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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Lithuania and delivering a Council opinion on the 2023 Stability Programme of Lithuania

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalized by the Economic and Financial Committee, based on the Commission Proposal COM(2023) 615 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Lithuania and delivering a Council opinion on the 2023 Stability Programme of Lithuania

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Lithuania as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Lithuania's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

[4] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains.
On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

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5 COM(2023) 62 final.
6 COM(2023) 168 final.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

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[7] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its Communication on orientations for a reform of the EU economic governance framework[9], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

[8] COM(2023) 141 final.
[9] COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 14 May 2021, Lithuania submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 20 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Lithuania[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Lithuania has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

[10] Council Implementing Decision of 20 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania (ST 10477/2021; ST 10477/2021 ADD 1).

(10) On 27 April 2023, Lithuania submitted its 2023 National Reform Programme and, on 28 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Lithuania's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Lithuania[11] on 24 May 2023. It assessed Lithuania's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Lithuania's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Lithuania's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

[11] SWD(2023) 615 final.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Lithuania and published its results on 24 May 2023[12]. It concluded that Lithuania is not experiencing macroeconomic imbalances. In particular, vulnerabilities relating to price competitiveness, external balances and house price developments have recently increased but overall seem to be contained at present. The economy was strongly affected by the energy price shock with inflation rising fast; however, Lithuania's competitiveness is projected to recover slowly as energy prices are falling. The current account deteriorated markedly in 2022 on account of the increased energy import prices but is forecast to move close to balance this year. Going forward, mild current account deficits will not compromise external sustainability given its sound stock position. Nonetheless, inflation and wage pressures, if persistent, risk impairing Lithuania's competitiveness, particularly as core inflation is well above the euro area average. House prices have grown strongly since the pandemic, but there is no evidence of overvaluation and prices are now moderating given the interest rate rises and the economic recession underway. In addition, household debt is low, and the banking sector is well capitalised, highly profitable and records low non-performing loans. The policy setting is overall favourable, although some policies could help to address the risks from the identified vulnerabilities. Continued counter-cyclical fiscal and macroprudential policies, reinforced when needed, would be important in that respect. At the same time, more focus on fostering competition in the domestic market and policies to increase the quality and quantity of labour supply could help to manage price and unit labour cost pressures.

(13) Based on data validated by Eurostat,[13] Lithuania's general government deficit decreased from 1.2% of GDP in 2021 to 0.6% in 2022, while general government debt fell from 43.7% of GDP at the end of 2021 to 38.4% at the end of 2022.

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[12] SWD(2023) 637 final.

[13] Eurostat-Euro Indicators, 47/2023, 21.4.2023.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included VAT compensations for district heating for households, while such expenditure-increasing measures included price caps for electricity tariffs for household and non-household and for natural gas tariffs for household consumers, and subsidies to companies operating in sectors affected by high energy prices. The Commission estimates the net budgetary cost of these measures at 1.3% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.3% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.4% of GDP in 2022, from 0.6% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 Lithuania[14] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Lithuania to keep the growth of nationally financed current expenditure under control.

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[14] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Lithuania, OJ C 304, 29.7.2021, p. 68.

(16) According to the Commission estimates, the fiscal stance[15] in 2022 was contractionary, at 0.9% of GDP, which was appropriate in a context of high inflation. As recommended by the Council, Lithuania continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.1% of GDP in 2022 (1.3% of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance.[16] Lithuania therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 0.9 percentage points to the fiscal stance. Lithuania therefore sufficiently kept under control the growth in nationally financed current expenditure.

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is in line with the Commission 2023 Spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 0.5% in 2023 and 3.0% in 2024. By comparison, the Commission 2023 spring forecast projects the same real GDP growth of 0.5% in 2023 and a lower real GDP growth of 2.7% in 2024, mainly due to a relatively slower projected growth in consumption and investment in 2024.

