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2026 Country Report - Lithuania

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

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

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European Commission

Economic and Financial Affairs

Lithuania

2026 Country Report



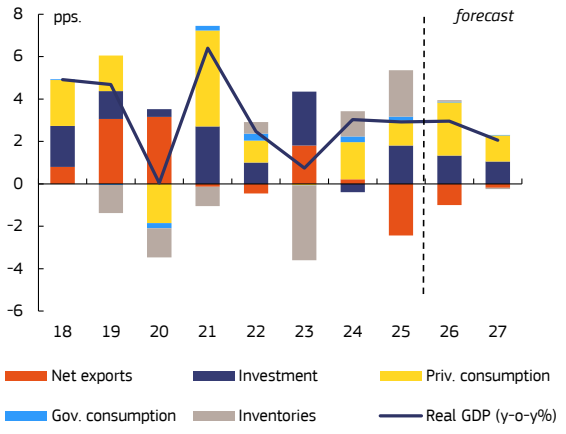
ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

The Lithuanian economy continues to grow, but challenges persist

In 2025, Lithuanian GDP growth was strong, supported by growth in consumption. Following relatively small economic growth in 2023 (0.7%), growth picked up to 3.0% in 2024 and 2.9% in 2025, as wages continued to rise and private consumption rebounded (Graph 1.1). Consumer confidence ([1]) declined in comparison with 2024; nevertheless, it remained positive (1.4 in December 2025). Savings are historically high, at 9.7% of gross disposable income in 2025, compared to relatively low savings in 2023-2024 (5.7%-7.6%), likely due to uncertainty and geopolitical risks. After falling by 1.7% in 2024, investment grew by 8% in 2025, driven mainly by spending on equipment and machinery. Foreign direct investment (FDI, net inflows) is increasing: it stood at 3.4% of GDP in 2022, 4.8% in 2023, and 5.5% in 2024 (by comparison, it stood at 8.1% in 2020).

Lithuania's economy is expected to continue to grow and inflation is likely to remain high over the forecast horizon. Growth is expected to be supported by robust private consumption, resilient investment, and buoyant exports. However, trade tensions and the uncertainty they create, in addition to existing geopolitical risks for the Baltics, are weighing on economic growth. The conflict in the Middle East has raised energy prices, increasing the marginal cost of production and thereby weighing on economic growth. Nevertheless, in 2026, real GDP is expected to grow by 3.0%, mainly due to increasing consumption as second-pillar pensions are paid out. From 1 January 2026, participation in the second pillar of the Lithuanian pension scheme became voluntary. Participants may withdraw their funds over a two-year period, until 31 December 2027. It is expected that withdrawal of these funds will lead to increased consumption in the short run. The effect of the pension reform will decline in 2027, and given a large base, GDP growth is expected to decline to 2.1%. HICP (harmonised index of consumer prices) inflation increased from 0.9% in 2024 to 3.4% in 2025, due to large price increases for food and services. In 2026, HICP inflation is expected to reach 4.4%, driven primarily by rising fuel and services prices, followed by a slowdown to 2.7% in 2027.

Graph 1.1: **Real GDP growth and contributions**



Source: AMECO

Unemployment declined to 6.9% in 2025, down from 7.1% in 2024, but structural mismatches remain. Economic growth contributed to a decline in the unemployment rate in 2025. With economic growth forecast to continue in 2026 and 2027, the unemployment rate is expected to decline further over the same period (to 6.7%). However, the job vacancy rate has been hovering around 2-2.3% since 2024 and has shown no signs of coming down, which, along

([1]) Lithuania Consumer Confidence Indicator (I:LCCISM).

with some persistent unemployment, points to labour market mismatches (see Section 4). According to the 2025 European Investment Bank Investment Survey, 71% of firms still cited the availability of skilled staff as a long-term barrier to investment, although this percentage has declined since 2024 (76%).

Rising public-spending needs increase pressure on public finances

Growing public expenditure needs are expected to weigh on Lithuania's public finances in the medium term. Although Lithuania has one of the lowest public debt levels in the EU, it also has comparatively low levels of public expenditure and revenue. Public spending is projected to increase due to population ageing, with an expected rise in pension, healthcare and long-term care expenditure (see Annex 2). Additional spending pressures are expected from increasing defence expenditure and the indexation of public sector wages, pensions and other social benefits. Revenue growth is expected to remain more limited in comparison. The tax measures adopted so far are insufficient to offset the projected increase in public spending. As a result, the general government deficit rose from 1.3% of GDP in 2024 to 1.8% in 2025 and is projected to reach 2.2% and 2.7% in 2026 and 2027, respectively. Public debt is projected to increase from 38.0% of GDP in 2024 to 48.4% in 2027.

Expenditure on defence in Lithuania is steadily increasing, with additional EU support. To facilitate an increase in public spending on defence, the Council of the European Union has activated the national escape clause (NEC) for Lithuania ([2]). Total government expenditure on defence ([3]) amounted to 2.5% of GDP in 2024, 2.7% in 2025, and is forecast by the Commission to increase to 2.9% in 2026, and 3.5% in 2027 (Annex 2). Investment in defence is also receiving support from EU funds. As part of the ReArm Europe Plan, Lithuania has requested EUR 6.4 billion in loans under Security Action for Europe (SAFE).

Lithuania has made partial progress in addressing the 2025 country-specific recommendations on improving tax compliance and broadening the tax base to sources less detrimental to growth (see Annex 3). The authorities adopted tax reforms with a net revenue-raising effect, many of which entered into force in January 2026 and are linked to commitments under the recovery and resilience plan (RRP). These include reforms of commercial and residential property taxation, a gradual increase in excise duties, an introduction of excise duty on non-alcoholic sweetened beverages, and value added tax (VAT) measures with a net base-broadening effect, including the removal of the reduced VAT rate on heating. These measures contribute to reducing preferential tax treatments, broadening the tax base, and increasing revenues. However, revenue from recurrent property and environmental taxes, which are less detrimental to growth, continues to be among the lowest in the EU. The reform of the recurrent property tax provides more frequent updating of cadastral values to market prices, but the high exemption threshold for primary residences and the low progressivity of the tax rates limit the reform's revenue potential (see Annex 3). The tax system continues to allow tax arbitrage between employment, self-employment and certain forms of incorporated business (see Annex 3). On tax compliance, Lithuania has made progress through the digitalisation of tax administration and widespread use of electronic filing and pre-filled returns, contributing to a decline in the VAT compliance gap to 13.2% in 2024 (see Annex 3). Nevertheless, VAT compliance

([2]) The activation of the national escape clause provides Member States with budgetary flexibility to increase defence expenditure, without an immediate need to finance such increase with spending cuts or revenue-raising measures. The flexibility thus gives Member States the necessary time to accommodate higher defence expenditure within national budgets.

