Lietuvos Respublikos
FINANSŲ MINISTERIJA

Official translation
9 November 2017

2018 Lithuanian Draft Budgetary Plan

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Introduction

Having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (hereinafter – the Regulation), Lithuania hereby presents the 2018 Lithuanian Draft Budgetary Plan (hereinafter – the DBP) to the European Commission and the Eurogroup.

The DBP has been drawn up in line with the Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2018 (hereinafter referred to as the Draft Budget), the Draft Law on the Approval of the Indicators of the budget of the State Social Insurance Fund of the Republic of Lithuania for 2018 and the Draft Law on the Approval of the Indicators of the Compulsory Health Insurance Fund of the Republic of Lithuania for 2018. The above laws have been based on the economic development scenario published by the Ministry of Finance on 11 September 2017 and approved by the Budget Policy Control Authority, and the medium term objectives for the general government finance management set out in the 2017 Stability Programme (hereinafter – the Stability Programme), in pursuance of the provisions of the Constitutional Law of the Republic of Lithuania on the Implementation of the Fiscal Treaty (hereinafter – the Constitutional Law), the Law of the Republic of Lithuania on Fiscal Discipline, and the Stability and Growth Pact (hereinafter – the SGP) of the European Union (hereinafter – the EU), and in addressing the Council Recommendations to Lithuania[1].

The year 2017 saw the launch of a structural reform in the areas of the social and labour market (hereinafter – the social model), which, following the Council's recognition of the social model as a structural reform in line with the SGP flexibility clauses, has led to an exemption under SGP for Lithuania for 2017-2019[2]. Following the approval of the amendments to the Labour Code and the implementing legislation by the Seimas of the Republic of Lithuania, the social model came into force, in its full extent, on 1 July 2017. The part of the social model related to social regulation was introduced on 1 January 2017.

The DBP was drafted taking into account the assessment of the impact of the social model on general government finances, and of the changes in the field of taxation due to be put in place in 2018 through legislation. This DBP contains comprehensive information on the measures for better tax administration and the public spending review.

The Draft Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets for 2018 (hereinafter – the Draft Budget) was approved by the Government of the Republic of Lithuania (hereinafter – the Government) on 11 October 2017.

[1] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations_-_lithuania.pdf

[2] https://ec.europa.eu/info/sites/info/files/15_lt_sp_assessment.pdf

1. The macroeconomic situation and prospects

The DBP presents the Lithuanian economic development scenario for 2017-2020, developed by the Ministry of Finance and approved by the Budget Policy Monitoring Authority, which was posted on the website of the Ministry of Finance on 11 September 2017[3].

The economic development scenario has been drawn up on the basis of the data collected by 1 September 2017. The assumptions of the external economic environment (trading partner development, oil prices and the euro-to-dollar exchange rate) match the estimates published on 11 May 2017 by the European Commission and on 8 June 2017 by the European Central Bank. The conclusion of the Budget Policy Monitoring Authority on the economic development scenario was posted on the website[4].

The growth in Lithuania's gross domestic product (hereinafter – the GDP) is estimated at 3.6 per cent in 2017. In the later period, the GDP growth will see a certain slow-down, i.e. 2.9 per cent in 2018, 2.5 per cent in 2019 and 2.4 per cent in 2020.

Despite the economic upsurge, the demographic trends in 2017 have remained unfavourable: with the number of permanent residents in Lithuania continuing to decline: at 1 July, 48.7 thousand fewer compared to the previous year. The labour force shrinking by 1.1 per cent has had a negative impact on the employment – the number of the employed persons in the country decreased by 0.4 per cent over first half of the year 2017. Although the second half of 2017 (and the later years of the medium term), will see a positive impact coming to the labour market from the enactment of the amendments to the Labour Code since 1 July 2017, still, the medium term employment indicators will be worse, compared to the 2017 spring projections, due to the slower growth in the activity of the labour force. The number of the employed persons is projected to consistently decrease over the medium term: –0.2 per cent in 2017, –0.3 per cent in 2018, –0.4 per cent in both 2019 and 2020.

The growing tension in the labour market has led to the average monthly gross wage rocketing in the first half of 2017 by over 9 per cent, unseen ever since 2009. Due to the shrinking labour force the private and also the public sectors are increasingly facing the pressure to increase wages. Considering the results of the first half of 2017, the projection of the change in the average monthly gross wage in 2017 has been increased by 1.6 per cent (compared to the spring estimate), i.e. to 8.3 per cent. Due to the labour force shortages and high pay gap, compared to the developed euro area countries, pressures to increase wages are likely to persist over the medium term. The average wage is anticipated to grow by 6.2 per cent annually over the period of 2018-2020.

In consideration of the growing price increase across the services, observed since April 2017, the projection of the average annual inflation (calculated on the basis of the consumer price index, which has been methodologically harmonized with the other Member States of the European Union) in 2017 has been increased by 0.1 per cent (compared to the March 2017 projection), i.e. to 3.5 per cent. With the disappearance of one-offs that accelerated price growth in 2017 (it related essentially to the significant increase of excise duty rates for alcoholic beverages, and higher global oil prices), and by restricting the excessive aggregate demand, prices, in 2018-2020, should see a more moderate growth. The average annual inflation rate is anticipated to stand at 2.7 per cent in 2018, while in 2019 and 2020 – at 2.5 per cent, which is close to the multiannual average core inflation.

The 3.6 per cent GDP growth projected in this scenario for 2017 warns about the economy growing faster than it would be potentially feasible with the available production capacities and

[3] http://finmin.lrv.lt/lt/aktualus-valstybes-finansu-duomenys/ekonomines-raidos-scenarijus
[4] http://www.vkontrole.lt/bp/isvados.aspx.

labour resources. Together with the growing tensions in the labour market over the last few years, the growing activity in the real estate market and the accelerating rise in prices for services this year – it is an indication of the need to manage the excessive aggregate demand created during the cyclical rise with the help of fiscal policy measures, i.e. to implement the medium term objectives for general government balance indicators provided for in the 2017 Stability Programme of Lithuania approved by Resolution No 315 of the Government of the Republic of Lithuania of 26 April 2017, which include the formation of the general government surplus, thus creating a fiscal space that prevents pro-cyclical consolidation.

Having posed a risk to the fulfilment of the scenario in March 2017, the negative factors of the external environment weakened, but they have remained. So have the geopolitical tensions, the problems faced by the EU, including the problem of debts in some EU countries, the problem of refugees flooding Europe and the threat of terrorism – they are still here. Low profitability and the burden of non-performing loans continue to be a challenge for the European banks. The risk of political tension in the EU has decreased but has not disappeared yet. The still unknown results of the Brexit negotiations create an economic and political uncertainty, which may prompt changes in the current trends in the Lithuanian economy and in the prospects of the main macroeconomic indicators provided for in this scenario.

The internal negative factors have not disappeared either. The rapid growth of wages has led to the realisation of the risk that the significant part of the increased labour costs would be transferred to the prices of services. Therefore, the risk of the wage and price spiral has increased. There are more signs of an over-heating economy, which may prompt a hard landing risk, opposite to that projected in the scenario, unless macro-prudential and fiscal policy measures are not taken to harness them.

The failure to fulfil the essential assumptions underlying this scenario, the estimates for most of the indicators provided for in this scenario would also be subject to changes.

Table 1 (0.i). Basic assumptions

	2016	2017	2018
Short-term interest rate (annual average)	0.1	-0.1	0.0
Long-term interest rate (annual average)	0.9	1.4	1.6
USD/EUR exchange rate (annual average)	1.11*	1.13*	1.18*
Nominal effective exchange rate	1.4	0.1	-0.1
World GDP growth (excl. EU), %	3.2	3.7	3.9
EU GDP growth, %	1.9	1.9	1.9
Growth of relevant foreign markets, %	1.5	1.8	1.9
World import volumes (excl. EU), %	0.8	3.1	3.8
Oil prices (Brent, USD/barrel)	44.0*	51.8*	52.6*

* The ECB published its updated projections on 7 September 2017, the economic development scenario is based on the projections published on 8 June 2017.
Sources: European Commission, European Central Bank, Ministry of Finance

Table 2 (1a). Macroeconomic prospects

	ESA code	2016	2016	2017	2018
		EUR million	Change, %		
1. Real GDP, chain-linked volume	B1*g	34532.3*	2.3*	3.6	2.9
2. Potential GDP		34175.6	2.1	2.5	3.0
of which:					
- labour			0.5	0.3	0.4
- capital			1.0	1.1	1.2
- total factor productivity			0.5	1.1	1.3
3. Nominal GDP	B1*g	38668.3*	3.3*	6.9	5.3
GDP components (at constant prices)					
4. Household consumption expenditure + NPI serving households	P.3	22899.1*	4.9*	4.2	3.7
5. Government final consumption expenditure	P.3	5754.4*	1.3*	1.5	1.2
6. Gross fixed capital formation	P.51	6664.6*	-0.5*	6.3	6.0
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
8. Exports of goods and services	P.6	27778.3*	3.5*	9.3	6.6
9. Imports of goods and services	P.7	28579.2*	3.5*	10.3	7.4
Contributions to GDP growth at constant prices					
10. Final domestic demand		-	2.4*	4.2	3.6
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	N.A.	N.A.	N.A.	N.A.
12. External balance of goods and services	B.11	-	-0.1*	-0.6	-0.7

