improve business conditions – 31 reforms have been implemented since 2003.

81. Improvement of Doing Business 2018 Report indicators is one of the priority works of the Government for the period from 2017–2020: the Plan of the implementation of the Government Programme includes reforms aimed at improving state ratings based on the indicators according to which Lithuania is the most lagging behind. It is planned to optimize and shorten the procedures for setting up and electrifying companies, reforming the insolvency system in order to increase efficiency, to strengthen the protection of minority investors, to initiate a review of the pledge as the method for securing the obligations and the legal regulation of the registration of pledged assets.

Improving business supervision

82. The authorities responsible for the supervision of the activities of entities (hereinafter – supervisory authorities) have made significant efforts and made significant progress in improving the supervision of business in Lithuania. Surveys conducted by the Ministry of Economy show that entities are positive about the work of supervisors and see the inspectors’ efforts to help them understand the requirements of legal acts.

83. OECD welcomed the implementation of the business supervision reform, where the number of routine inspections is increased, a lot of attention is paid helping business entities and providing them with consultations. Lithuania has enshrined the application of many advanced measures in the legislation for business supervision, but it is now crucial to ensure their continued application.

84. In 2018, the assessment of the performance of supervisory authorities (the scoreboard) will be made for the first time according to the scope and quality of the application of modern business supervision measures, as well as other aspects of supervisory activities related to business supervision. The publication and publicity of the assessment results of the performance of supervision authorities (the scoreboard) is expected to be a useful tool for improving the business supervision system, accelerating the implementation of advanced supervisory tools, taking over good practice, promoting interinstitutional cooperation and sharing the best practices.

85. Also in 2018, the works of the development of the Information System for Supervisory Authorities (hereinafter – the PAIIS) will be continued. After the creation, implementation and after commencing the use of PAIIS by supervisory authorities, it will be possible to obtain and supply the data necessary for the supervisory authorities that carry out the supervisory processes of the entities in a convenient and prompt manner that will allow:

85.1. to increase the efficiency of activities of supervisory authorities (develop and/or improve methodological tools, computerize the risk assessment and management of entities, reduce the number of manually performed functions);

85.2. to strive for the entities to better assess activities of supervisory authorities: optimize processes in order to make them clearer and more understandable to entities; reduce the burden on entities (businesses) both resulting from repeated provision of data to supervisory authorities and the coordinated timetable for scheduled inspections;

85.3. it is expected that supervisory authorities will use PAIIS when planning and carrying out inspections, preparing documents for inspection, sending notices and reminders to entities and communicating with other supervisory authorities. The entities would use the Business Gateway – Services and Product Contact Centre information system managed by “Enterprise Lithuania” – and would receive various information from the supervisory authorities through the one-stop shop system, submit documents of various formats to supervisory authorities, would have the opportunity to review the information about the history of supervision of activities and would participate in surveys on supervision activities carried out by supervisory authorities.

86. The Ministry of Economy will prepare proposals for the business supervision assessment data and submit them to the Parliament (deadline – Q II of 2019), and together with the Ministry of Finance will evaluate the optimization of supervisory functions performed by regulated institutions, and compatibility of planned performance indicators with the provisions of Strategic Planning Methodology and, if necessary, will submit draft decisions to the Government (Q IV of 2018).

87. In 2018, attention will also be paid to the education of general competence of the staff of supervisory authorities. It is planned to create special programmes for improving the qualification of supervisory specialists and strengthening the competence in the field of supervision, and to train 3 500 employees in 2018–2020. The knowledge and practical skills acquired during the training will ensure more effective and long-term use of advanced supervisory tools, will stimulate the implementation of advanced business supervision system focused on business consultancy rather than punishment.

88. On purpose to reduce the burden of supervision on business, enhance the competence of employees, increase the efficiency of activity processes carried out by supervisory authorities and ensure more efficient use of budgetary resources, the consolidation of business supervisory authorities will be continued.

Better regulation

89. According to the data provided by the institutions, it was found that the administrative burden on business in 2017 was reduced by EUR 4.6 million, of which EUR 1.8 million

administrative burden was reduced due to the amendments of legislation regulating the public procurement.