([3]) The general government expenditure on defence as defined by the COFOG definition.

Box 1: **UN Sustainable Development Goals (SDGs)**

Lithuania performs above the EU average in SDGs related to quality of education (SDG 4), clean water and sanitation (SDG 6), sustainable cities and communities (SDG 11), and life below water (SDG 14).

While its performance remains below the EU average, Lithuania shows progress in SDGs related to zero hunger (SDG 2), good health and well-being (SDG 3), affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), industry, innovation and infrastructure (SDG 9), reduced inequalities (SDG 10), responsible consumption and production (SDG 12), climate action (SDG 13), life on land (SDG 15), and partnership for the goals (SDG 17). This progress is particularly significant in areas such as peace, justice and strong institutions (SDG 16) and gender equality (SDG 5).

Out of the 17 indicators, Lithuania is moving away from the targets on no poverty (SDG 1).

challenges persist, and the shadow economy remains above the EU average, with envelope wages as a significant issue.

Regional disparities and risks to economic security are holding back growth

Overall, Lithuania has achieved strong convergence towards the EU average GDP per capita but disparities within the country are increasing. GDP per capita reached 87% of the EU average in 2024, with Vilnius County at 133%, Kaunas at 86%, and Klaipėda at 76% of the EU average, while the other counties remained at 60% or less. Vilnius and Klaipėda have been the only counties experiencing population growth over the last decade (see Annex 18). The lagging regions suffer from limited access to quality public services, including healthcare, education and social services. Rural areas continue to face lower educational outcomes, teacher shortages, limited access to healthcare and long-term care, and weaker connectivity. This undermines social cohesion, equal opportunities, residents' right to stay and growth prospects (see Section 4).

While Lithuania took steps to strengthen the legal basis for intermunicipal cooperation, in practice it remains limited. Despite some progress on the 2025 country-specific recommendation on 'addressing regional disparities through better intermunicipal cooperation and development of local clusters in order to attract investments to regions', challenges remain. The amendments to the Public Administration Law adopted at the end of 2025, enabled joint public institutions to administer the provision of public services on behalf of several municipalities, addressing a long-standing gap. However, cooperation in practice remains limited to add-on functions or to contracting services from businesses owned by other municipalities, rather than establishing sustainable shared service provision across several municipalities. Broader take-up of intermunicipal cooperation is further constrained by underdeveloped cost-sharing arrangements, uneven administrative capacity across municipalities and high fiscal centralisation.

Development of local clusters to attract investments to regions is another challenge. Attracting private investment to regions outside the main urban centres remains limited due to disparities in the business environment and regulatory processes, lack of business support infrastructures, and perceived geopolitical risks. Further barriers to addressing regional disparities persist: weak coordination among ministries on issues and initiatives related to regional and local development, the absence of systematic regional impact assessment in legislative and decision-making processes, and municipalities' limited mandate for local economic development.

Lithuania, as a country on the eastern external border of the EU, faces additional challenges hindering its economic and social development. At a national level, the proximity to Russia and Belarus include heightened security and hybrid threats, pressure on the economy, weaker business confidence, loss of trade flows and tourism markets, and declining investment attractiveness. At a regional level these pressures are compounded by longstanding territorial disparities and the urban-rural divide. In lagging counties such as Utena, Alytus, Marijampolė and Tauragė, weaker employment, demographic decline and poorer connectivity amplify the impact of the easter border proximity. Lithuania therefore faces simultaneous challenges to strengthen security and resilience while sustaining economic activity, social cohesion and the viability of rural and border areas

As a response, Lithuania has taken steps to strengthen economic security. In February 2025, Lithuania, together with Latvia and Estonia, disconnected from the Russian-operated electricity system and synchronised with the Continental European Synchronous Area (CESA). This, in combination with cutting dependence on Russian natural gas and petrol, shows progress in increasing energy independence. However, the country remains dependent on electricity imports, creating exposure to external price fluctuations and potential supply disruptions. Also, the rapid expansion of decentralised generation is increasing pressure on distribution grids and may create infrastructure bottlenecks for businesses and new investments. Electricity price volatility, including peak-hour spikes and low-price periods, may pose macroeconomic risks by affecting inflation, competitiveness, and investment signals.

Sustaining convergence and competitiveness requires addressing structural and demographic pressures

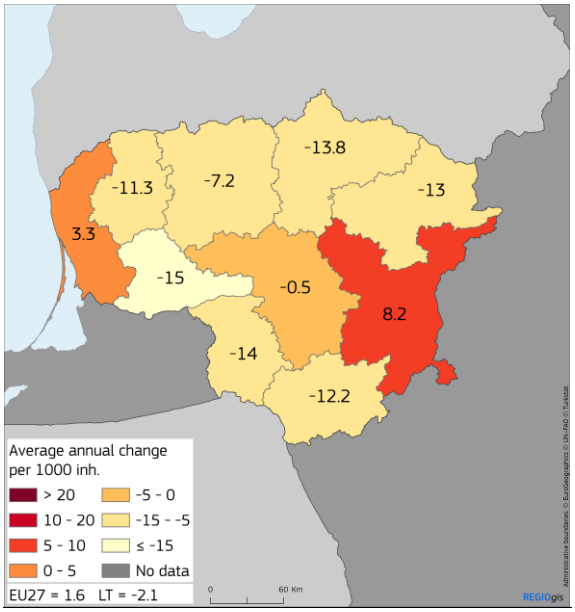
Sustaining economic convergence requires higher-value activities. Lithuania has achieved strong economic convergence in recent decades, supported by robust productivity growth and integration into European value chains. As the country approaches higher income levels, sustaining this convergence will depend on shifting towards higher value-added activities and strengthening productivity growth, which has stagnated recently. Key challenges relate to strengthening the innovation ecosystem and improving the transfer of research to business and society, as business investment in R&D remains well below the EU average and industry–science linkages remain weak in a fragmented higher-education and research landscape.

Addressing financial, labour and green transition challenges is key to improving competitiveness. Access to finance for Lithuanian small to medium-sized enterprises (SMEs) remains constrained, reflecting a highly concentrated banking sector, firms' reliance on internal funding, and underdeveloped capital markets. High drop-out rates and declining enrolments in higher education as well as labour shortages – in particular in science, technology, engineering and mathematics (STEM) fields – risk constraining productivity. Advancing the green transition while maintaining energy affordability and security will require further investment in energy infrastructure, energy efficiency and sustainable transport to support Lithuania's long-term productivity and industrial competitiveness.