* Statistics Lithuania recalculated the 2016 data on 2 October 2017, the economic development scenario is based on the data collected prior to 1 September 2017.
Sources: Statistics Lithuania, Ministry of Finance

Table 3 (1b). Price developments

	2016	2016	2017	2018
	Level	Change, %		
1. GDP deflator	112.2*	1.2*	3.2	2.4
2. Private consumption deflator	108.6*	0.9*	3.5	2.7
3. HICP (year 2015 = 100)	100.7	0.7	3.5	2.7
4. Public consumption deflator	117.8*	2.7*	4.0	2.7
5. Investment deflator	110.2*	0.5*	2.0	2.0
6. Export price deflator (goods and services)	104.1*	-2.0*	3.7	2.0
7. Import price deflator (goods and services)	99.4*	-4.3*	3.6	1.7

* Statistics Lithuania recalculated the 2016 data on 2 October 2017, the economic development scenario is based on the data collected prior to 1 September 2017.
Sources: Eurostat, Statistics Lithuania, Ministry of Finance

Table 4 (1c). Labour market developments

	ESA code	2016	2016	2017	2018
		Indicator value	Change, %		
1. Employment, persons (‘000)		1361.4	2.0	-0.2	-0.3
2. Employment, hours worked (‘000)		2565893	3.4	-	-
3. Unemployment rate (%)		7.9	-	7.0	6.4
4. Labour productivity (real gross value added per person employed), ‘000 EUR		25.3*	0.4*	3.8	3.2
5. Labour productivity, hours worked		13.4	-1.1	-	-
6. Compensation of employees, million EUR	D.1	16696.7	7.2	8.5	5.8
7. Compensation per employee, EUR		13993.2	5.2	8.7	6.2

* Statistics Lithuania recalculated the 2016 data on 2 October 2017, the economic development scenario is based on the data collected prior to 1 September 2017.

Sources: Eurostat, Statistics Lithuania, Ministry of Finance

Table 5 (1d). Sectoral balances

	ESA code	2016	2017	2018
		% GDP		
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	1.0	0.5	1.2
of which:				
- balance of goods and services		1.3*	0.2	-0.2
- balance of primary incomes and transfers		-1.8	-1.1	-0.9
- capital account		1.5	1.4	2.3
2. Net lending/net borrowing of the private sector	B.9	0.7	0.5	0.7
3. Net lending/net borrowing of general government	B.9	0.3	0.1	0.6
4. Statistical discrepancy		0	0	0

* Statistics Lithuania recalculated the 2016 data on 2 October 2017, the economic development scenario is based on the data collected prior to 1 September 2017.

Sources: Bank of Lithuania, Ministry of Finance

2. Fiscal policy

The following fiscal policy guidelines under the Stability Programme will be implemented in the year 2018 (and the remaining years over the medium term):

1) the implementation of the fiscal policy in consideration of the economic cycle, i.e. of the economic cycle phase with the signs of heating when it is necessary to pursue fiscal policy that is non-supportive of aggregate demand and to form the general government surplus from the cyclical nature of revenues;

2) the increasing of the GDP redistribution share (tax revenue-to-GDP ratio), while improving the efficiency of the tax administration, applying the latest state-of-the-art information technologies and reducing incentives or increasing taxes on products that are harmful to the environment and human health;

3) the implementation of taxation changes that increase the income of the lowest income earners, reduce social exclusion, and provide more favourable conditions for business;

4) the continued implementation of the structural reform – the social model – and the preparation for the implementation of other structural reforms geared towards strengthened economic potential and long-term financial sustainability;

5) the management of general government finances in the way that, following the assessment of the impact of the ongoing structural reforms and other Government commitments on the general government finances, it would ensure the compliance with the fiscal discipline rules under the national and EU legislation, thus contributing to the strengthening of the long-term sustainability of government finances.

In 2016, for the first time since the restoration of Lithuania's independence, the general government surplus was attained (0.3 per cent of the GDP). In 2016, there was no deviation from the medium term objective approved by Resolution No XII-2147 of the Seimas of 8 December 2015 (the medium term objective – structural general government deficit under 1 per cent of the GDP). The achieved structural general government deficit of 0.1 per cent of the GDP was close to the structural balance.

The 2017 Stability Programme of Lithuania provides for 0.4 per cent of the structural general government deficit of the GDP in 2017. Based on the latest data available at the time of drafting the DBP, the 0.1 per cent of GDP surplus has been projected. A better-than-expected outcome is not the result of Government-related factors but the decreased expenditure of the State enterprise 'Deposit and Investment Insurance' related to lower than expected number of insurance claims; higher than planned revenues to municipal and social security funds budgets.

The part of the social model related to social regulation was introduced on 1 January 2017 to be followed by that related to the labour market regulation on 1 July 2017, after the entry into force of the amendments to the Labour Code and its implementing legislation.

Despite the higher (against the 2017 spring projection) positive output gap, which determines the size of the cyclical budget component, and the latter is assessed by calculating the structural balance, no deviation is expected as regards the medium term objective in 2017. The projected structural general government deficit is 0.7 per cent of the GDP. The deduction of the social model costs brings down the structural deficit to 0.2 per cent of the GDP).

For 2018, the general government surplus of 0.6 per cent of the GDP is projected. The draft budgets attributable to the general government sector with the formation of the surplus of this size have been submitted to the Seimas. Drawn up in accordance with the provisions of fiscal discipline, the draft budgets aim to achieve fiscal policy objectives (including the government debt reduction) and the implementation of the Stability Programme and the EU Council recommendations. In the Stability Programme, general government surplus of 0.4 per cent of the GDP is foreseen for the year 2018.

All the 2018 budgets attributable to the general government sector ensure the adherence to the Expenditure benchmark of the SGP and the structural balance provisions. The 2018 general government structural deficit, estimated on the basis of the output gap calculated by the Ministry of Finance and the cyclical budget component, will not deviate from the medium term objective in 2018 and will amount -0.1 per cent of the GDP.

Table 6 (2a). General government budgetary targets under the policy development scenario

	ESA code	2017	2018
		% GDP	
Net lending (+) / net borrowing (–) (B.9) by sub-sector			
1. General government	**S.13**	0.1	0.6
2. Central government	**S.1311**	-0.6	-0.5
3. State government	**S.1312**		
4. Local government	**S.1313**	0.3	0.3
5. Social security funds	**S.1314**	0.4	0.8
6. Interest expenditure	**D.41**	1.2	0.9
7. Primary balance		1.2	1.5
8. One-off and other temporary measures		0.0	0.0
9. Real GDP growth (%)		3.6	2.9
10. Potential GDP growth (%)		2.5	3.0
of which:			
- labour		0.3	0.4
- capital		1.1	1.2
- total factor productivity		1.1	1.3
11. Output gap (% of potential GDP)		1.7	1.6
12. Cyclical budgetary component (% of potential GDP)		0.7	0.7
13. Cyclically-adjusted balance (1 – 12) (% of potential GDP)		-0.7	-0.1
14. Cyclically-adjusted primary balance (13 + 6) (% of potential GDP)		0.5	0.8
15. Structural balance (13 – 8) (% of potential GDP)		-0.7	-0.1

The general government debt is projected to reach 37.6 per cent of the GDP by the end of 2018, which will be 3.9 percentage point lower than that at the end of 2017, which is projected to reach 41.5 per cent of the GDP. This indicator is positively affected, vis-a-vis the government borrowing and debt management targets, by the planned accumulation of EUR 1.3 billion in 2017 for the redemption of Eurobonds in February 2018. Besides, the prudent management of public finances and trends in the global financial market made it possible to reduce the cost of paying interest.

Table 7 (2b). General government debt developments

	2017	2018
	% GDP	
1. Gross debt as of year-end	41.5	37.6
2. Change in gross debt ratio	1.4	-3.9
Contributions to changes in gross debt		
3. Primary balance	1.2	1.5
4. Interest expenditure	1.2	0.9
5. Stock-flow adjustment	4.0	-1.3
Implicit interest rate on debt	2.9	2.5

Table 8 (2c). Contingent liabilities

	2017	2018
	% GDP	
Public guarantees	1.3	1.2
of which: linked to the financial sector	0.0	0.0

2.1. General government expenditure and revenue projections under the policy development scenario

For the purpose of the implementation of the fiscal policy objectives, the Council recommendations to Lithuania and having regard to the provisions concerning the improvement of the structure of the taxation system towards economic growth and concerning the optimisation of the tax base provided for in the Plan for the Implementation of the Government Programme approved by Resolution No 164 of the Government of the Republic of Lithuania of 13 March 2017, the year 2018 will see the implementation of income measures geared towards a more efficient system of tax incentives, increased taxes on products harmful to health and environment, an increased GDP redistribution to improve tax administration, and the increased income for the lowest income earners. The net effect of discretionary revenue measures envisaged for 2018 on general government finances is about EUR 304 million (0.7 per cent of the GDP) (Table 12. Discretionary revenue measures taken by the Government).

The 2018 government expenditure measures aim at the reduction of poverty and social exclusion, and the strengthening of health care (Table 13. Discretionary expenditure measures taken by the Government). The strengthening of the national defence continues as a priority as well.