90. In reducing the administrative burden, in 2018 it is planned to:

90.1. review the composition and operational principles of the Commission for Better Supervisory Regulation, carrying out the tasks related to the assessment of administrative burden and application of its reduction measures, with a view to effective work of the Commission and reduction of contribution to the administrative burdens on business;

90.2. change fundamentally the formation and control of the plan for the measures reducing administrative burdens focusing not on the amendments of individual legal acts, but on systematic changes in regulation in a specific area;

90.3. prepare an amendment to the Law on Public Administration which would ensure the accumulation of all information on licences issued in Lithuania in one state information system (licensing information system). Publicly provided and free information on licences issued in Lithuania will increase confidence of consumers in business and transparency of licensed business activities.

Promoting investment and export

91. In 2018, it is planned to continue the following works: improve the formation of investment policy and the implementation of investment promotion system from various sources of financing. In order to attract large value added production investments, it is planned to create special legal regulation and targeted incentives for such investment projects in 2018.

92. In 2017, 39 FDI have been attracted by “Invest Lithuania” which will create 5 060 new job places. Compared to 2016, the number of projects expected to be implemented by FDI grew by 18 percent (in 2016 it amounted to 33), and the expected number of job places increased by 40 percent (3 616 job places were planned to be created in 2016). The amount of investment in fixed assets in 2016 amounted to EUR 134.24 million. Last year increased by 53 percent and amounted to EUR 206 million. It is estimated that after implementation of the projects in 2017, about EUR 104 million of taxes will be paid over the year due to these projects and additional effect on economy, and generated value added will exceed EUR 270 million annually.

93. At present, the Ministry of Economy is implementing the measures of working plan of the implementation of the Government Programme intended to attract talents, integrate them, improve the immigration model, and to create incentives for the returning talents. Together with “Invest Lithuania”, 4 projects are implemented: “Establishment and engagement of the talent attraction unit”, “Creation of incentive systems for attracting highly qualified specialists”, “Improvement of the immigration model for attracting highly qualified specialists and their

families”, “Creation of an integration model for highly qualified workers and their families returning to Lithuania”. Projects are expected to be implemented by the end Q II of 2019.

94. In order to facilitate the conditions of employment of highly qualified professional specialists from third countries in Lithuania, the Ministry of Economy periodically updates the list of those professions that require high qualifications and workers that the country is currently most lacking. Given the needs of the labour market, the list is due to be updated in Q II and Q IV 2018.

95. Export results reveal successful efforts of enterprises to entrench themselves in international markets. In 2017, compared to 2016, exports of goods increased by 16.9 percent. According to the branches of the economy, the largest influence on the growth of exports of goods produced in Lithuania (without mineral products) had the engineering industry, food and beverage industry, and furniture and timber sectors. These sectors accounted for 66 percent of the growth of export of all products of Lithuanian origin (without mineral products).

96. In order to help the business to entrench themselves in international markets, the measures to facilitate the development of Lithuania in the target export markets and to ensure the efficient use of resources and stable development of short and long-term exports were approved and are implemented in 2017–2018.

97. With the view of providing SMEs with necessary informational, consultative methodological and other support in the field of export, potential market search, international trade, in Q III of 2017, the first call for tenders for the measure “Expo konsultantas LT” (English: Expo Consultant LT) was announced (amount of EUR 5.585 million).

98. On purpose to support the certification of products intended by SMEs for export , including the necessary tests and research, a call for tenders for the measure “Expo sertifikatas LT” (English: Expo certificate LT) was announced in Q IV of 2017 (amount of EUR 1.56 million).

99. In January 2018, two calls for tenders for the measure “Naujos galimybės LT” (English: New opportunities LT) were announced in order to encourage SMEs to focus on the search for new foreign markets and the development of existing markets as much as possible – a group presentation of SMEs and their production abroad and/or in international exhibitions, fairs to be held in Lithuania and business missions. By one call, EUR 2.4 million was allocated to all SMEs, with the exception of SMEs belonging to sector of cultural and creative industries (hereinafter – SMEs attributable to the CCI sector); according to the next call, EUR 0.6 million were allocated to SMEs attributable to the CCI sector.

100. In order to encourage the groups of SMEs that have decided to operate jointly to join the international networks so as to find new export markets for their products, in the Q IV of 2018, the 2nd call for tenders for the measure “Verslo klasteris LT” (English: Business Cluster LT) (amount of EUR 3.6 million) was announced.