The ageing population and low fertility rates are major demographic challenges, which put additional pressure on the adequacy of public services and old-age pensions. While in recent years, Lithuania's labour force has been supported by migrants, the demographic prospects are looking

particularly worrying as migration flows have declined, the population is ageing, and the fertility rate is one of the lowest in the EU (1.11 children per woman in 2024 vs an EU average of 1.34). Demographic trends are of particular concern in the districts of Tauragė, Marijampolė, Panevėžys and Utena (Graph 1.2). This not only undermines economic growth prospects, but also puts additional pressure on public services, including healthcare and social services, and the old-age pension system, which are facing adequacy issues (see Section 4 and Annex 2). In addition, participation in supplementary pension schemes, which stood at 76% of the working-age population in 2024 (EU average: 55.9%; see Annex 2) is expected to decrease, due to the reform of the second-pillar pension scheme.

Graph 1.2: **Population growth in 2013-2023, NUTS-3 % change**



Source: Commission calculations based on Eurostat data

Housing challenges persist despite policy efforts and EU funding

Lithuania's housing sector continues to face structural issues, including poor housing quality, slow renovation progress and rising housing costs, which disproportionately affect vulnerable households. Around 80% of dwellings were built before 1993 under lower construction standards, and housing amenities remain below the EU average, with 5% of dwellings lacking a flush toilet and 5.5% lacking a bath or shower in 2023 (EU averages: 1.8% and 1.7%). Energy efficiency is also low, with around three quarters of multi-apartment buildings and 60% of single-family homes having poor energy performance, contributing to high heating costs and energy poverty. Government-supported renovation programmes, financed through EU cohesion policy and the Recovery and Resilience Facility, provide grants, low-interest loans and technical assistance, but implementation remains slow, with only around 300 buildings renovated annually due to administrative bottlenecks, skills shortages and limited municipal capacity. At the same time, the increase in VAT on heating and hot water from 9% to 21% and an increase in energy prices due to the conflict in the Middle East in 2026 are expected to further increase the housing cost overburden rate ([4]) and exacerbate affordability pressures, particularly for low-income households living in poorly insulated homes (see Annex 16).

EU funding instruments provide considerable resources to Lithuania. They support investments and structural reforms to increase competitiveness, environmental sustainability, skills, social fairness and security, while helping to address challenges identified in the CSRs. Key instruments include the Recovery and Resilience Facility (see Box 2) and Cohesion policy funds (see Box 3). In addition, the Common Agricultural Policy (CAP) provides Lithuania with an EU contribution of EUR 4 billion under the CAP strategic plan for 2023-2027 ([5]). A further EUR 518.8 million are available under the Asylum, Migration and Integration Fund (AMIF), together with the Border Management and Visa Instrument

([4]) This indicator should be read together with the tenure structure (homeowner, tenants), that may differ across country and regions.

([5]) An overview of Lithuania's formally approved strategy to implement the EU's common agricultural policy nationally can be found at https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/lithuania_en

Box 2: Key achievements of the Recovery and Resilience Plan

The Recovery and Resilience Plan (RRP) of **Lithuania** represents a total envelope of **EUR 3.841 billion**, corresponding to **5.22% of 2023 GDP**. It aims to support reforms and investments contributing to the green and digital transitions, strengthen economic resilience, and address long-standing structural challenges identified in the European Semester.

As of **5 May 2026**, **EUR 2.7 billion** (around **70%** of the total allocation) had been disbursed to Lithuania following the satisfactory fulfilment of 111 milestones and targets. Implementation has progressed steadily, with a growing number of reforms and investments already completed and delivering tangible results on the ground.

Highlights and impact of the plan

- **Securing energy independence.** The installation of 200 MW of electricity storage capacity helped to ensure the security and stability of energy supply during the synchronisation of the Lithuanian grid with continental Europe in February 2025.
- **Reorganisation of the school network.** Legislative amendments set new requirements for municipalities regarding school size, the operation of joint classes, reorganisation procedures, and funding. These amendments are part of a wider effort to modernise and improve the quality of general education.
- **Millennium School Programme.** This flagship initiative in Lithuania targets 150 schools across 80% of municipalities and aims to reorganise infrastructure and improve teacher competences. As of late 2024, 270 schools were involved in the programme.
- **Green industrial transformation**. A dedicated financial instrument provides EUR 850 million in loans to businesses to develop green and high value-added technologies for industrial development.
- **Expansion of renewable energy.** Nearly EUR 550 million in loans is directed towards private entities for the development of solar and wind power plants, and installation of energy storage facilities, complemented by REPowerEU reforms to improve the investment environment for renewable energy developers.
- **Digital and health infrastructure.** The plan prioritises the roll-out of 5G networks, the digitalisation of public administration, and the improvement of healthcare services, notably by setting up health centres in municipalities and the infectious disease clusters.
- **Improved tax compliance.** Lithuania capped cash payments at EUR 5 000, which will help curb the shadow economy.

(BMVI) and the Internal Security Fund (ISF). Other EU programmes also support competitiveness in Lithuania, for instance through open calls under Horizon Europe and the Connecting Europe Facility.

Box 3: Contribution of cohesion policy funds

EU cohesion policy funding is supporting Lithuania's efforts to boost competitiveness, environmental sustainability, skills and social fairness. In the 2021-2027 programming period, EU cohesion policy funds ([6]) are providing EUR 6.3 billion (amounting to EUR 6.9 billion paired with national co-financing), or 8% of 2024 GDP, to Lithuania. This makes cohesion policy one of the main sources of public investment in the country. The value of selected projects corresponded to 95.3 % of the total allocation as of March 2026, with additional calls for projects in the pipeline.

- **Innovation, business environment and productivity.** Over EUR **1.3 billion** is allocated for research and innovation, SME competitiveness, and regions most affected by the transition away from carbon-intensive activities. Around 4 200 firms have already seen their projects approved.

- **Decarbonisation, energy affordability and sustainability.** EUR **1.7 billion** is dedicated to improving energy efficiency in housing, public buildings, industrial firms and district heating systems, and to increasing energy production from renewable energy sources (RES). The number of consumers producing electricity from RES ('prosumers') already reached more than half of the 2030 national target of 300 000 prosumers.

- **Skills, quality jobs and social fairness.** Under the European Social Fund Plus (ESF+), EUR 226 million is allocated to active labour market policies, EUR 188 million to education, including inclusive education for vulnerable children, almost EUR 178 million to healthcare and long-term care, EUR 175 million to social services and de-institutionalisation, EUR 99 million to combating child poverty and EUR 64.5 million to lifelong learning. In addition, EUR 79.5 million is allocated to addressing material deprivation.