Table 9 (4a). General government expenditure and revenue targets <u>under the policy development</u> scenario

General government (S13)	ESA code	2017	2018
		% GDP	
1. Total revenue	TR	35.8	37.0
1.1. Taxes on production and imports	D.2	12.0	12.1
1.2. Current taxes on income, wealth, etc.	D.5	5.6	5.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.9	13.4
1.5. Property income	D.4	0.4	0.6
1.6. Other		4.9	5.0
Tax burden (D.2+D.5+D.61+D.91-D.995)		30.5	31.4
2. Total expenditure	TE	35.7	36.4
2.1. Compensation of employees	D.1	9.6	9.4
2.2. Intermediate consumption	P.2	5.5	5.6
2.3. Social payments	D.62, D.632	13.3	14.7
of which: unemployment benefits		0.2	0.2
2.4. Interest expenditure	D.41	1.2	0.9
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51	3.6	3.4
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		2.1	1.9

Table 10 (4b). Amounts to be excluded from the expenditure benchmark

	ESA code	2016		2017	2018
		EUR million	% GDP	% GDP	
1. Expenditure on EU programmes fully matched by EU funds revenue		423.0	1.1	2.3	2.4
1a. Investments fully matched by EU funds revenue	P.51	214.5	0.6	1.2	1.2
2. Cyclical unemployment benefit expenditure		-30.9	-0.1	-0.1	0.0
3. Effect of discretionary revenue measures		100.0	0.3	0.3	0.7
4. Revenue increases mandated by law		0	0	0	0

Table 11 (3). General government expenditure and revenue projections under the no-policy-change scenario

General government (S13)	ESA code	2017	2018
		% GDP	
1. Total revenue under the no-policy change	TR	35.8	36.3
1.1. Taxes on production and imports	D.2	12.0	11.8
1.2. Current taxes on income, wealth, etc.	D.5	5.6	5.8
1.3. Capital taxes	D.91	0.0	0.0
1.4. Social contributions	D.61	12.9	13.1
1.5. Property income	D.4	0.4	0.6
1.6. Other		4.9	5.0
Tax burden (D.2+D.5+D.61+D.91-D.995)		30.5	30.7
2. Total expenditure under the no-policy change	TE	35.7	35.7
2.1. Compensation of employees	D.1	9.6	9.3
2.2. Intermediate consumption	P.2	5.5	5.6
2.3. Social payments	D.62, D.632	13.3	14.1
of which: unemployment benefits		0.2	0.2
2.4. Interest expenditure	D.41	1.2	0.9
2.5. Subsidies	D.3	0.3	0.3
2.6. Gross fixed capital formation	P.51	3.6	3.4
2.7. Capital transfers	D.9	0.3	0.3
2.8. Other		2.1	1.9

2.1.1. Taxation review in 2018

Taxation review and its objectives

- **to reduce poverty and income inequality** by reducing the taxation on the income of the lowest income earners through the increased non-taxable income amount (hereinafter – the NTIA) and the withdrawal of the additional non-taxable income amount (hereinafter – the ANTIA) for the children replacing it with direct payments for each child;

- **to promote productive investment and entrepreneurship** by introducing a preferential tax on profits from research and development-based inventions, expanding the scope of the incentives for investment into technological modernisation, removing tax obstacles to the development of an alternative capital market, thereby improving access to funding for start-ups and growing businesses, for the purpose of promoting entrepreneurship, providing for the first-taxation-period corporate tax exemptions for new small enterprises;

- **to seek a simple and fair tax system** by shifting the tax burden on less harmful taxes to economic growth, by reviewing excise duties, harmonizing the taxation conditions across the economic sectors, abandoning inefficient and socially unfair tax incentives, and distributing the tax burden more evenly among the self-employed (by reviewing the principles of taxation on the income from self-employment (including agricultural activities), by narrowing the limits of the income subject to flat-rate tax), by introducing progressive taxation in the area of real estate taxation;

- **to implement Council's recommendations to Lithuania '<...>**to broaden the tax base to sources that are less detrimental to growth, while contributing more, through the taxation measures, to the achievement of the environmental objectives .**<...>'**

Measures to achieve the objectives of the taxation review

The area of the regulation of personal income tax (hereinafter – the PIT):

- increasing the maximum applicable monthly NTIA from EUR 310 to EUR 380;
- enhancing individual NTIAs to persons with disabilities: for those with a milder disability – from EUR 320 to EUR 390, for those with a more severe disability – from EUR 380 to EUR 450;
- replacing the ANTIA for children with ear-marked child benefits paid for all the children irrespective of the family income;
- regulating the taxation level of self-employment by reducing the calculated PIT, i.e. by applying the so-called tax credit applied in international practice. The size of the credit would depend on the profit of the self-employed business, i.e. the annual profit below EUR 10 000 would be subject to 5 per cent tax; the annual profit above EUR 10 000 would be subject to a gradually increasing effective income tax rate until the maximum 15 per cent PIT on the profit from EUR 30 000 and more;
- applying the new taxation scheme for self-employed business in the field of agriculture, where the income exceeds the threshold applicable for the registration of value added tax (VAT) payers (EUR 45 000), with a transitional period of 2 years;
- reducing to EUR 35 000 the turnover threshold, which currently is EUR 45 000, and, if exceeded, it can no longer be taxed with a flat-rate income tax.

The area of the regulation of the Law on Excise Duty

- withdrawing the inefficient excise duty exemptions for environmentally harmful coal, coke of coal and lignite;
- increasing excise duty rate on gas oils used in agriculture (including gas oils used in aquaculture or commercial fishing in inland waters);
- increasing the standard excise duty rate on gas oils;
- increasing excise duties on cigarettes, cigars and cigarillos.

The area of the regulation of the Law on Corporate Income Tax

- for those investing in technological modernisation – increasing the allowed reduction of the taxable profit (due to the costs incurred in running investment projects) – from 50 to 100 per cent;
- introducing an incentive contributing to the commercialization of products developed in the process of research and development – the share of profits generated by the use of the research and development-based intangible assets would be subject to 5 per cent tax rate;
- exempting new small businesses from the corporate tax during the first taxable period;
- withdrawing the preferential 5 per cent tax rate applicable for agricultural enterprises, except cooperative companies, and increasing the rate to 15 per cent over the transitional period.

The area of the regulation of the Law on VAT

- applying 5 per cent VAT rate on all non-reimbursable prescription medicines with a view to increasing access to medicines and having considered the possibilities of the state mechanism for regulating margins in the medicines trade;
- applying 9 per cent VAT rate on district heating and hot water supply to households, without setting a deadline for the reduced rate.

The area of the regulation of the Law on Real Estate Tax

Progressive taxation of non-commercial immovable property held by natural persons:

- continue applying zero taxes on immovable property of the total value under EUR 220 000;
- applying the current 0.5 per cent rate on the share of the total value of the property, which is above EUR 220 000 but under EUR 300 000;
- applying 1 per cent rate on the share of the total value of the property, which is above EUR 300 000 but under EUR 500 000;
- applying 2 per cent rate on the share of the total value of the property, which is above EUR 500 000;
- continue applying a 30 per cent higher tax-exempt value for socially sensitive target groups.

2.1.2. Tax administration measures in 2017-2018

Results of better tax administration in 2017

In 2017, the better tax administration measures are expected to collect additional budget revenues amounting to 0.4 per cent of the GDP. Considering the fact that in the first half of 2017 the state and municipal budget tax revenues exceeded the plan by 2.7 per cent, and that revenues in the first half of 2017 were higher by 8.5 per cent than in 2016, and it is foreseen that tax revenue plan for the entire year will be met in excess, the goals set for better tax administration in 2017 will be achieved.

Over the first half of 2017, tax administration measures implemented in the area of VAT have generated revenues by 10 per cent more comparing with the same period of the year 2016. The VAT revenue growth rate exceeds significantly the growth rate of the final consumption expenditure (the final consumption expenditure increased by 6.5 per cent in the first half of 2017 compared with the same period in 2016).

Targeting tax compliance control efforts specifically at the individuals, whose assets exceed the official income, have led to 40.7 per cent higher collection of the personal income tax paid on the Class B income (self-employment, sale of property, sale of securities, etc.) over the six months of the current year compared to the same period of the previous year.

The State Tax Inspectorate (hereinafter – the Inspectorate), having regard to the efficiency of the measures applied in 2017, has quantified the collection of revenues anticipated in relation to the tax administration measures in 2018 – the planned tax compliance enforcement measures, in 2018 the Inspectorate projects to collect about 0.3 per cent of additional revenues.

Tax administration goals in 2018

For the purpose of implementing the goals of reducing the scale of the shadow economy and tax evasion, the Inspectorate will use a comprehensive range of measures that are seen as the most effective as regards their impact on taxpayers' tax discipline and tax collection. The efforts by the Inspectorate in using new analytical tools and the increased scope of digital data will focus on the tax liabilities risk management and on the following phenomena: avoiding the registration of activities and tax compliance, failure to account for income, VAT evasion and fraud (including VAT-evading sale of goods, VAT misappropriation) misappropriation of company cash funds evading taxes, transferring income to other jurisdictions, abuse instances to avoid corporate income tax) avoiding labour related taxes (informal work, the so-called payment in 'envelopes'), avoiding to declare income and pay taxes, illegal turnover of goods subject to excise duty (smuggling, illegal production, unlawful distribution, and failure to account for goods and income).