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15 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

16 Other nationally financed capital expenditure provided an expansionary contribution of 0.2 percentage points of GDP.

(18) In its 2023 Stability Programme, the government expects that the general government deficit ratio will increase to 2.2% of GDP in 2023. The increase in 2023 mainly reflects expenditure-increasing measures aiming to support lower income households (such as increases in social benefits and pensions), as well as estimated lower tax and social security contributions revenues (as a share of GDP). According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 38.4% at the end of 2022 to 37.8% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 1.7% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to higher projection of social security contributions revenues and slightly lower projections of government expenditures on intermediate consumption and on investment. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 37.1% at the end of 2023. The difference is due to a lower projected government deficit.

(19) The government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: price caps for electricity and natural gas tariffs for household and non-household consumers). The net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.7% of GDP in 2023[17]. The measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not preserve the price signal to reduce energy demand and increase energy efficiency. As a result, there are no targeted support measures to be taken into account in the assessment of compliance with the recommendation for 2023. The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain stable compared in 2023, at 0.3% of GDP.

(20) On 12 July 2022, the Council recommended[18] that Lithuania takes action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Lithuania should stand ready to adjust current spending to the evolving situation. Lithuania was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

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17 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

18 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Lithuania and delivering a Council opinion on the 2022 Stability Programme of Lithuania, *OJ C 334, 1.9.2022, p. 120.*

19 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Lithuania, which is used to measure the fiscal stance, is estimated at 14.0% in nominal terms.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 0.8% of GDP), in a context of high inflation. This follows a contractionary fiscal stance in 2022 (+0.9% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide a contractionary contribution of 0.4 % of GDP to the fiscal stance. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 2.0% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points[20]. Therefore, Lithuania plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as investment in the development of local renewable energy sources, and installation of the electricity storage infrastructure, which will facilitate Lithuania's efforts to disconnect from the electricity grid, which operates in a synchronous mode with the Russian and Belarussian systems. These investment projects are partly funded by the Recovery and Resilience Facility and other EU funds.

[20] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

(22) According to the Stability Programme the general government deficit is expected to decline to 1.7% of GDP in 2024. The decrease in 2024 mainly reflects the phasing out of the measures adopted to mitigate the economic and social impact of the increase in energy prices. The programme expects the general government debt-to-GDP ratio to decrease to 37.7% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 1.4% of GDP in 2024. This is lower than the deficit ratio projected in the programme, mainly due to lower government expenditure on intermediate consumption and stronger nominal GDP. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 36.6% at the end of 2024.

(23) The Stability Programme envisages the phasing out of most of the energy support measures in 2024. The Commission also assumes the phasing out of almost all energy support measures (net cost of 0.1% of GDP in 2024). These estimates hinge upon the assumption of no renewed energy price increases.

(24) In the programme, Lithuania plans to meet the medium-term budgetary objective – a structural budget balance of - 1.0% of GDP[21] – in 2023 and to maintain it throughout the rest of the programme period. Based on the Commission 2023 spring forecast, the structural balance is forecast at -0.6% of GDP in 2023 and -0.3% of GDP in 2024, above the medium-term budgetary objective. Prudent fiscal policy in 2024 will also contribute to reducing core inflation, which is well above the euro area average, and which could lead to competitiveness losses if persistent.

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[21] The structural balance (cyclically-adjusted balance net of one-off and temporary measures) recalculated by the Commission using the commonly agreed methodology points to a structural deficit of 0.6% of GDP in 2023 and 0.2% in 2024.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 2.7% in 2024.

(26) According to the programme, government investment is expected to decrease from 4.0% of GDP in 2023 to 3.9% of GDP in 2024. The lower investment reflects lower nationally financed investment and investment financed by the EU.

(27) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to gradually decline to 1.4% of GDP in 2025 and to 0.9% by 2026. The general government deficit is therefore planned to remain below 3% of GDP over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to increase from 37.7% at the end of 2024 to 38.6% by the end of 2026.