101. Considering the dynamics of exports and mobilization of resources for the most potential export directions, the process of reviewing the target export markets will be launched and will be carried out by the end of 2018. The most promising markets are to be identified in the light of the export potential of high added value goods and services. While implementing the tasks of economic activity, the diplomatic services and the diaspora network of Lithuania are being involved more actively, visits and cooperation initiatives are being coordinated. Long-term target measures are aimed at strengthening the image of Lithuania and business sectors abroad, improving the national economic representation system, and refining the skills of export specialists. From the end of February 2018, granting export credit guarantees (EUR 8 million is allocated) to SMEs were commenced. Preparatory works are currently under way, and in Q II of 2018, it is planned to launch the implementation of measure of portfolio guarantee for factoring (EUR 4.3 million is allocated). Both an export credit guarantee and a portfolio guarantee for factoring measure will help SMEs to expand their export activities, strengthen their competitiveness and promote exports of goods of Lithuanian origin. In 2017, a one-stop shop system for exporters was introduced.

CHAPTER IV IMPLEMENTATION OF THE OBJECTIVES OF THE “EUROPE 2020” STRATEGY

FIRST SECTION EMPLOYMENT, POVERTY AND SOCIAL EXCLUSION

Rate of employment of persons in the 20–64 age group

Table 1. Rate of employment in the 20-64 age group

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
An employment rate of 75 percent in the 20-64 age group	An employment rate of 72.8 percent in the 20-64 age group	An employment rate of 76.0 percent in the 20-64 age group

102. The rate of employment in the 20-64 age group of individuals was 76.0 percent in 2017 and, compared to 2016, it increased by 0.8 percentage point.

103. In 2017, the rate of unemployment in Lithuania was 7.1 percent, which is 0.8 percentage point less than in 2016. The rate of unemployment of men was 8.5 percent, and the rate of unemployment of women was 5.7 percent in 2017. Over the year, the unemployment of men has decreased by 0.6 percent, and women – by 1 percent. In 2017, the youth unemployment rate (15-24 years old) was 13.3 percent and was 1.2 percent lower than in 2016. In 2017, the long-term unemployment rate was 2.7 percent and was 0.3 percent lower than in 2016.

104. The Action Programme instrument for developing entrepreneurship skills of residents and initiatives for supporting the establishment and development of businesses in rural areas and areas with high unemployment levels is being implemented in 2018.

105. Active labour market policy measures for the support of integration of the unemployed into the labour market are applied in 2018. The priority is given to unqualified long-term unemployed persons aiming to provide them with marketable skills and develop competencies meeting employer requirements.

106. In order to ensure a rapid and sustainable transition of young people to the labour market, reduce the rate of unemployment of young people, the implementation of the Youth Guarantee Initiative and other programmes promoting youth employment are being continued in 2018.

Individuals facing the risk of poverty or social exclusion

Table 2. Individuals facing the risk of poverty or social exclusion

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
To reduce the number of people living in poverty and facing social exclusion or people in danger of poverty or social exclusion by at least 20 million	To reduce the number of people living in poverty and facing social exclusion by at least 170 thousand people, and the number of these people in 2020 must not exceed 814 thousand	871 thousand residents facing the risk of poverty or social exclusion

107. According to data of 2016, improving economic and employment indicators did not help reduce poverty in the country. The number of people facing the risk of poverty or social exclusion was 30.1 percent in 2016 (compared to 29.3 percent in 2015). The data of statistical research of income and living conditions conducted by the Statistics Lithuania revealed that the poverty risk level was 21.9 percent in Lithuania in 2016. About 630 thousand residents of Lithuania lived below the risk of poverty threshold in 2016, which decreased by 0.3 percent compared to 2015.

108. The highest poverty risk rate was in the group aged 65 and over. In 2016, it amounted to 27.7 percent and increased by 2.7 percent compared to 2015. The increase was determined by an increase in the poverty risk level resulting from increased labour income and a relatively small increase of old-age pensions.

109. The poverty risk level of people aged 18-64 compared to previous years decreased by 0.4 percent and it was 19.1 percent in 2016; of children under 18 – decreased by 3.3 percent and

amounted to 25.6 percent. Decline was affected by rising wages, decreased unemployment, growing social security costs for families and children, and raising the minimum monthly wage.

110. In order to increase availability of social services, the development of inpatient and outpatient social service infrastructure will be continued in 2018, providing integral assistance at home (nursing and social care).