The mid-term review ([7]) reinforced cohesion policy's contribution to emerging strategic priorities in Lithuania, reallocating EUR 619 million. Two thirds of the reallocations support the defence and security industry, civil preparedness and military mobility along the EU's main corridors. The mid-term review also strengthens competitiveness through support for critical technologies, resilience of water and energy infrastructure and development of social housing. In addition to cohesion policy funding, Lithuania will be allocated up to EUR 663 million under the Social Climate Fund over 2026-2032 to help mitigate the social impact of the new emissions trading system (ETS2), supporting vulnerable households and small businesses.

([6]) European Regional Development Fund, European Social Fund Plus, Cohesion Fund and Just Transition Fund.

([7]) The mid-term review is carried out halfway through the 2021-2027 programming period. It is a formal process required under Article 18 of the Common Provisions Regulation that aims to assess the implementation of programmes and, where necessary, propose adjustments to improve their performance, ensure their relevance in light of new and emerging needs and keep them aligned with other EU policies.

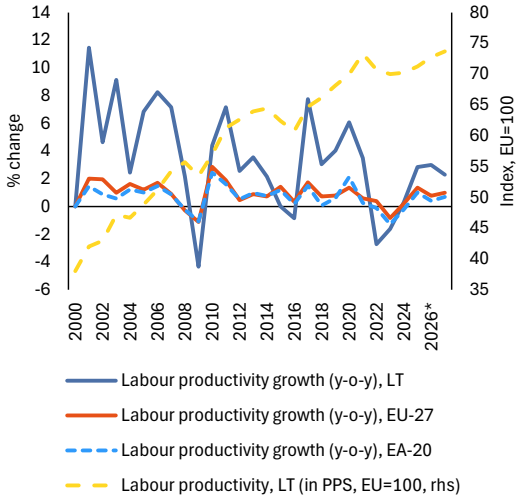
INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

In 2025, Lithuania received country-specific recommendations focused on (i) facilitating investment in R&D and supporting innovative capacity, (ii) reviewing and streamlining existing tax incentives for R&D, (iii) improving business-science linkages and optimising the university network, (iv) incentivising enrolment in post-secondary education in science, technology, engineering and mathematics (STEM) fields and (v) improving access to finance for small to medium-sized enterprises (SMEs). Lithuania has taken some measures to improve access to finance, mobilise savings and expand public support for R&D and innovation. However, overall progress remains moderate, as a key reform to streamline R&D tax incentives is still pending, and recent changes to the pension system may weigh on the availability of long-term investment capital. Additionally, substantial efforts are needed to strengthen business-science linkages and increase STEM enrolment, especially among women.

Sustaining productivity growth through higher value-added activities

While labour productivity in Lithuania remains below the EU average, the gap continues to narrow. At 70.4% of the EU average in 2024, labour productivity (GDP per hour worked, in purchasing power standards (PPS)) is comparatively low in Lithuania (Graph 2.1). While multiple crises caused a temporary decline in hourly productivity in 2022 (-2.7%) and 2023 (-1.6%), growth resumed in 2024 (0.3%) at a higher rate than the EU average (0.2%). The 2022-2023 dip in productivity can be partly attributed to labour hoarding during the recent economic downturn, as firms retained workers in a structurally tight labour market. Combined with a double-digit wage growth amid high inflation, this resulted in a sharp increase in unit labour costs per hour worked, which rose by 14.9% in 2022 and by 12.2% in 2023. In 2024 and 2025, the increase in unit labour costs per hour was more moderate: 5.6% and 6.1%, respectively (AMECO).

Graph 2.1: **Labour productivity**



(1) Productivity level: GDP per hour worked in PPS (index, EU-27=100); growth rates: annual growth of real GDP per hour worked.
(2) Values for the years 2025-2027 are forecasted.
Source: AMECO

Behind these aggregate trends, productivity growth varies substantially across sectors. The large manufacturing industry (accounting for 20% of total economy gross value added) has been a key driver of productivity growth in Lithuania, with strong increases in labour productivity (on average 6.8% per year) in the past decades (Eurostat). The sectors of administrative and support services, transport, construction and professional services also contributed to aggregate productivity growth. By contrast, the energy sector, despite strong productivity

gains, has seen its share in value added reduced in the last two decades, while labour productivity in financial services has fallen sharply mainly due to changes in tangible non-ICT capital.

As Lithuania nears the income levels of more advanced EU economies, increasing productivity growth will hinge on a continued shift towards higher value-added activities. The proportion of medium-high- and high-technology manufacturing in industrial production increased from around 14.4% in 1999 to 25.9% in 2025 (1.9% to 5.9% for high-technology manufacturing alone). At the same time, medium-low- and low-technology manufacturing still represent 35.1% and 39% of production, respectively (2025) (State Data Agency). Moreover, while the combined proportion of information and communication, financial, and professional, scientific and technical services in Lithuania's gross value added has increased from 11% to 18% in the past decade, exports are still dominated by manufacturing (Eurostat). This suggests there is further scope to reallocate resources towards higher value-added sectors, while strengthening the role of knowledge-intensive services in the export base.

Accelerating innovation via stronger science-business links and better incentives

Lithuania is increasing public investment in R&D, but structural bottlenecks limit private investment and knowledge transfer. Lithuania continues to develop its research and innovation system in view of the 2025 country-specific recommendation (CSR) on 'facilitating investment in R&D and supporting innovative capacity'. Public R&D investment is on track to meet national targets, and new initiatives have broadened the policy mix and expanded support for innovative firms (see Annex 4). In the last few years, the government has also mandated a shift towards more integrated and effective R&D financing via the smart specialisation strategy (S3), which was renewed under the Recovery and Resilience Facility and cohesion policy and covers areas such as life sciences, photonics, semiconductors, artificial intelligence and dual-use technologies. To maximise its impact, S3 could benefit from a smaller number of more in-depth areas, anchored in existing capabilities. Business investment in R&D, meanwhile, remains at less than one third of the EU average, as R&D tax incentives remain difficult to access for SMEs and innovative firms, commercialisation of science is limited, and the institutional set-up for R&D support faces inefficiencies.

Although Lithuania provides generous R&D tax incentives, their uptake remains limited, particularly among smaller firms that are not yet profitable. In order to 'review and streamline existing tax incentives for R&D' (2025 CSR), a reform has been proposed by the Ministry of Economy and Innovation to simplify the application process for tax-based support and provide *ex ante* approvals to companies engaged in R&D activities (see Annexes 3 and 4). If taken forward, this could help to reduce administrative barriers for companies eligible for the scheme and provide legal certainty regarding eligibility, thereby strengthening incentives to engage in R&D activities. There is also scope for Lithuania to fine-tune tax incentives to better support young firms that are still loss-making, for example by making these incentives refundable or by allowing them to be offset against a broader range of tax liabilities.