The successful implementation of tax administration measures generate additional revenues not only in central government budget but also in local and social security budgets.

Link between tax administration measures implemented and special recommendations of the Council to Lithuania

Tax administration measures implement Council's recommendation No 1 to Lithuania: '<....>to improve tax compliance.'

The expected positive impact of new tax administration measures on public finances, and impact evaluators

The Inspectorate, having regard to the efficiency of the measures applied in 2017, has quantified the collection of revenues attributable to the central government anticipated in relation to the tax administration measures – the planned tax compliance enforcement measures, the Inspectorate projects to collect in 2018 about 0.3 per cent of the GDP of additional revenues.

It is projected that the positive impact on the budgets of the State Social Insurance Fund and the Compulsory Health Insurance Fund that are attributable to the social security sub-sector, will account in 2018 for 0.14 per cent of the GDP.

Legal status of key new measures and their essence

In the area of corporate income tax – Law Amending Articles 14, 61 and the Annex to the Law on Tax Administration of the Republic of Lithuania No IX-2112 adopted by the Seimas (2017-05-23) imposes an obligation on the multinational enterprise groups whose consolidated income under the presented consolidated financial statements is at least EUR 750 000 000 to submit the financial statements of the multinational enterprise groups to the tax administrator for the purpose to assess the risk of inappropriate pricing transaction.

In the area of the regulation of the liability – for the purpose of the inevitability and the deterrence of non-compliance, the legislation is being drafted to provide for proportional sanctions for violations of tax laws (expected to enter into force in July 2018).

Measures underlying additional revenues from tax administration in 2018

1. The use of analytical tools for more efficient tax administration. The Inspectorate, while executing automatic cross-checking of VAT invoices submitted to registries, has a possibility of immediately detecting inconsistencies (the buyer has entered the invoice into the records, the seller has not, and vice versa) and notifying the taxpayer thereof, and taking enforcement actions following the identification of possible fraudulent transactions by the taxpayer. The introduction in June 2017 of the automatic cross-checking of VAT invoices submitted to registries has led to a significant reduction (up to 50 per cent) of discrepancies between VAT invoice data received/issued by business partners in the third quarter of 2017. Given that automatic cross-checking is only completed half a year, additional revenue is expected to generate revenue in 2018.

2. Effective use of information obtained through automated information exchange. The information flow in 2017 was complemented and/or will be complemented in 2018 with information received from the United States of America (USA) on the accounts and cash held by financial institutions, information provided by financial institutions on the accounts opened by Lithuanian citizens in the countries of the European Union and the funds held therein, as well as the provisions laid down in European Union directives on the exchange of mutual information on mandatory decisions and pricing arrangements (Council Directive (EU) 2015/2376 of 8 December 2015) and on multinational enterprise groups (Council Directive (EU) 2016/881 of 25 May 2016).

3. The creation and introduction of a service for small business accounting management, enabling semi-automated management of revenue-expenditure accounting. In 2018, the plans are to create a service for small business accounting management, thus reducing the administrative burden on the taxpayer and ensuring a more effective control of small business income accounting and tax compliance.

4. The implementation of a comprehensive strategy for taxpayer awareness raising, which covers the objectives of raising the Inspectorate's credibility, providing high-quality information, education and consultation services meeting the needs of the taxpayer, and streamlining the taxation procedures.

5. Launching a cash receipt game to encourage the involvement of the public in stamping out the shadow economy. People having registered the receipts confirming the payment for goods/services in the most risky areas of tax avoidance will have a possibility of participating in a game and winning a cash prize.

6. Initiating a programme of checking enterprise groups on the account of the fact that the profit declared by an enterprise group is lower than that of a non-group enterprise. The actions taken vis-a-vis enterprise groups assess the risks in relation to the so-called tax planning when transactions are made between related persons for the purpose of tax benefits.

Table 12 (5a.i). Discretionary revenue measures taken by the general government

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
					2017	2018
1.	Increase of minimum monthly wage from EUR 350 to EUR 380 starting from 1 July 2016	D.5	Accrual	Approved	0.02	
2.	Increase of minimum monthly wage from EUR 380 to EUR 400 starting from 1 January 2018	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.02
3.	Increase of basic salary rate on the basis of which the wage of persons employed in budgetary institutions is calculated from EUR 130.5 to EUR 132	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.03
4.	Increase of non-taxable portion of income from EUR 200 to 310 starting from 1 January 2017, increase of additional non-taxable portion of income for children from EUR 120 to 200 and increase of individual non-taxable portion of income for the disabled	D.5	Accrual	Approved	-0.35	
5.	Increase of non-taxable portion of income from EUR 310 to 380 starting from 1 January 2018	D.5	Accrual	Approved by the Government, included in the Draft Budget		-0.22
6.	Withdrawal of application of additional non-taxable portion of income for children starting from 1 January 2018	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.17
7.	Increase of individual non-taxable portion of income for the disabled starting from 1 January 2018	D.5	Accrual	Approved by the Government, included in the Draft Budget		-0.01
8.	Introduction of procedure governing the taxation of individual activity when a tax credit is applied	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.01
9.	Reduce the ceiling of turnover from EUR 45 thousand to EUR 35 thousand beyond which activity under the business certificate is not permitted	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.00
10.	Broadening of the scope of the investment tax allowance	D.5	Accrual	Approved by the Government, included in the Draft Budget		-0.07
11.	Establishment of one year profit tax holiday for small business start-ups	D.5	Accrual	Approved by the Government, included in the Draft Budget		-0.002
12.	Withdrawal of a 5 per cent profit tax relief for undertakings engaged in agriculture (except cooperatives)	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.003
13.	Withdrawal of a profit tax relief applied to social enterprises	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.005

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
14.	Prohibition to attribute income received as payment for port and air navigation services or from the lease of land of ports to tax-free income	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.01
15.	Restraint in expenditure on life insurance and pension insurance in pension funds of pillar III that receive personal income tax relief to EUR 2 000 per year	D.5	Accrual	Approved	0.02	
16.	Harmonisation of taxation arrangements applied to units irrespective of whether the shareholders of units are legal entities or other units by discontinuing the application of provisions of Article 40^1 of the Law on Corporate Income Tax that impose a 15 per cent rate on profit that is not taxed and (or) taxable profit subject to a 0 per cent rate to be distributed to legal entities	D.5	Accrual	Approved	-0.003	
17.	Improvement of administration in relation to profit tax	D.5	Accrual	Approved by the Government, included in the Draft Budget		0.02
18.	Calculation of the taxable value of land on the basis of the average market value of land	D.5	Accrual	Approved	0.01	
19.	Improvement of administration in relation to PIT	D.5	Accrual	Approved	0.04	0.05
20.	Withdrawal of a VAT relief on domestic central heating and hot water starting from 1 June 2017 and reintroduction of relief from 1 October 2017	D.2	Accrual	Approved	0.01	-0.01
21.	VAT relief on non-compensated prescription medicinal products when taxable value of their external packaging exceeds EUR 300	D.2	Accrual	Approved	-0.03	
22.	A 5 per cent VAT tax on non-compensated prescription medicinal products	D.2	Accrual	Approved by the Government, included in the Draft Budget		-0.03
23.	Improvement of administration in relation to VAT	D.2	Accrual	Approved	0.29	0.2
24.	Increase of excise rates on ethyl alcohol and alcoholic beverages	D.2	Accrual	Approved	0.14	0.04
25.	Increase of excise rates on tobacco products	D.2	Accrual	Approved	0.06	0.04
26.	Narrowing of the scope of excise tax advantage applied to diesel fuel used in agriculture	D.2	Accrual	Approved by the Government, included in the Draft Budget		0.02
27.	Withdrawal of excise tax advantage for extremely polluting coal, coke and lignite used by residents	D.2	Accrual	Approved by the Government, included in the Draft Budget		0.002
28.	Increase of excise rates on diesel fuel	D.2	Accrual	Approved by the Government, included in the Draft Budget		0.03

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
29.	Introduction of pollution tax on waste going to a landfill	D.2	Accrual	Approved	0.005	0.01
30.	Increase of tax on expensive real estate	D.2	Accrual	Approved by the Government, included in the Draft Budget		0.004
31.	Improvement of administration in relation to excise duties	D.2	Accrual	Approved by the Government, included in the Draft Budget		0.03
32.	Increase of minimum monthly wage from EUR 350 to 380 starting from 1 July 2016	D.61	Accrual	Approved	0.05	
33.	Increase of minimum monthly wage from EUR 380 to 400 starting from 1 January 2018	D.61	Accrual	Approved by the Government, included in the Draft Budget		0.06
34.	Reduction of rates of social security contributions by 1 per cent (*according to the Social Model*) starting from 1 July 2017	D.61	Accrual	Approved	-0.15	-0.14
35.	Increase of unemployment insurance contribution rate by 0.5 per cent (*according to the Social Model*) starting from 1 July 2017	D.61	Accrual	Approved	0.07	
36.	Reduction of unemployment insurance contribution rate by 0.2 per cent starting from 1 January 2018 by transferring that portion to sickness social insurance	D.61	Accrual	Approved by the Government, included in the Draft Budget		0.07
37.	Broadening of the social insurance base and change of rates applied to persons engaged in individual economic activity (*according to the Social Model*)	D.61	Accrual	Approved	0.02	
38.	Requirement to pay social insurance contributions in case of bonuses (*according to the Social Model*)	D.61	Accrual	Approved	0.01	
39.	0.5 per cent rate of employers' social contributions paid to new Long-term Employee Benefit Fund (*according to the Social Model*) starting from 1 July 2017	D.61	Accrual	Approved	0.05	0.05
40.	Introduction of 'floor' for Sodra (State Social Insurance Fund) equal to the minimum monthly wage	D.61	Accrual	Approved by the Government, included in the Draft Budget		0.16
41.	Unification of the social insurance system applied to persons engaged in individual economic activity (ceiling amounts to 28 average wages)	D.61	Accrual	Approved by the Government, included in the Draft Budget		0.04
42.	Improvement of administration in relation to social insurance contributions	D.61	Accrual	Approved by the Government, included in the Draft Budget		0.14
Total:					**0.25**	**0.73**