111. Providing support to the most deprived persons, the implementation of the project funded by the Fund for European Aid to the Most Deprived is planned in 2017–2018 (value of EUR 32.83 million). The plan is to provide food assistance to about 280 thousand most deprived persons. From 2018, additional activities will be funded that will aim to reduce social exclusion and/or to fight social misfortune more resolutely and more sustainably, for example, various recommendations and consultations – on balanced nutrition; on budget management; legal, medical, psychological assistance; organized various trainings (courses) on the topic of food production, psychological/emotional training, handicrafts, motivations/self-esteem; occupation for children: day camp, after-school activities, trips, additional training, etc.

112. In order to create the system of comprehensively provided services, which would allow every child, a disabled person or his family members (carers, guardians) to receive individual services depending on need and the necessary assistance in the community, the 2014–2020 action plan for the transition from institutional care to family and community-based services to the disabled and children deprived of parental care is being implemented.

SECOND SECTION INNOVATIONS, RESEARCH AND DEVELOPMENT

Table 3. Investments in research and development (hereinafter – R&D)

EU 2020 target	National 2020 target	Situation in Lithuania in 2017
Increasing investment in R&D to 3 percent of GDP	Increasing investment in R&D to 1.9 percent of GDP	Investment in R&D accounted for 0.85 percent of GDP

113. In 2016, EUR 327.6 million were allocated to R&D works, which made 0.85 percent of GDP. Compared to 2015, the ratio of R&D expenditure to GDP fell by 0.19 percentage points (in 2015 R&D expenditure was 1.04 percent of GDP). This was mostly influenced by 53 percent reduction of R&D financing by foreign funds, the majority of which comprised the EU funds reallocated through the state budget. It should be noted that in 2016, compared with 2015, business investment in R&D significantly increased (14.8 percent) and almost reached the level of government investments. R&D financing from business funds amounted to EUR 127.7 million,

government funds – EUR 128.4 million. In order to encourage investments in R&D, Lithuania is implementing Smart Specialization Strategy, where national R&D development policies and priorities that reflect strengths and greatest potential of our national economy and science are identified. The funding in R&D provided for the EU funding period of 2014–2020 amounts to EUR 678.9 million.

114. The 2017 European Innovation Scoreboard indicates that Lithuania has made significant progress in innovation field. According to the Scoreboard, Lithuania has risen to 16th position among 28 EU countries. The innovation of enterprises was growing. According to preliminary data from the Statistics Lithuania, 46.6 percent of enterprises carried out innovative activity in the period from 2014 to 2016. Compared to 2012–2014, the share of enterprises engaged in innovation activities increased by 5.9 percentage points. In 2016, the costs of innovative activities amounted to EUR 1,274.6 million and, compared to 2014, increased by 17 percent. It should be noted that the share of innovative expenditure on R&D performed in the enterprise has increased 2 times, and for the purchase of external R&D works – 15 percent.

115. In 2017, the system for evaluation and financing of science and study institutions has been updated. It has become a two-tier and consists of an annual formal R&D assessment and comparative expert assessment of R&D performed every 5 years. The new evaluation methodology and financing model are oriented towards the promotion of even closer cooperation between science and study institutions and the business sector.

116. In accordance with the Strategic Plan of the Ministry of Education and Science for the period 2017–2019 and implementing the measure “Ensuring implementation of international agreements and obligations of Lithuania in the field of R&D and participation in international R&D programmes”, the initiative of the promotion to prepare the Horizon 2020 applications was continued in 2017. The aim of the measure is to promote higher quality participation of institutions of science and studies in Horizon 2020. According to the measure, the grants for the purchase of consultancy services for Horizon 2020 application development services were allocated. According to the data of February 2018, Lithuanian institutions submitted 0.46 percent of all Horizon 2020 applications, and the success rate of participation (12 percent) is almost equivalent to the EU average (13.6 percent).

117. In 2017, the TYKU2 project implementation was carried on under measure “Strengthening of the Abilities of Scientists and Other Researchers”. The project encourages scientists and other researchers, science managers from the scientific sector to integrate into international R&D projects. About EUR 0.1 million was allocated to Horizon 2020.