Fragmentation of the higher-education and research landscape continues to weaken business-science linkages. The structure of the higher-education and research landscape remains fragmented, limiting the ability of Lithuania to achieve critical mass and compete internationally on innovation. The 2025 CSR called for 'reinforcing institutional and structural capacity of higher-education institutions and research institutes in particular through improving the university network to foster business-science linkages'. However, linkages between science and industry have further deteriorated, with the country now ranking last in the EU in public–private scientific co-publications relative to

total publications, and public expenditure on R&D financed by business enterprises standing at one third of the EU average (see Annex 4). Lithuania plans to carry out a comprehensive performance evaluation of the entire public research base, i.e. universities, colleges, and research institutes. However, this exercise will begin in 2028. Building on the recovery and resilience plan (RRP) measure that created the legal framework for potential university mergers, providing universities with incentives (including financial ones) for enhanced institutional cooperation and strategic consolidation where appropriate could help address fragmentation, strengthen research excellence and enhance business-science linkages. Lithuania's current intellectual property (IP) regime allows shared ownership between universities and businesses. However, businesses are not always aware of this flexible regime, which hinders science-business cooperation.

Institutional fragmentation and governance inefficiencies continue to affect the delivery of research and innovation (R&I) support. Despite a reform in the RRP to optimise the institutional framework for delivering public R&I support, including the establishment of the Innovation Agency, process inefficiencies persist due to shared responsibilities between the Research Council of Lithuania (RCL) and the Central Project Management Agency across the funding cycle. Coherence and efficiency could be improved by strengthening the RCL's operational capacity with a view to developing a more integrated one-stop-shop approach for researchers and further adjusting the institutional set-up in the post-2027 period.

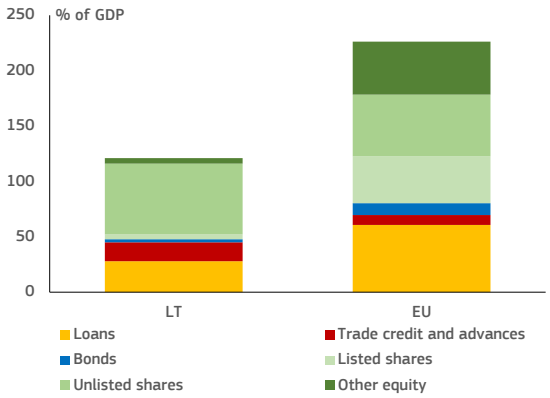
Lithuania continues to face a shortage of enrolments in STEM fields, hindering the country's innovation capacity. The 2025 CSRs for Lithuania highlighted the need to 'incentivise enrolment in post-secondary education in science, technology, engineering and mathematics (STEM) fields', given their critical role in supporting the country's innovative capacity. Despite Lithuania having one of the highest tertiary educational attainment rates in the EU, the enrolment in STEM domains is 25%, below the EU target of 32%, contributing to a reduced share of graduates in science and engineering (see Annexes 4 and 13). Furthermore, there are large gender disparities in the field, with women comprising only 27.3% of STEM students at tertiary level, compared to the EU average of 32.2%. Lack of enrolment is intensified by the rural-urban educational divide, as rural students tend to perform worse in mathematics and science, have limited access to quality education and resources, and show higher rates of early school leaving. Such disparities exacerbate the ongoing talent shortage within STEM areas (see Section 4). To address this challenge, Lithuania has continued several initiatives, such as additional scholarships to support students in regions outside Kaunas and Vilnius. Efforts to improve enrolment rates and address the STEM gender gap would be key, as well as tackling the high dropout rates through targeted measures and incentives. These actions could help overcome skills shortages and strengthen Lithuania's innovative capacity and competitiveness.

Improving SME financing by mobilising savings for investment, deepening capital markets and strengthening financial intermediation

Lithuanian firms strongly rely on internal funding and private equity, and continue to face financing constraints. Despite some progress on the 2025 CSR to 'improve access to finance for small and medium-sized enterprises including by stimulating competition in financial services and participation in financial markets by facilitating the use of savings for investment', Lithuanian companies rely on internal funding such as retained earnings and asset sales to finance their operations and investments more than their EU peers. In 2025, 51% of SMEs identified internal funds as a primary source, compared to an EU average of 28% (see Annex 6). The share of finance-constrained firms improved to 10.4%, yet an 18% underinvestment gap persists, as many firms

report insufficient investment activity over the last three years.

Graph 2.2: **Lithuania continues to rely more on internal funding and private equity than on external financing**



Source: Eurostat (end-2024)

Bank financing options for SMEs continue to be limited, due to high market concentration and risk aversion, despite recovery in credit growth. Restrictive lending conditions and structural inefficiencies continue to pose challenges for the Lithuanian economy. The banking industry remains among the most concentrated in the EU, with the top five institutions representing over 90% of the market, significantly higher than the EU average of 51%. While the sector is robust, boasting a capital adequacy ratio of 22.6% (above the EU average of 20.2%) and the highest liquidity coverage in the EU, banks convert a smaller proportion of deposits into loans compared to peers due to risk aversion and structural factors (see Annex 6). Despite these barriers, credit growth showed an upward trend over 2024-2025, as lending standards eased, in response to the European Central Bank's policy normalisation. Consequently, annual credit growth for non-financial corporations reached 19.5% in November 2025. Nevertheless, the ratio of bank loans to GDP remains among the lowest in the euro area at 36.1%, compared to an EU average of 72.5%. Addressing these challenges by stimulating competition in financial services and incentivising the banking sector to deploy its substantial liquidity towards productive investment remains essential for easing borrowing constraints and sustaining economic momentum.

Capital markets remain underdeveloped despite retail-focused reforms. External financing is tilted towards unlisted shares, reflecting the dominance of private equity over public listings due to a shallow domestic capital market. The market capitalisation of the Nasdaq Vilnius Stock Exchange remains extremely small at just 6.2% of GDP (compared to the EU average 67.9%), with only 25 listed firms, while the stagnant debt market continues to be dominated by government securities. On a positive side, corporate loan portfolios have grown, although they remain modest relative to the government bond segment. The potential for further deepening the market remains underutilised. Supporting additional initial public offerings of state-owned enterprises could serve as an important catalyst to improve liquidity, increase the overall size of the capital market, and broaden diversification opportunities for domestic investors.