2.1.3. Review of expenditure. Goals and results

The cycle of 2018 year budget preparation was exceptional if compared to the cycle of the previous year because it started with the review of expenditure. The review of expenditure involved major State budget appropriations managers, i.e. ministries (except the Ministry of Defence) and appropriations managers responsible for areas governed by relevant ministers. The aim of the review was to ensure general government savings, i.e. to form a 'basket of change' and allocate a portion of saved funds for the implementation of priorities set by the Government without prejudice to fiscal discipline and taking into account the phase of economic cycle and medium term economic perspectives.

The formation of the 'basket of change' included the following steps:

- review of authorised 2017 State budget appropriations in relation to ministries and areas of their responsibility;
- analysis of programmes and (or) measures provided for in the programmes under implementation and assessment of actual use of appropriations;
- assessment of programmes, measures provided for in the programmes, investment projects that approach the completion of implementation;
- review of State investments programme.

In addition to the above-mentioned measures, the Ministry of Finance assessed the extent to which the objectives and effect criteria established in the programmes of ministries in the previous year were met. It also compared the level of financing provided for areas governed by each minister (percentage of GDP, percentage of general government revenue) and key indicators of a particular area with corresponding average indicators of the European Union, submitted conclusions on the values of indicators and financing rates as well as proposals on the possibility to ensure a more efficient spending. Moreover, the efficiency of horizontal activities undertaken in the ministries and in areas of their responsibility was analysed that included the assessment of development trends in relation to the number of employees and wage as well as expenditure on certain goods and services (travel on official duty, transport, purchase of other goods and services) and comparison between the ministries. Performance indicators of general functions (staff, document management, use of information technologies) were evaluated on the basis of the 2016 report on the assessment of efficiency of general functions performed by institutions and bodies subordinated to the Government.

The summary of analyses was presented at the meetings held from June to July 2017 with the participation of the Prime Minister, the Minister for Finance and a relevant minister; the participants of such meeting took decisions on strategic goals, expected results and maximum limits of State budget appropriations in the area of responsibility of a relevant minister for 2018–2020.

The ministries and other appropriations managers saved approximately EUR 230 million (Diagram 1. Formation and distribution of the 'basket of change') The funds saved were allocated to the ministries in line with the seventeenth Government's programme and priorities for the year 2018 approved by the Government aiming to strengthen the areas that are most in need of financing. The 'basket of change' amounts to approximately EUR 592 million and includes additional funds to be generated as expected revenue gain in 2018.

Diagram 1. Formation and distribution of the 'basket of change'

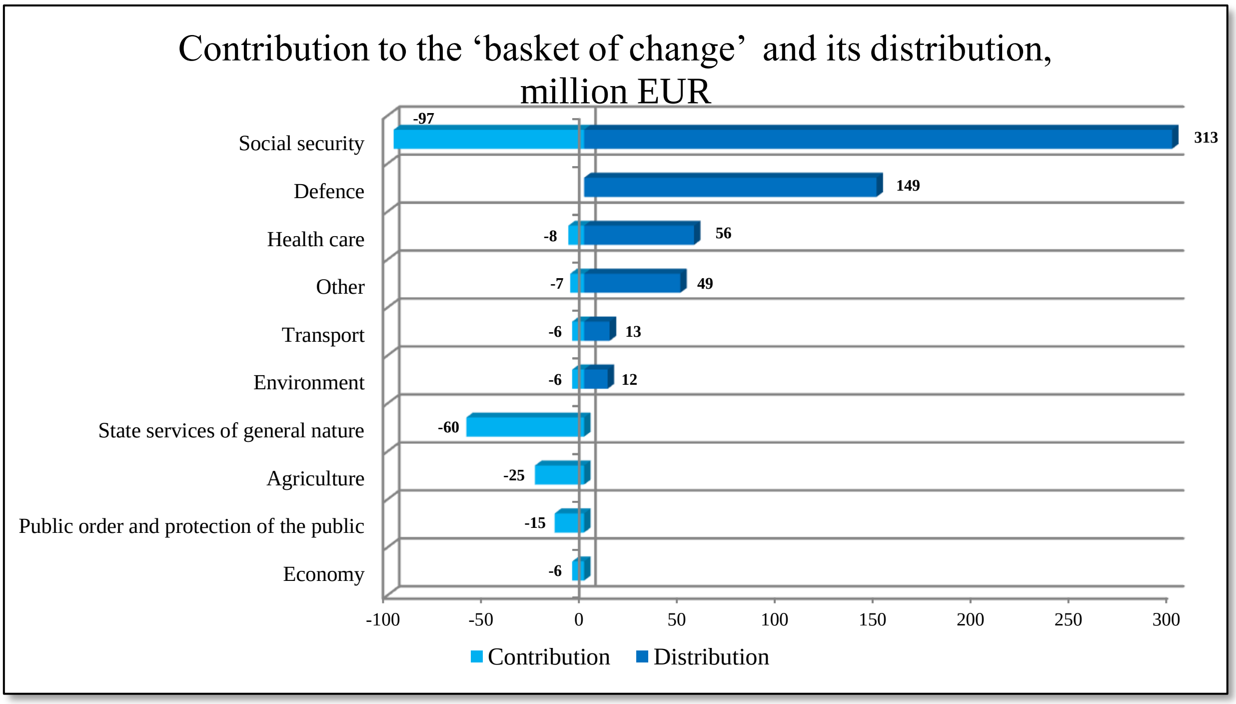

Table 13 (5a.ii). Discretionary expenditure measures taken by the general government

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
					2017	2018
1.	Development of financial incentives and services for young families and families with children	D6M	Accrual	Approved by the Government, included in the Draft Budget		-0.46
2.	Measures aimed at covering social insurance contributions for persons starting individual activity (tax holidays)	D6M	Accrual	Approved by the Government, included in the Draft Budget		-0.03
3.	Measures aimed at increasing social assistance pensions	D6M	Accrual	Approved by the Government, included in the Draft Budget		-0.04
4.	Measures aimed at increasing State-supported income from EUR 102 to122	D6M	Accrual	Approved by the Government, included in the Draft Budget		-0.02
5.	Measures aimed at centralising child's rights centres and improving the system ensuring the protection of child's rights	D.1	Accrual	Approved by the Government, included in the Draft Budget		-0.01
6.	Measures aimed at increasing the basic pension of officials starting from 1 October 2017 and their indexation in 2018	D6M	Accrual	Approved by the Government, included in the Draft Budget		0.00
7.	Increase of minimum monthly wage from EUR 380 to 400	D.1	Accrual	Approved by the Government, included in the Draft Budget		-0.04
8.	Increase of basic salary rate on the basis of which the wage of persons employed in	D.1	Accrual	Approved by the Government, included in the		-0.06

No	Description of the measure	ESA code	Accounting principle	Adoption status	Budgetary impact, % of GDP	
	budgetary institutions is calculated from EUR 130.5 to 132			Draft Budget		
9.	Contributions in relation to persons insured by the State from public funds	D6M	Accrual	Approved	-0.10	
10.	Increase of minimum monthly wage to EUR 380	D6M	Accrual	Approved	-0.03	
11.	Implementation of the Statute of Interior Service	D.1	Accrual	Approved	-0.04	
12.	Child benefits	D6M	Accrual	Approved	-0.05	
13.	Increase in State budget expenditure due to increase of unemployment insurance contribution rate by 0.5 per cent (*according to the Social Model*)	D6M	Accrual	Approved	-0.01	
14.	Increase of cases when sickness benefit is paid (expenditure increase) (*according to the Social Model*)	D6M	Accrual	Approved	-0.01	
15.	Decreased in State budget expenditure due to reduction of social insurance contribution rate by 1 per cent (expenditure decrease) (*according to the Social Model*)	D6M	Accrual	Approved	0.03	
16.	Indexation of expenditure on pensions (expenditure increase) (*according to the Social Model*)	D6M	Accrual	Approved	-0.4	
17.	Insurance of mothers and nurses when amounts necessary to reach the minimum monthly wage are paid from public funds (*according to the Social Model*)	D6M	Accrual	Approved	-0.04	
18.	Increase of unemployment related expenditure (expenditure increase) (*according to the Social Model*)	D6M	Accrual	Approved	-0.06	
19.	Benefits for employees from the Long-term Employee Benefit Fund (*according to the Social Model*)	D6M	Accrual	Approved	-0.04	
20.	Increase of wages of persons employed in education sector	D1	Accrual	Approved	-0.06	
21.	Implementation of provisions of the Law on wages of persons employed in state and municipal institutions and wages of other persons (statutory officials)	D1	Accrual	Approved	-0.1	
22.	Increase of wages of culture and art workers	D1	Accrual	Approved	-0.02	
Total:					**-0.94**	**-0.66**

2.2. Comparison of fiscal indicators in DBP and Stability Programme

The projections of general government balance indicator for 2017 indicated in the Stability Programme and DBP vary because the latest available data allows to project better balances of local government and subsectors of social insurance funds and expenditure of the State-owned company 'Deposit and Investment Insurance' attributable to the central government is lower than projected. Differences of the balance in the general government sector in 2018 are due to changes in the tax system foreseen in Draft Budget, *ex-ante* application of national rules governing fiscal discipline and need to implement fiscal policy taking into account the phase of economic cycle.