118. In order to develop the policy of involvement in international research infrastructures by defining clear involvement procedures, the procedure and prospects for funding membership

expenses, the evaluation of the membership results, the waymark mission of the Lithuanian research and the principles for drawing up thereof, the Description of the procedure for the waymark of Lithuanian research infrastructures and participation in international research infrastructures was approved.

119. The activity supported by measure “Development and integration of research, experimental development and innovation infrastructure in European infrastructures”: involvement in international research infrastructures (ESFRI) and renewal, development and expansion of open access R&D infrastructures required for the participation in international or regional research initiatives. The funds of this measure are intended for financing membership fees for participation in new international research infrastructures. At present, investment projects submitted by research and higher education institutions are evaluated.

120. In order to create a motivational system for young researchers, artists and creators of arts, humanities and social sciences, a Description of the Procedure for the Allocation of Support for Academic Achievements and Support for Academic Trips to Doctoral Students was approved on 26 July 2017. The goal of providing support for academic achievement is to support efficiently working doctoral students. The goal of support for academic trips is to enable the doctoral students to improve their scientific qualification through participation in events held abroad, increase the international mobility of doctoral students, and support the international dissemination of Lithuanian research results.

121. In 2018, it is planned to create an attractive model for the attraction and reintegration of foreign researchers into Lithuanian research and higher education institutions in accordance with the model on fulfilment of RDI directions of smart specialization.

122. In 2018, the concept of industrial doctoral studies will be launched. The entities will be able to submit applications for a doctoral competition by offering research topics relevant to them, together with research and higher education institutions. The research of doctoral students who have chosen these themes will be carried out in the enterprise and in the research and higher education institution, their dissertations will be focused on solving specific problems of the industry. It will contribute to the promotion of science-business cooperation, the growth of the number of researchers in the business sector.

123. The Action Programme measures administered by the Ministry of Economy are targeted at applied research, experimental development activities, clusterization, promotion and dissemination of innovation, increasing internationalization of companies, attracting FDI and increasing innovation demand necessary for creating innovative products, services or processes. It is aimed that the assistance will cover the entire innovation cycle and will become an incentive to ensure its smooth functioning. The focus is placed on each cycle stage – from the formation of a

new product idea to its introduction into the market. Measures “Inogeb LT“, “Inovaciniai čekiai“ (English: Innovation Vouchers), “Inočekiai“, “InoConnect“, “Inopatentas“ (English: Inopatent), “Intelektas. Bendri mokslo-verslo projektai“ (English: Intellect. Common research-business projects), “Inoklaster LT” (English: Inocluster LT), “Ikiprekybiniai pirkimai LT“ (English: Pre-commercial purchases LT), “Inostartas“ (English: Inostart), “SmartInvest LT+“, “Smart FDI“, “Verslo klasteris LT“ (English: Business cluster LT), “Naujos galimybės LT“ (English: New Opportunities LT), “Expo Sertifikatas LT“ (English: Expo Certificate LT), “DPT pramonei LT+“ (English: KET for Industry LT+), “EcoInovacijos LT“ (English: Eco-innovation LT), “Eco-inovacijos LT+“ (English: Eco-innovation LT+), “RegioInvest LT+“, “Pramonės skaitmeninimas LT“ (English: Industry Digitization LT), “Regio Potencialas LT“ (English: Regio Potential LT) are implemented for this purpose.

124. Activities of centers of excellence and innovation and technology transfer centers are being promoted in order to enhance the commercialization potential of science and research institutions of R&D results and the transfer of knowledge and technology. For this purpose, the measure “Promoting the Competence Centres and Innovation and Technology Transfer Centres” is implemented. By concentrating R&D potential (researchers, infrastructure) in the competence centers for experimental activities, opportunities to offer science-based ideas for commercial potential and prepare them for further investment, as well as the development of business business solutions, are opened up. This strengthens applied aspect of R&D results. After evaluation of applications, the competence centers are allocated EUR 6.3 million in Q I of 2018 according to the measure “Promoting Activities of Competence Centres and Innovation and Technology Transfer Centres”. Innovation and technology transfer centres operate as a one-window access system that can identify business needs, mediate and offer the best team of researchers or market relevant solutions for R&D that already have potential of commercialization. In 2017, funding agreements worth EUR 5.7 million were signed with innovation and technology transfer centres for the management of the processes for transfer of knowledge and technology for science and technology developed in research and study institutions to interested business entities.