(28) Lithuania's tax revenue as a share of GDP is significantly below the EU average, limiting the funding available for public expenditure on healthcare, social protection and general public services. The VAT gap (the difference between expected VAT revenue and the amount collected) is still one of the highest in the EU, even though preliminary estimates show that it might have decreased significantly in 2021. In 2021, revenues from property taxes, which are among the taxes least detrimental to growth, amounted to only 0.3% of GDP, around seven times lower than the EU average. Lithuania collected half the EU average from corporate income taxes (as a share of GDP), had some of the lowest transport taxes in the EU and is one of the few Member States without an annual car tax. Public spending on social protection increased in 2015–2021, but is still significantly below the EU average. This translates into relatively low levels and limited coverage of social benefits, with old-age pensions among the lowest in the EU relative to employment incomes. Expenditure on general public services is particularly low, receiving almost half the funding (as a percentage of GDP) than the EU average. Inadequate financial resources for healthcare result in long waiting times and high levels of unmet needs for medical care, high out-of-pocket costs for patients and the inability to offer competitive salaries to healthcare professionals.
In 2021–2023, Lithuania introduced several major permanent expenditure measures (such as increases in public sector wages, pensions, and other social benefits), which are not matched sufficiently by corresponding financing measures, which might pose a risk to Lithuania's fiscal sustainability in the long-term.

(29) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Lithuania's recovery and resilience plan is well underway. On 30 November 2022, Lithuania submitted a first payment request, and the Commission adopted a positive assessment for 31 out of 33 milestones covering six of the plan's seven components, while two milestones related to tax reforms have been assessed to be not satisfactorily fulfilled. The Commission has therefore activated the 'payment suspension' procedure that gives Lithuania additional time to fulfil these milestones, while receiving a partial payment of EUR 542.3 million (net of prefinancing) linked to the milestones that have been satisfactorily fulfilled. As a result of objective circumstances related to increases in the prices of energy and construction materials, and supply chain constraints due to Russia's aggression against Ukraine, Lithuania intends to submit modifications to the plan, as well as a REPowerEU chapter to accelerate the decarbonisation of the economy and reduce dependence on fossil fuels. In accordance with Article 14(6) of Regulation (EU) 2021/241, on 30 March 2023, Lithuania expressed its intention to request EUR 1 800 000 000 of additional loan support under the Recovery and Resilience Facility. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Lithuania's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all of Lithuania's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Lithuania.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Lithuania faces a number of additional challenges related to the health system, social services and social housing, energy and the green transition.

(32) Health outcomes in Lithuania show one of the lowest life expectancies in the EU. Levels of preventable and treatable mortality in Lithuania remain high compared to the EU average. Lithuania has a high level of avoidable hospital admissions and the highest rate of mortality from suicide in the EU. This highlights the necessity to improve the effectiveness of healthcare and the need for more preventive measures in the Lithuanian healthcare approach. The challenges in the healthcare sector are exacerbated by labour shortages, skills mismatches and an uneven distribution of health professionals, which limit access to and the provision of primary healthcare. Lithuania's recovery and resilience plan includes significant measures such as a reform that will transform the hospital network and emergency medical services, as well as investment in modernising healthcare facilities and building infrastructure for infectious disease cluster centres. Once implemented, these measures are expected to help address some of the key challenges. However, beyond the measures included in the recovery and resilience plan, additional efforts are needed to further strengthen primary care and expand preventive care, including to make the healthcare system more resilient.

(33) The planning and delivery of social services is hindered by municipalities' failure to sufficiently involve non-governmental organisations, and the integration of social assistance and training measures with active labour market policies, especially for the unemployed, is still insufficient. Lithuania achieved some progress by completing pilot projects in certain municipalities on the provision of integrated services for the unemployed, and a recommendation was issued to all the municipalities to apply the methodology of these projects to their employment promotion programmes as of 2023. While this is a step in the right direction, its impact is yet to be seen, and further efforts are needed. The recovery and resilience plan includes significant measures, such as a reform of the minimum income scheme and the tax-benefits system together with increasing the coverage of unemployment insurance. These are expected to help address some of the key social protection challenges once implemented. However, beyond the measures included in the plan, further efforts are needed to improve the planning and delivery of social services.

(34) Access to social housing is limited in Lithuania. Around 9 700 families (almost 19 000 people) were waiting for social housing at the end of 2022, with the average waiting time 5.85 years. The overall quality of social housing remains low. Although Lithuania has undertaken some reform measures on social housing, including introducing the right to prioritise single-parent families, increasing the income and assets limits when assessing eligibility and adding special provisions in case of a national emergency or quarantine, an overall strategy on how to tackle these chronic shortages and increase the quality of social housing is currently missing.