Table 14 (7). Comparison of indicators in DBP and Stability Programme

	ESA code	2016*	2017	2018
		% GDP		
Real growth of GDP:				
Stability Programme		2.3	2.7	2.6
Draft Budgetary Plan		2.3	3.6	2.9
Difference		0	0.9	0.3
General government net lending / net borrowing projection under the no-policy change scenario	B.9			
Stability Programme		0.3	-0.4	0.4
Draft Budgetary Plan		0.3	0.1	0.5
Difference		0	0.5	0.1

* Actual data available until 30 September 2017.

3. Links between DBP, Council of the European Union Recommendations, DBP and Strategy for Growth and Jobs of the European Union

Table 15 (6.a). Recommendations to Lithuania

Recommendation	List of measures	Impact on objective/outcome to be achieved
1. Pursue fiscal policy in line with the requirements laid down in the preventive arm of the Stability and Growth Pact. Take steps to address the medium term fiscal sustainability challenge related to pensions.	**1.1.** Draft a 2018 State budget, budget of the Compulsory Health Insurance Fund, and budget of the State Social Insurance Fund within the spending limits specified in the 2017 Stability Programme of Lithuania.	The draft budgets as a whole will ensure compliance with the legal acts on public fiscal discipline and will prevent from significantly deviating from the medium term objective.
	1.2. Introduce the requirement for budgets of municipalities whose appropriations exceed 0.3 per cent of GDP to be structurally balanced or surplus starting from 2018.	Fiscal discipline rules applied to the local government subsector will help to increase discipline in relation to finances of the government sector and produce counter-cyclical effect.
	1.3. Monitor and make proposals on measures aimed at increasing budget revenue of the State Social Insurance Fund and reducing demographic impact on the pension system in the long-term.	Monitoring of the State Social Insurance Fund and adaptation of it to respond to demographic trends.

Recommendation	List of measures	Impact on objective/outcome to be achieved
2. Improve tax compliance and broaden the tax base to sources that are less detrimental to growth.	**2.1.** Development of tax calculation service for small business allowing semi-automatic processing of income and expenditure accounts and its start-up.	Improvement of tax compliance.
	2.2. Introduction of proportionate sanctions to be applied in case of tax law infringement.	
	2.3. Implementation of OECD initiatives on automatic tax information exchange and start of efficient use of information received via automatic tax information exchange.	
	2.4. Coherent use of data of the Smart Tax Administration System aimed at increasing the efficiency of actions taken in respect of tax evasion risk analysis and control.	
	2.5. Coherent change of excise rates and scope of their application following the evaluation of their impact on public finances, economy of the country and collection of excise taxes.	Broadening of the tax base.
	2.6. Review of pollution tax on waste aimed at introducing rates that would reduce amounts of waste and promote recycling.	Changes of the rates of pollution tax on waste are planned with the view of encouraging the tax payers to produce less waste and pollutants and to ensure that waste is re-used and managed.
3. Apply effective active labour market policy measures.	**3.1.** Creation of a framework for employment promotion and motivation services targeted at unemployed persons who are recipients of social assistance and its application	Promotion of employment of unemployed persons who are recipients of social assistance.
	3.2. Integration of the elderly into the labour market, voluntary activity of social projects and strengthening of general competences of the elderly.	Improved access to labour market for elderly working-age persons.
4. Address skills shortages through promotion of adult learning.	**4.1.** Preparation of sectoral measures ensuring the activities of practical training centres aimed at developing apprenticeship and their application.	Update of content and methodology of professional training and higher education studies focusing on competitive competences of the 21st century.
	4.2. Development of activities focusing on the promotion of lifelong learning, creation of a mechanism for provision of professional career planning services and its application.	
	4.3. Preparation of the framework for assessing the quality of activities of non-formal adult education and continuous learning providers and testing of it in at least 5	Creation of effective conditions and incentives for lifelong learning.

Recommendation	List of measures	Impact on objective/outcome to be achieved
	municipalities.	
	4.4. Improvement of qualifications of adult education programme coordinators in the regions and efforts to ensure their activity.	
	4.5. Implementation of the following measures under the operational programme: 'Competence LT', 'Training for persons employed by foreign investors', 'Competency vouchers', 'Apprenticeship and work-based training', 'Study visit (Inostažuotė)'.	Opportunities for professional development and improvement of technological competence as well as development of new skills for the employees of business entities, particularly the small ones.
5. Improve educational outcomes by rewarding quality in teaching and in higher education.	**5.1.** Creation of a system of educators' training, qualification improvement and performance assessment which rests the responsibility for educators' training and their qualification improvement with higher education institutions having the strongest scientific and professional potential and its application.	Creation of a system of teachers' training, qualification improvement and career.
	5.2. Conclusion of contracts with higher education institutions on educators' (including those of vocational schools) training and qualification improvement on the basis of development priorities of the State, results of performance assessment of higher education institutions, achievements of pupils and progress achieved.	
	5.3. Primary and continuous training of pre-school and preparatory educators (update of study programmes, improvement of competences of educators, coherent and continuous improvement of qualifications of educators, managers and all the staff).	
	5.4. Application of a new methodology for financing general training in all the country taking into account the conclusions of experiment analysis.	Restructuring of financing system applied to education and science.
	5.5. Preparation of procedure for paying wages for teachers for full-time work and its application with the aim of developing attractive career	

Recommendation	List of measures	Impact on objective/outcome to be achieved
	conditions.	
	5.6. Preparation of a methodology for funding of studies based on contractual relationships with higher education institutions.	
6. Improve the performance of the healthcare system by strengthening outpatient care, disease prevention and affordability.	**6.1.** Broadening of the scope of services in the field of nursing by allocating more funds from the budget of the Compulsory Health Insurance Fund.	Affordability of outpatient nursing services was increased for patients who are dependent or almost totally dependent on nursing services and assistance due to their short-term health deterioration but are not recognised as disabled.
	6.2. Approval of Guidelines on policy on medicinal products that promote rational use of medicinal products, price competition and ensure uniform availability of medicinal products.	1. Approval of Guidelines on policy on medicinal products that promote rational use of medicinal products, price competition and ensure uniform availability of medicinal products. 2. Preparation of the Action Plan on the implementation of the Guidelines on policy on medicinal products.
	6.3. Promotion of community initiatives in the field of health promotion by supporting projects implemented by the communities and non-governmental organisations.	Better public awareness, better healthy lifestyles skills.
	6.4. Optimisation of activity of mental health care centres by ensuring better access to primary mental health care services and attracting more specialists (psychotherapists, psychologists).	Better affordability of services of psychologists and psychotherapists due to more funds allocated.
7. Improve the adequacy of the social safety net.	**7.1.** Linking of social benefits to the minimum consumption basket.	Higher benefits and broader scope of their application (number of beneficiaries).
	7.2. Development of Social housing fund by renting the housing on the market and making incentives for lessors, by enabling every person having a right to receive assistance for renting the housing, including families, to obtain compensation for part of rent paid for housing.	State assistance will allow low-income residents to find housing independently and municipalities will rent housing on the market for those who will not be able to find housing on their own.
	7.3. Creation of a system ensuring the payment of a child benefit ('child's money') for each child (or child under care) in a family and its validation.	Support for families with children, reduction of child poverty and income inequality.
8. Improve the efficiency of public investment and strengthening its linkage with the country's strategic objectives.	**8.1.** Review of planning, use, control regulation and system of the current programme on State investments, preparation of a new procedure for investment assessment and establishment of assessment indicators.	As a result of improved selection and control of investment projects the investment project selection procedure will become more transparent and public, the use of public funds will become more effective and produce good results. The share of investment projects justified by means of expenditure and benefit analysis will amount to 100 per cent.
	8.2. Assessment of links between investments and strategic goals established in strategic planning documents when performing investment assessment.	

Recommendation	List of measures	Impact on objective/outcome to be achieved
	8.3. Review of the system of the management of sources used to finance investments controlled by the State.	
	8.4. Application of expenditure and benefit analysis to justify any investment project.	
	8.5. Identification of decisions on publicity procedure applied when allocating funds for the implementation of investment projects and on monitoring of such projects after their implementation that were adopted.	