Targeted measures and institutional support aim to attract household savings into the capital market, though their impact on market depth has yet to materialise. The lack of depth in the capital market results in limited local investment opportunities for households, whose participation remains modest, therefore limiting the opportunities from savings for investments. To address this, the government launched a new investment account in early 2025, aimed at 'encouraging participation in financial markets by facilitating the use of savings for investment' (2025 CSR). In line with the Guidelines for Capital Market Development 2023-2025, the national promotional bank (ILTE) has also launched new guarantees for corporate bond issuances to bypass collateral constraints, and the EUR 50 million Baltic Capital Market Acceleration Fund. By investing in new shares and bonds, this joint initiative by ILTE and Altum aims to bolster liquidity and Nasdaq Baltic listings over the next decade. While these initiatives represent progress in broadening the range of financial instruments and modern investment tools, their overall effectiveness in overcoming the historical reliance on internal financing remains to be fully seen as the measures continue to

mature, with remaining scope to provide legal certainty and align regulatory requirements to economic realities in order to deliver tangible results. While ILTE's mandate and capital are expanding, its focus should remain on addressing structural funding gaps and market failures to ensure that its support complements that of the commercial financial sector.

The venture capital ecosystem is the fastest-growing in the region but remains reliant on public support and faces scale-up funding gaps. The Lithuanian venture capital sector continues to show strong growth potential, maintaining its position as the fastest-growing start-up ecosystem in the Baltic region. The combined enterprise value of local start-ups grew 7.1 times between 2019 and 2024, and in 2025 alone, these companies raised EUR 220 million. However, the sector remains small and heavily dependent on public co-funding, with government agencies providing approximately one third of sourced capital while private equity investments relative to GDP (0.3%) still lag behind the EU average of 0.5%.

The 2025 pension reform allowing opt-outs and withdrawals from private pension funds is likely to reduce the level of savings in Lithuania and could reverse the fragile progress in the development of Lithuanian capital markets. These policy choices diverge from the approach recommended in the 2025 CSR to improve access to finance for SMEs by facilitating the use of savings for investment (see Annexes 2 and 6). Early signs of withdrawal rates indicate that the reform significantly reduces the stock of patient capital (i.e. capital that can be invested over the long term) managed by pension funds, which exceeded EUR 10.6 billion as of December 2025. By eliminating auto-enrolment, the reform undermines the mechanisms for rebuilding pension-fund capital following withdrawals. According to the data collected by the Bank of Lithuania, the participation rate of employees in the second pillar pension system decreased by around 38% during the first quarter of 2026. This resulted in EUR 2.8 billion being paid out to savers and EUR 1.3 billion in incentive contributions returned to Sodra, reducing pension funds' assets under management by approximately 41%. This has further reduced already limited pension savings (12.2% of GDP) and the role of pension funds as providers of long-term capital and, in turn, negatively affects access to finance for businesses. The potential positive impact of amendments to the Law on Supplementary Voluntary Pension Accumulation and the Law on Pension Accumulation, which widen the range of eligible pension-fund investments (including unlisted company securities), has a weak basis to materialise in the near term, as the two-year withdrawal window is expected to place pension funds under significant liquidity pressure. Lithuania could benefit from reviewing its pension system to increase investment-based savings, including through enhanced participation mechanisms.

Modernising public procurement while tackling single bidding

Lithuania improved its public procurement system through centralisation and professionalisation efforts; however, the proportion of contracts awarded to single bidders remains high. Supported by RRP reforms, in 2025, centralised procurement purchases accounted for 35.9% of contracts and 50.4% of total contract value, marking a substantial shift from previous years and demonstrating the increased role of the national Central Purchasing Body (see Annex 5). Additionally, the network of central purchasing bodies expanded significantly, making procedures more efficient. In addition, Lithuania made progress in moving away from award criteria based on price alone: the share of contracts awarded on this basis decreased from 82% in 2023 to 73% in 2024. However, challenges remain as 42.3% of procurement contracts are awarded following a single bid, exceeding the EU average of 30%.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

In 2025, Lithuania received country-specific recommendations (CSR) focused on (i) further reducing reliance on fossil fuels and imported energy, (ii) ensuring sufficient capacity in and access to the electricity grid and faster deployment of renewable energy, (iii) making buildings more energy efficient to reduce energy poverty, (iv) taking action to phase out non-targeted fossil-fuel subsidies, (v) increasing resource productivity to progress towards a circular economy, (vi) transforming and decarbonising industrial production and (vii) increasing the uptake of public and sustainable transport. Lithuania has made some progress in implementing these CSRs, including on renewable energy deployment, grid reforms and support for industrial decarbonisation. However, overall progress remains moderate. Structural bottlenecks continue to hinder further reductions in fossil-fuel use and import dependence. Implementation challenges persist in energy efficiency, with barriers continuing to slow building renovation and energy poverty still insufficiently addressed, while progress in phasing out fossil-fuel subsidies remains limited. At the same time, weak resource productivity, slow progress towards a circular economy and remaining challenges in industrial transformation weigh on decarbonisation. Structural issues in the transport sector, including high car dependency, slow electrification and limited public transport integration, are further delaying the shift to sustainable transport.

In response to rising energy prices linked to the 2026 crisis in the Middle East, Lithuania temporarily reduced excise duties, released oil and petroleum reserves as part of a coordinated international action, discounted rail tickets and restricted fuel price adjustments at petrol stations. While these measures aim to cushion the impact of higher energy prices, broad-based measures such as fuel tax reductions may weaken incentives for energy savings and fossil-fuel substitution. Going forward, support should remain temporary and targeted at vulnerable households and the most exposed firms, while limiting fiscal costs and preserving the clean energy transition.

Renewable energy deployment is advancing, but electricity-system constraints remain

Lithuania has made progress in deploying renewable energy and advancing reforms for the clean energy transition. As Lithuania progresses towards the 2025 CSR to 'further reduce reliance on fossil fuels', renewables accounted for 35.4% of final energy consumption in 2024, well above the EU average of 25.2%. In the electricity sector, the share of renewable electricity consumption reached 48.9%, exceeding the EU average of 47.5%, while renewables represented 70.6% of domestic electricity generation (see Annex 9). This growth has been driven by the expansion of onshore wind and solar capacity. By 2025, Lithuania had already met or exceeded most of its 2030 solar and onshore wind targets, with further renewable capacity expansion planned through to 2030. Lithuania has also taken steps to facilitate renewable energy deployment through reforms streamlining permitting procedures and facilitating the development of renewables acceleration areas.