125. In accordance with the measure “Promotion of Commercialization of RDI Results and Transnationality” in Q II of 2018, it is planned to announce a call for support for commercializing the ideas of scientists and other researchers and students working or studying in research and study institutions, and for the support of emerging young innovative companies (separate enterprises). In Q III of 2018, a call for invitation to implement market-oriented research and business projects through the cross-border network (EUREKA) will be launched. The implementation of these two activities is aimed at stimulation of the commercialization of R&D results and transnationality.

126. In order to facilitate the technological development in the country, to promote research aimed at productive innovations that are needed to solve the technological problems of the public and private sector also stipulating the provision that they can and must be dealt with on the basis of high-level research, a technological development project financing instrument is implemented. This instrument aims at helping businesses to involve in joint R&D projects, and start collaborating with science. After the call for tender in 2017, 79 applications from the institutions of science and studies have been received. Application partners are SMEs.

THIRD SECTION EDUCATION

Table 4. Reduction of early school leaving of young people

EU 2020 target	National 2020 target	Situation in Lithuania in 2017
To ensure that school drop-out rates are below 10 percent	To ensure that school drop-out rates are below 9 percent	The share of school drop-outs accounts for 5.4 percent

127. In Lithuania, the percentage of early leavers from education and training in the 18-24 age group is low compared to other European countries, reaching 5.4 percent in 2017 (6.5 percent in 2012, the EU average – 12.8 percent). As in most EU countries, the education system is more often left by men (7 percent in 2017) than women (3.8 percent in 2017).

Table 5. Retaining the share of persons having completed third level of equivalent education

EU 2020 target	National 2020 target	Situation in Lithuania in 2017
To ensure that at least 40 percent of 30-34 year-olds complete third level education	To ensure that at least 48.7 percent of 30-34 year-olds complete third level education	At least 58.3 percent of 30-34 year-olds have completed third level education

128. Lithuania holds the leading position among the EU countries according to the share of 30-34 year-olds having completed third level education. In 2017, this indicator reached 58.2 percent (the EU average was 39 percent) and was by 12.1 percentage point higher than in 2012. A higher share of women of this age group have third level education than men (according to the data of 2016 – 68.2 percent of women and 47.9 percent of men).

FOURTH SECTION ENERGY AND CLIMATE CHANGE

Increasing the use of renewable energy sources

Table 6. Share of renewable energy sources in the final energy consumption

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
To increase the share of renewables to 20 percent of gross final consumption of energy by 2020	To increase the share of renewables to 23 percent of gross final consumption of energy by 2020	The share of renewables comprised 25.58 percent of gross final consumption of energy

129. In order to reduce dependency on imported fuel, sustainable development of renewable energy sources was implemented in 2016. The strategic objectives set in the area of renewable energy enabled rapid development of local electricity generation capacity and energy from renewable resources in Lithuania.

130. The Action Programme provides for the allocation of about EUR 37.5 million from EU structural funds for activities for promoting energy efficiency and the use of energy from renewables in 2017.

131. In 2017, the process of issuing permits to producing customers whose installed capacity of power-stations is up to 5 kW has been simplified. The list of technologies that can become producing consumers, including wind and biomass technologies, and a list of individuals providing for the possibility of becoming producing consumers has been also expanded. Total installed capacity for producing customers has been increased up to 100 MW.

132. In 2017, the requirements of the legal acts regarding research and actions in the exclusive economic zone of Lithuania – the Baltic Sea – were amended. These amendments capacitate and permit of assessing the development of wind power plants in the territorial sea of Lithuania. The Ministry of Energy, in co-operation with other institutions, will organize research aimed at assessing the possibilities for the development of power plants using renewable energy resources, operational costs and the efficiency of activities in the Baltic Sea.

Increasing the efficiency of final energy consumption

Table 7. Increasing the efficiency of final energy consumption

EU 2020 target	National 2020 target	Situation in Lithuania in 2016
To consume 20 percent less final energy in comparison with 2009 by 2020	To consume 17 percent less final energy in comparison with 2009 by 2020	Consumption of final energy decreased by 2.3 percent compared to 2010 (excluding the transport sector)

133. In 2017, agreements with the largest state-owned energy companies on energy savings for end-users were prepared and concluded. According to the agreements, the enterprises undertook to save a total of 1.9 TWh of final energy. Also the Agreements with energy suppliers on the

provision of the information to consumers of final energy on energy efficiency improvement measures, their impact and changing behaviour of consumers were approved. 48 agreements with energy suppliers were concluded based on the aforementioned description.