Table 16 (6.b). Indicators set in the EU Strategy for Growth and Jobs

National targets under the Europe 2020 strategy	List of measures	Direct relevance of measure to achieve the target set in the Europe 2020 strategy
National employment target is 72.8 per cent.	To apply active labour market policy measures by supporting integration of the unemployed into the labour market, to give priority to the unskilled and the long-term unemployed, to provide marketable skills first, and to develop competences in line with the employers' requirements to have successful integration into the labour market. To implement the measure, in 2018 the planned allocations from the State budget will amount to EUR 22.27 million from which EUR 18 million will be allocated from the EU structural investment funds.	Opportunities are offered to the unemployed, especially to the long-term and unskilled, to acquire vocational training and return to the labour market, thereby reducing unemployment of the long-term and unskilled persons.
	To continue the implementation of the Youth Guarantee Initiative and other programmes encouraging youth employment. To implement the measure, in 2018 the planned allocations from the State budget will amount to EUR 28.3 million from which EUR 26 million will be allocated from the EU structural investment funds.	Fast and sustainable transition of the youth from education system to the labour market is ensured, and youth unemployment is reduced.
	To implement measures helping improve qualifications of human resources, enhance their competitiveness, and develop labour force skills matching labour market needs. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 15.23 million from which EUR 14.24 million will be allocated from the EU structural investment funds.	Compliance between labour force qualifications and labour market needs is augmented, hence increasing opportunities to stay on the labour market. The following measures under the Programme for EU Structural Funds Investments are implemented: 'Human Resources Invest LT+', 'Training of persons employed by foreign investors' (training of persons employed by foreign investors investing into production and (or) services in the territory of the Republic of Lithuania and improvement of their qualification, including work-based learning), 'Competence LT' (organisation of specific training targeted at sectoral competence development for enterprises, creation of a

National targets under the Europe 2020 strategy	List of measures	Direct relevance of measure to achieve the target set in the Europe 2020 strategy
		subsystem of a high level of excellence acquired through work, training targeted at the development of competences of incoming personnel of enterprises), 'Apprenticeship and work-based training' (training of people employed in enterprises in the form of apprenticeship aimed at the attainment of professional qualification or a part thereof, in-house training of employees targeted at qualification improvement), 'Training (Inomokymai)', 'Study visit (Inostažuotė)' (training of persons employed in enterprises that are engaged in R&D activities and improvement of technological competences in R&D centres abroad and (or) foreign enterprises, engaged in R&D activities), 'Competency vouchers' (training for enterprises based on the 'competency vouchers' system that ensures enhanced accessibility to qualification improvement and competency development for the employees of enterprises).
National R&D investment target is 1.9 per cent of GDP.	To support activities encouraging business innovation potential. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 30.65 million from which EUR 30.08 million will be allocated from the EU structural investment funds.	The following measures under the Programme for EU Structural Funds Investments are implemented: ('Intellect. Joint Science-Business Projects', 'Inopatentas', 'Innovation Vouchers', 'Inogeb LT', 'Inoklaster LT', 'Inoconnect', 'SmartInvest LT', 'SmartInvest LT+', 'Smart FDI', 'Smartpark LT', 'KET industry LT+', 'Pre-commercial procurement LT') that encourage businesses to invest into R&D activities that generate innovations, R&D infrastructure, patenting of inventions, setting up and development of innovative start-ups, traditional industry transformation through application of technologies that are important for innovation in industry and growth of the entire economy – key enabling technologies in the production processes of micro, small, and medium-sized enterprises. These measures support participation in international and innovation-related programmes and projects and strengthening of capacities of human resources as well as encourage demand for innovations through support to pre-commercial procurement. In addition, these measures are implemented to encourage business investment in the creation and use of R&D cluster infrastructure, participation in international R&D initiatives, foreign direct investment in R&D activities, infrastructure, and investment in industrial parks and free economic zones, where foreign companies will carry out R&D activities, in engineering networks and transport communications. Business consultation will be offered

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		regarding creation of innovative products. In 2018 particular attention will be paid to promoting doctoral studies in the field of industry with the aim of increasing the number of researchers employed in business sector and encouraging applied scientific research on themes of interest to the business; attention will also be paid to the attraction of qualified intermediaries in smart specialisation areas with the aim of promoting partnerships and accelerating the introduction of innovations in enterprises.
	To encourage inter-institutional, inter-sectorial, and international cooperation to develop top-level scientific research, to encourage R&D activities relevant to tackle strategic problems of public and national importance as well as to boost economic growth. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 9.56 million from which EUR 7.45 million will be allocated from the EU structural investment funds.	The aim is to create conditions for Lithuania's researchers individually, groups of the Lithuanian and foreign researchers, in cooperation with researchers from other science and education establishments, or businesses to carry out high-level scientific research and other R&D activities that would not only create new knowledge, but also yield results, application of which in business and public needs can create high value added.
	To develop commercial and non-commercial use of R&D results. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 11.17 million.	The aim is to create knowledge and technology transfer and commercialisation ecosystem in science and education establishments, which would ensure comprehensive support to researchers and students seeking commercialisation of R&D results that they produce. Expected outcomes: - efficient use of R&D activity results for business and public needs; - preconditions for tackling major socio-economic challenges.
	To create, renew, and consolidate R&D infrastructure that provides conditions for creation of knowledge and innovations. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 17.58 million.	The aim is to create and renew high-level infrastructure that is important for further development of national R&D system, and ensure constant maintenance of its high level, thereby creating the best conditions for researchers to carry out high-level R&D activities and create high value added results.
	To train highly-qualified researchers, to strengthen and consolidate human potential in R&D to develop smart specialisation areas. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 15.5 million from which EUR 15.24 million will be allocated from the EU structural investment funds.	Training of R&D specialists is planned to be funded in all degree levels, and opportunity for them to choose a career of a researcher and conditions to develop required competences are planned to be given. Skills of researchers and other specialists to take part in R&D activities that are organised on a national and international level are planned to be developed and strengthened, scientific potential of knowledge-intensive businesses created and strengthened, and inter-disciplinary, inter-sectoral, and international specialist mobility encouraged.
Greenhouse emissions in sectors not covered by the	The National Strategy for Climate Change Management Policy approved by Resolution No XI-2375 of the Seimas of the Republic of Lithuania of 6 November 2012;	Results to be achieved in 2018: - sectors not covered by the EU ETS will not exceed the annual permitted GHG emissions threshold of 14.74 million tonnes

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EU Emissions Trading Scheme (change in emissions from the 2005 levels in per cent and in millions of tonnes of CO2), target is not exceeding 15 per cent in 2020.	the Inter-institutional Action Plan for the Implementation of the Goals and Objectives of the National Strategy for Climate Change Management Policy for 2013–2020 approved by Resolution No 366 of the Government of the Republic of Lithuania of 23 April 2013 and subsequent amendments; sectoral programmes and plans: the Programme for the Renovation (Modernization) of Apartment Blocks approved by Resolution No 1213 of the Government of the Republic of Lithuania of 23 September 2004; the Programme for Enhancement of Energy Efficiency in Public Buildings approved by Resolution No 1328 of the Government of the Republic of Lithuania of 26 November 2014; the National Waste Management Plan for 2014–2020 approved by Resolution No 366 of the Government of the Republic of Lithuania of 16 April 2014. In 2018 the planned allocations from the EU Structural Funds for waste incineration plant (Vilnius combined heat and power plant) will amount to EUR 18.86 million; the planned allocations for the development of waste collection infrastructure will amount to EUR 9.19 million. Moreover, plans are underway to use funds from the Special Climate Change Programme as well as funds received from pollution tax on waste containing articles or packaging.	of CO_2 equivalent, established for Lithuania; - the share of renewable energy sources in the final energy balance will make up 27 per cent; - the efficiency of final energy consumption will increase by 11 per cent compared to 2010.
National renewable energy sources consumption target is 23 per cent.	*The National Strategy for the Development of Renewable Energy Sources approved by Resolution No 789 of the Government of the Republic of Lithuania of 21 June 2010;* the Action Plan for the Implementation of the National Strategy for the Development of Renewable Energy Sources in 2010–2015 approved by Order No 1-180 of the Minister for Energy of the Republic of Lithuania of 23 June 2010; *the Law No XI-1375 of the Republic of Lithuania on Energy from Renewable Sources.* Promotion of the switch from fossil fuels to renewable energies for the production of heat energy. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 17 million. To promote biofuel cogeneration. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 3.5 million.	Increasing the share of RES in the overall energy balance of the country will enable to satisfy as much energy demand as possible in electricity, heat and transport sectors by means of internal resources, refuse the imported polluting fossil fuels and thus increase the security of energy supply, energy independence and contribute to the international efforts to reduce the emissions of greenhouse gases. Ensuring a development of sustainable use of renewable energy sources will encourage a further development and introduction of new technologies as well as consumption of the energy produced, in particular, taking into consideration Lithuania's international commitments and the goals of environment protection, sustainable use of fossil energy, reduction of dependence on fossil energy and the reduction of energy imports as well as other national energy policy objectives.
National energy efficiency target is 740 ekWh.	The Programme for the Renovation (Modernization) of Apartment Blocks; the Programme on Energy Efficiency Enhancement in Public Buildings. To implement the programmes, in 2018 the planned allocations from the State budget will amount to EUR 44.8 million from which EUR	Renovation of apartment blocks and public buildings in order to increase the efficiency of energy consumption. The energy performance classification of modernized buildings has to be in class C.