Lithuania has reduced its dependence on electricity imports in 2025 compared to 2024. In 2025, net electricity imports

represented 30.7% of final electricity consumption, down from 46.9% the previous year. This improvement is driven by increased domestic generation capacity, enhanced system flexibility, and ongoing grid infrastructure upgrades that enable better integration of renewable energy sources. However, Lithuania was still the fourth-largest net importer of electricity in the EU in 2025, and these imports continue to expose the country to external price fluctuations in European electricity markets and potential supply disruptions. To 'further reduce reliance on imported energy' (2025 CSR), Lithuania plans to reach renewable electricity self-sufficiency by 2028 through offshore wind capacity in the Baltic Sea. Progress has been delayed by an unsuccessful procurement process in 2025, reflecting adverse market conditions.

Lithuania is strengthening the resilience and integration of its electricity system, domestic transmission infrastructure and storage capacity. There has been some progress towards the 2025 CSR on 'ensuring sufficient capacity in and access to the electricity grid with a view to maintaining a fast pace of deployment of renewable energy'. The 2025 synchronisation with the Continental European Synchronous Area allows the Baltic countries to manage their electricity systems independently and improves frequency stability and regional energy security. However, this has temporarily reduced Lithuania's electricity interconnectivity level with neighbouring Member States to 21.5%, as the LitPol Link interconnector with Poland is currently dedicated to synchronisation rather than cross-border trade. Strengthening cross-border connections is important to restore trading capacity and support system flexibility. Lithuania is developing projects to strengthen interconnection capabilities. The expansion of the Kruonis pumped hydroelectric power plant will bring its total installed capacity close to 1 010 MW by the end of 2026. Additional investments in storage are also supported under Lithuania's recovery and resilience plan. This will improve storage capacity and the system's ability to balance variable wind and solar generation.

However, challenges remain in the capacity of distribution grids as decentralised generation continues to grow. The number of prosumers reached 170 000 in 2025, a 37% increase compared to 2024, increasing demand for grid connections. Smart meter deployment is progressing, with 90% of businesses and 66% of households equipped, but the EU target of 80% household coverage has yet to be achieved. Further investments in grid infrastructure will be needed to accommodate a growing decentralised generation capacity and ensure reliable connections for both businesses and prosumers.

Despite moderate average wholesale electricity prices, Lithuania faces persistent imbalances between electricity and gas prices and remains vulnerable to peak-hour price spikes. In the first half of 2025, energy prices in Lithuania remained imbalanced, with electricity significantly more expensive than gas for both industry and households. In 2025, wholesale electricity prices in Lithuania were near the EU average, but limited system flexibility led to significantly higher peak-hour price spikes (Annex 9).

Progress on energy efficiency improvement remains too slow and energy poverty persists

Implementation of energy efficiency measures, including renovation of the building stock, advances slowly. There has been limited progress on the 2025 CSR on 'making buildings more energy efficient to reduce energy poverty'. While energy consumption has declined in industry (by 12.2% since 2019) and, to a lesser extent, in transport (by 3.5%), it has increased in the residential (by 3.8%) and services (by 1.4%) sectors. In 2024, final energy consumption increased by 5.1% to 5.5 Mtoe, continuing a rising trend observed since 2019 and putting Lithuania off track to meet its 2030 target. Rising residential energy use is driven by an expanding housing stock and a growing floor

area, which have outweighed efficiency gains from renovation measures. Buildings account for around 40% of total final energy consumption. Accelerating renovations is thus key to reducing energy demand and improving energy security. Lithuania has scaled up support for building renovations through grants and loans, including substantial Recovery and Resilience Facility (RRF) funding. However, limited access to financing, labour shortages, and weak project-development capacity slow down implementation and limit progress. The draft national building renovation plan aims to establish a predictable pathway towards an energy-efficient and decarbonised building stock.

Poor energy efficiency and dependence on fossil fuels pose an affordability challenge. Energy poverty remains a concern, with some 146 000 households affected according to Lithuania's estimates. Heating and cooling account for 79% of residential final energy consumption. Around 157 000 households still rely on gas for heating. Despite growing adoption of heat pumps, higher electricity prices, compared to gas, continue to discourage households from switching. Lithuania's planned programmes for renovating multi-apartment buildings and detached homes under the draft social climate plan are expected to reduce energy poverty. However, further strengthening of the renovation support framework, alongside adjustments to price signals, will be needed to meet the country's 2030 targets and ensure that energy efficiency improvements reach the most affected households.

Progress in phasing out fossil-fuel subsidies remains limited. Lithuania has taken steps to address the 2025 CSR 'to phase out non-targeted fossil-fuel subsidies, notably ones for heating'. The authorities have adjusted energy taxation, including by abolishing the reduced VAT rate for residential heating, hot water and firewood, starting in January 2026, and by increasing excise duties on certain fossil fuels. However, a further increase in these excise duties has been put on hold due to concerns about cross-border fuel purchases. Several support measures that lower the cost of fossil-fuel consumption remain in place, including reduced excise duties on natural gas used for heating and preferential tax treatment for gas oil used in fishing and agriculture. Strengthening incentives for clean and affordable energy transition relies on further efforts to assess and gradually phase out non-targeted fossil-fuel subsidies.

Persistent car dependency drives up already high emissions, stalling the transition to sustainable transport

Transport emissions and car dependency remain persistently high. Some steps have been taken to address the 2025 CSR on 'increasing the uptake of sustainable transport', but fossil-fuel-based road transport continues to dominate Lithuania's transport sector, accounting for 44% of the country's effort sharing emissions in 2024, a 41% increase compared to 2005 levels. A major reform on e-tolling for heavy vehicles has been delayed, hindering the uptake of green heavy vehicles. Private transport is characterised by extreme car dependence, with 92.1% of passenger journeys made by car (Annex 8). Furthermore, not only is the number of passenger cars increasing, but Lithuania's fleet also remains among the oldest and most polluting ([8]). The adoption of cleaner alternatives remains slow, as newly registered battery-electric vehicles accounted for only 5.9% of the market in 2024, well below the EU average of 13.6% (Annex 8). The roll-out of public and private charging stations is supported by the RRF, but the uptake of public stations remains low.

Efforts to promote sustainable transport are under way, but fiscal and structural barriers are stalling the green transition. Through the RRF and the Modernisation Fund, Lithuania supports the purchase of electric vehicles. It has required all 60 municipalities to

([8]) In 2024, over 27% of cars were at least 20 years old, while 63.4% remained diesel-powered.

prepare plans for public charging infrastructure. However, the lack of an annual car pollution tax remains a significant hurdle as the current one-time registration fee encourages owners to keep older, high-emission vehicles rather than trading them in. While an integrated travel-planning and single-ticket system for public transport is being developed, it is not expected until the end of 2028 (Annex 8).