134. 403 multi-apartment buildings were modernized under the Programme for the Renovation (Modernization) of Multi-apartment Buildings. 682 individual instruments reducing heat energy consumption were implemented in multi-apartment buildings at the initiative of residents. A total of 2 757 multi-apartment buildings (about 7.6 percent of all multi-apartment buildings) have been renovated (since 2005), and 13 107 individual instruments reducing heat energy consumption have been implemented in multi-apartment buildings at the initiative of residents.

135 The rated consumption of heat energy in multi-apartment buildings built according to the technical requirements for construction that were valid before 1993 was reduced by approximately 846 GWh per year from 2005. Such reduction accounts for approximately 16.9 percent compared to 2005 (5000 GWh) (the plan is to achieve at least 20 percent in 2020).

136. The plan is to modernize at least 500 multi-apartment buildings in 2018, thus the rated consumption of heat energy should drop by another 100 GWh.

Restriction of greenhouse gas emissions

Table 8. Restriction of greenhouse gas emissions

EU 2020 target	National 2020 target	Situation in Lithuania in 2015
<p>By 2020, to reduce greenhouse gas (hereinafter - GHG) emissions by 20 percent in comparison with the level of 1990.</p> <p>In sectors that are not a part of the EU emission allowance trading system, to reduce GHG emissions by 10 percent compared to 2005</p>	<p>During the 2013-2020 period, in sectors that are not a part of the EU emission allowance trading system, every year not to exceed the annual quantitative quotas (hereinafter - tonnes of CO₂ eq.) of GHG emissions set for Lithuania and to ensure that GHG emissions in 2020 increase by no more than 15 percent compared to 2005 and do not exceed 15.46 million tonnes of CO₂ eq.</p>	<p>The quota of sectors that are not a part of the EU emission allowance trading system comprised 14.019 million tonnes of CO₂ eq. According to the data of the National Report on GHG Emissions Accounting of 2018, the actual greenhouse gas emissions totalled 13.780 mln. t CO₂ eq.</p>

137. According to the Law on Financial Instruments of Climate Change Management, in 2017 about EUR 33.7 million was allocated for financing new projects for increasing energy efficiency and the use of renewables (EUR 31.6 million), for the installation of renewable energy

sources (EUR 1.5 million) and developing cooperation in order to transfer renewable energy source technologies produced in Lithuania to third countries (EUR 0.6 million).

138. In 2018, the funds from the Special Climate Change Programme will continue to be used for financing projects the implementation whereof results in quantitative reduction of greenhouse gas emissions. The plan is to allocate a total of EUR 32.5 million for projects aimed at increasing energy efficiency and use of renewables in 2018.

CHAPTER V INTERINSTITUTIONAL COOPERATION

139. In the preparation of the Action Plan of the Implementation of Council Recommendations for Lithuania for 2017–2018 (hereinafter – the Action Plan) and the NRP, close cooperation with both state authorities and social partners was continued.

140. The Action Plan was presented in Committees of the Parliament: the Committee on Social Affairs and Labour, the Committee on the European Affairs, the Committee on Education and Science and the Committee on Culture. Pursuant to the Government Resolution On Coordination of the Implementation of the Agenda of National Reforms in Lithuania, the Action Plan was presented to the Government.

141. Country Report published by the EC was discussed in the following Committees of the Parliament: the Committee on European Affairs, the Committee on Environment Protection, the Committee on Social Affairs and Labour, the Committee on State Administration and Local Authorities, the Committee on Audit, the Committee on Budget and Finances, the Committee on Economy, the Committee on Education and Science, and the Committee on Health Affairs.

142. The NRP was prepared in cooperation with the inter-institutional working group composed of ministries, representatives of the Bank of Lithuania and Statistics Lithuania. The Minister of Economy coordinated the preparation of the NRP. NRP was presented at the Parliament Committee on European Affairs with the participation of other sectoral committees of the Parliament.

143. The NRP project was publicly announced in the Information System of the Legislation of the Parliament Office. Comments and suggestions made by the economic-social partners and the general public were taken into consideration.