National targets under the Europe 2020 strategy	List of measures	Direct relevance of measure to achieve the target set in the Europe 2020 strategy
	8.5 million will be allocated from the EU structural investment funds. Moreover, plans are underway to use funds from the Special Climate Change Programme. The Programme on Energy Efficiency Enhancement in Public Buildings (the planned allocations for modernization of buildings of central government will amount to EUR 16 million).	
The National target is to achieve that the percentage of individuals aged 18-24 who have only basic or secondary education and who are no longer engaged in any education does not exceed 9 per cent.	To develop and introduce an up-to-date education content and new forms of educational organization. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 8.06 million.	New educational organization models are created and tested. School progress tenders are launched. Improved safe environment for student access to digital resources.
	To introduce critical cumulative assessment and recognition of learning outcomes. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 3.68 million from which EUR 2.84 million will be allocated from the EU structural investment funds.	Cumulative assessment system is under preparation. Maturity paper module is under preparation and introduction.
	To further improve the learning possibilities of persons with special educational needs. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 3.41 million from which EUR 2.91 million will be allocated from the EU structural investment funds.	A variety of education forms has been developed and access to educational support in general education schools has been improved. Provision of integrated educational assistance, social, health care services to children and their parents has been developed in municipalities. The number of children in special schools and special education centres has been reduced by introducing innovative models of organization of education and provision of educational support, providing schools with special teaching resources and means of technological support for education, improving the competencies of education support specialists (psychologists, social teachers, special teachers, speech therapists) and teachers. The development of consultative and methodological functions of special needs education and children socialization centres.
	To further implement bullying, bad habit prevention and other prevention as well as pupil assistance programmes. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 788 thousand from which EUR 713 thousand will be allocated from the EU structural investment funds.	Increased variety of preventive programmes and coverage of schools participating in the implementation of violence and bullying prevention programmes. Decline of taunting.
	To further increase the variety and accessibility of non-formal education of children. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 11.77 million from which EUR 4.64 million will be allocated from the EU structural investment funds.	More children participate in non-formal education of children and improve general and subject competencies. The infrastructure and education base of non-formal education schools has been improved. Teachers' competences haven been improved.
	To further update vocational training	For the creation of a well-developed modern

National targets under the Europe 2020 strategy	List of measures	Direct relevance of measure to achieve the target set in the Europe 2020 strategy
	programmes according to economic and regional needs. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 7.66 million.	vocational training system, professional standards corresponding to the economic needs will be developed for different sectors. Based on these standards, modular vocational training programmes will be developed. This will permit a flexible response to business needs by updating individual programme modules and formalizing the competencies acquired in the production process, ensuring a smooth integration of students into the labour market.
National target is to achieve that the percentage of persons aged 30–34 with tertiary or equivalent education reaches 48.7 per cent.	To modernize the infrastructure of studies with a view to improving the quality of studies. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 3.18 million.	Development of higher education infrastructure corresponding to the economic needs. Creation of modern and favourable conditions for acquiring required competences while studying.
	To provide social grants and other assistance to students from socially vulnerable groups. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 6.97 million from which EUR 1.09 million will be allocated from the EU structural investment funds.	Creation of social and financial incentives and provision of assistance to students from socially vulnerable groups, reduction of social exclusion in the field of higher education.
	To further promote the development of adult education services and adult learning. To implement the measures, in 2018 the planned allocations from the EU Structural Funds will amount to EUR 1.36 million.	Evaluation and recognition by the Lithuanian higher education schools of competencies acquired in the system of informal adult education will contribute to a more accessible and flexible system of the Lithuanian higher education studies.
National poverty reduction target – to reduce the number of persons in poverty and socially excluded people or the people at-risk-of poverty and social exclusion to 814 thousand.	Implementation of the reform of social insurance pensions. Additional funding requirements from the State budget in 2018 amount to EUR 128 million due to the transferral of the major share of the pensions to the State budget and the reduction of social security rate by 1 percentage point.	Broadening of social insurance funding base. Establishment of clear indexation rules to maintain the purchasing power of pensions. Changing of the formula for calculating social insurance incapacity for work pensions to ensure that the pension is related to the percentage of incapacity rate which would improve the adequacy of these pensions (in force as from 2018).
	Implementation of the new law on Unemployment insurance which increases the social security of persons. The planned allocations from the ‘Sodra’ budget for unemployment benefits amount to EUR 165.0 million in 2018.	Increasing the adequacy of unemployment benefits and scope of recipients in case of unemployment by increasing the unemployment benefits, its payment period and scope.
	To increase the accessibility of social services. In 2018 the planned allocations from the State budget will amount to: - EUR 300 thousand for the measure ‘Improvement of the infrastructure of social services’ from which EUR 250 thousand will be allocated from the EU structural investment funds; - EUR 4.4 million for the measure ‘Development of integrated assistance to people with disabilities and elderly people’ from the EU structural investment funds; - EUR 3.69 million for the measure ‘Provision of combined services to a family	Infrastructure for hospital and non-hospital social services, integrated home assistance (nursing and social care) and community-based non-hospital complex services for persons and social groups at social risk or experiencing social exclusion are being developed, involvement of the elderly into voluntary activity is being promoted.

National targets under the Europe 2020 strategy	List of measures	Direct relevance of measure to achieve the target set in the Europe 2020 strategy
	and children' from which EUR 3.5 million will be allocated from the EU structural investment funds; - EUR 2.2 million for the measure 'Provision of professional rehabilitation services to the disabled' from the EU structural investment funds; - EUR 1.8 million for the measure 'Provision of psychological/social rehabilitation and labour market integration services for persons addicted to psychoactive substances' from the EU structural investment funds; - EUR 250 thousand for the measure 'Provision of social/cultural and labour market integration services for the Roma with the aim of integrating them into active community life in Lithuania by reducing social exclusion' from the EU structural investment funds; - EUR 1.44 million for the measure 'Development of competences of the elderly and provision of qualification with the aim of enhancing participation in labour market and voluntary activity' from the EU structural investment funds; - EUR 400 thousand for the measure 'Implementation of measures under the Action Plan for promotion of non-discrimination' from the EU structural investment funds; - EUR 7.06 million for the measure 'Integration of persons at social risk experiencing social exclusion into labour market' from which EUR 6.19 million will be allocated from the EU structural investment funds.	
	To provide support for the most deprived persons. In 2018 the planned allocations from the Fund for European Aid to the Most Deprived (FEAD) will amount to EUR 26.39 million.	It is planned that food aid and hygiene products will be provided to approximately 280 000 most deprived persons per year through the project supported by the FEAD funds.
	Implementation of the transition from institutional care to family and community-based services. In 2018 the planned allocations from the State budget for measure 'Transition from institutional care to family and community-based services' will amount to EUR 9.55 million from which EUR 9.3 million will be allocated from the EU structural investment funds.	Creation of a system of integrated services enabling access to every child, person with disabilities or his family (guardians, carers) to individualized services according to needs and required assistance in the community.
	Linking of social benefits to the minimum consumption basket. On the basis of the preliminary calculations this measure will be receive in 2018 additional amount of EUR 6.8 million from the State budget and EUR 64.8 million from municipal budgets.	Linking of benefits to the minimum consumption basket (figure that corresponds it) should result in the increase of benefits and their distribution (number of recipients).
	Validation of payment of a child benefit	To introduce as from 2018 flat-rate support

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	('child's money') for each child. To implement the measures, in 2018 the planned allocations from the State budget will amount to EUR 194.9 million.	(so called 'child's money') for all the children and additional benefit for disadvantaged families and families with three or more children. This measure will ensure support for families with children, reduce children poverty and income inequality.

4. Methodological aspects

Table 17 (8). Preparation of economic development scenario

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/technique used	Assumptions
Principles of national accounting, econometric and expert evaluation	Economic development scenario	Macroeconomic forecasts are prepared for the medium term using macroeconomic model developed according to national accounts. Based on the analysis of individual or more than one potentially interrelated macroeconomic indicators, econometric equations are made, also, expert evaluation is used. Estimates of potential GDP are based on methodology approved by ECOFIN in 2002.	Technical assumptions (oil price, currency exchange rate and interest rates)

Revenue forecasting

Tax revenue forecasts are prepared according to macroeconomic forecasts, statistical data, revenue dynamics and the information provided by state institutions. Forecasts of revenues from individual taxes may be adjusted using expert judgement, i.e. considering other circumstances than those provided for in the draft amendments that may affect revenue collection.

Depending on the tax, one or several forecasting methods are applied:

- Detailed modelling method. Data is collected on the number of taxpayers in each category and the total amount of revenue and revenue structure of that category. A simulation model is created from two blocs: typical tax payer and aggregating bloc. According to this method, it is estimated how much on average an individual taxpayer representing a certain group will pay in taxes, how much this group and, ultimately, all taxpayers of the country will pay.
- Effective average rate method. The tax rate established by law is adjusted taking into account the reliefs, exemptions from the tax base, etc. The effective average rate thus assessed is multiplied by the scope of the tax base to obtain a forecast of revenues from appropriate taxes.
- Elasticity method. A relationship is established between the revenues from a tax increase (decrease) and the change in the tax base. After taking into account the elasticity coefficient specific to a certain tax and the forecasted tax base change, revenue forecast from that specific tax is made.