(35) Following Russia's invasion of Ukraine, Lithuania has successfully abandoned imports of gas, oil, electricity and coal from Russia, by redirecting energy imports through the liquified natural gas (LNG) terminal in Klaipėda, the oil terminal in Būtingė, the new gas interconnection with Poland, the improved interconnection with Latvia, and the existing electricity interconnections with Poland, Latvia and Sweden. Lithuania's consumption of natural gas dropped by 41% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target, mostly due to the fall in gas demand from its chemical industry, as a result of soaring energy prices. Lithuania could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024.[22] Nevertheless, Lithuania remains highly dependent on imports for its energy supply. It imports around two-thirds of its gross electricity needs and almost all of its oil and gas. Moreover, oil and gas represent three-quarters of the country's energy mix.

22 Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

(36) The high demand for energy is driven by a large and old transport fleet, with underused public transport and rail, a large stock of energy-inefficient buildings and highly energy-intensive industries. Industry accounted for 58% of Lithuania's total gas consumption before the energy crisis. Additional efforts to reduce energy intensity in these sectors by promoting industrial transformation, including innovative production processes and further promoting the use of renewable energy sources, would decrease Lithuania's dependence on energy imports. Incentives to choose less polluting vehicles remain weak in Lithuania, while the public transport system is fragmented and suffers from a lack of coordination. Therefore, promoting less polluting means of transport remains a priority. At the same time, the renovation rates for multi-apartment buildings remain too low to achieve the climate neutrality targets in the sector by 2050. This demonstrates the need for improved procedures and incentives to renovate and for supporting the private sector's capacity to run renovation projects. Lithuania remains among the worst performers in the EU in terms of energy poverty, which may aggravate further in case another sustained increase in energy prices materialise and slow pace of renovation continue.

(37) The Lithuanian electricity network, like that of other Baltic Member States, remains exposed, as it is synchronised with the BRELL power grid. The regional synchronisation of the electricity grid with the rest of the EU is making progress but still needs to be completed (it is expected to be completed by 2025). To that end, cooperation with Latvia and Estonia is necessary. Lithuania is increasing domestic energy generation; it has taken steps to streamline permitting procedures and to promote electricity generation from renewable energy sources, which resulted in large increases in solar and wind production capacity between 2020 and 2021. However, a further increase in ambition for reducing greenhouse gas emissions and increasing renewable energy and energy efficiency targets is necessary for Lithuania to be in line with the 'Fit for 55' objectives.

(38) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. Since 2015, the job vacancy rate increased in most key sectors, such as construction (from 0.8% to 1.5% in 2021) and manufacturing (from 1.4% to 1.8% in 2021). However, the rate in 2021 was still below the EU average of 3.6% and 1.9%, respectively. In recent years, labour shortages were reported in Lithuania for 28 occupations that require specific skills or knowledge for the green transition. In particular, labour shortages were reported as a factor that constrained production in industry and construction in 2022.

(39) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[23] is reflected in recommendation (1) below.

[23] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

(40) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial- stability and monitor risks while continuing to work on completing the Banking Union. For Lithuania, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second and third euro area recommendations.

HEREBY RECOMMENDS that Lithuania take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.

   While maintaining a sound fiscal position in 2024, preserve nationally-financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.

   Strengthen the adequacy of healthcare and social protection and improve general public services.

2. Continue the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Strengthen primary care and expand preventive care, including to make the healthcare system more resilient. Improve the planning and delivery of social services. Improve access to and quality of social housing.

4. Further reduce reliance on fossil fuels and imported energy by accelerating the deployment of renewables, in particular by ensuring sufficient grid capacity and access, ensuring the transformation and decarbonisation of industrial production, increasing the uptake of public and sustainable transport and making buildings more energy efficient, also to reduce energy poverty. Ensure sufficient capacity of electricity interconnections to increase security of supply, continuing the timely synchronisation with the EU electricity grid. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President