Efforts to green and integrate public transport aim to reduce regional disparities, though the modal shift remains slow. While the RRF and cohesion policy are actively supporting the roll-out of electric and hydrogen buses, public transport accounted for only 7.9% of passenger journeys in 2025. This leaves room for Lithuania to address the 2025 CSR on 'increasing the uptake of public transport'. A key RRF-funded reform of the inter-urban mobility system is currently being rolled out to facilitate connectivity between regional hubs. Its impact on passenger uptake remains to be seen. The infrastructure challenges are compounded by Lithuania's low population density in rural areas, which complicates the viability of traditional transit models. To mitigate regional disparities, reduce transport poverty and ensure access to essential services like education and health, the social climate plan introduces innovative measures such as transport-on-demand and 'mobility wallets', specifically designed to reach underserved and rural populations (Annex 18).

Rail transport continues to present untapped potential for decarbonisation. In 2023, rail journeys accounted for 1% of all passenger travel, the second-lowest share in the EU. This contrasts sharply with the freight sector, where rail remains a strength, handling 37.2% of transport, compared to the EU average of 5.5%. Despite this, the network's environmental impact is limited due to the very low electrification rate of 8.1% (EU average: 57.6%). The electrification of the Kaišiadorys-Klaipėda railway line – supported by Cohesion Fund investment, supplemented by RRF funding for the Radviškis-Klaipėda section – is expected to improve this. However, the slow roll-out of infrastructure tolls that reflect the external costs of heavy-duty vehicles remains an unaddressed challenge for the sector's overall sustainability (Annex 8). The Rail Baltica project, essential for shifting traffic from road to rail, faces soaring costs, with completion now delayed until at least 2030.

Limited circularity and resource productivity as well as nature degradation weigh on industrial competitiveness

The transition to a circular economy hinges on advancing recycling, improving resource productivity and increasing the use of circular materials. Progress towards the 2025 CSR on 'increasing resource productivity to progress towards a circular economy, by focusing on resource efficiency' has been limited. The successful reduction in landfilling (only 8% of municipal waste sent to landfill in 2023, compared to the EU average of 22%) has been achieved largely owing to the deployment of municipal waste incineration. However, progress on reuse and recycling has stalled and treatment remains concentrated in the lower levels of the waste hierarchy. Resource productivity in Lithuania is two times lower than the EU average and the fourth-lowest in the EU, impacting industries' resource efficiency and production costs. The circular material use rate is three times lower than the EU average and has stagnated at the same level for the past 10 years. At the same time, Lithuania strongly depends on raw material imports. The circular economy strategy, adopted in 2023, outlines priority actions: boost demand for secondary materials, advance treatment in line with the waste hierarchy and improve governance and traceability of materials. Implementation, however, has been slow.

Industry is not a major source of emissions in Lithuania, but its emission intensity is nearly twice the EU average. Both a national strategy outlining policy and

investment objectives and a funding mechanism for a clean industrial transition are missing; so far, progress has largely relied on EU funding. Efforts towards 'the transformation and decarbonisation of industrial production' focus on key sectors, such as fertilisers, oil refining, and cement, through electrification, hydrogen deployment, efficiency improvements, and carbon capture. The CCS Baltic Consortium, a project of common interest, exemplifies cross-border carbon capture infrastructure supporting this transition. Industrial transition could be coupled with a shift to a more circular economy, especially in packaging, construction materials and bioeconomy value chains.

Nature degradation poses significant risks to Lithuania's economy and competitiveness, with water resources being particularly vulnerable. Lithuania's supply chains are more dependent on ecosystem services than the EU average. Overall, 41% of Lithuania's economy is highly dependent on ecosystem services for its gross value added. In sectors such as agriculture, forestry, fisheries, mining, construction and healthcare, 100% of gross value added is directly dependent on ecosystem services. Meanwhile, annual benefits of ecosystem restoration and maintenance in Lithuania (EUR 1.1 billion) largely outweigh the annual costs (EUR 80.3 million). Degradation of water resources is of particular concern. Lakes, rivers and coastal waters are polluted, with barely a third achieving a good ecological status due to agricultural run-off, urban pollution and nutrient flows, contributing to the Baltic Sea's eutrophication.

Lithuania faces lower climate-change risks than most EU countries, but targeted adaptation and investment are needed to boost resilience. At 2%, Lithuania has one of the lowest rates of insurance coverage for extreme weather events – the main climate-change risk it is exposed to. The EU average is 19%. According to recent estimates, Lithuania will need to invest almost EUR 481 million per year until 2050 in adaptation measures, such as ecosystem restoration and investments in infrastructure and the food sector, with the transport network especially vulnerable to climate change (Annex 10). Nature-based solutions are particularly needed – to enhance adaptation and mitigate nature degradation. Lithuania is taking some steps to improve climate adaptation governance by: (i) adopting a national climate change adaptation plan for 2024-2030 (annexed to the national energy and climate plan); (ii) reforming the Fiscal Governance Law to integrate climate risk assessment into the budgetary planning of government-authorised institutions; and (iii) preparing a national Climate Change Adaptation Law to strengthen adaptation governance. Under the climate change adaptation plan, Lithuania has already allocated EUR 612 million to adaptation measures for infrastructure (27% of the total allocation). Building resilience and preparedness will require complementary incentives and support to unlock the necessary resources and investment decisions.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Lithuania's 2025 country-specific recommendations (CSRs) focused on (i) improving primary care and healthcare services, (ii) addressing shortages of health professionals, (iii) providing adequate financing for healthcare and social protection, (iv) addressing income inequality, poverty and social exclusion, (v) improving the design of the tax system, (vi) improving access to and quality of social housing, (vii) increasing the adequacy of old-age pensions, (viii) improving the quality, equity and efficiency of education, (ix) increasing the attractiveness of the teaching profession, (x) increasing the labour market relevance of higher education, (xi) promoting the acquisition of green skills, (xii) improving adult learning, and (xiii) increasing the coverage of active labour market policies (ALMPs). Lithuania has taken some measures to improve access to healthcare, including the roll-out of health centres, to increase the adequacy of social benefits and pensions, to improve the design of the tax system, to increase the enrolment in science, technology, engineering and mathematics (STEM), to promote the acquisition of green skills, and to improve adult learning for vulnerable groups. However, there is still room for improvement in these and other policy areas.

Addressing these challenges could help Lithuania boost upward social convergence. The second-stage analysis in line with the Social Convergence Framework points to challenges for Lithuania that may affect social convergence in relation to its labour market, education and skills, as well as its social situation ([9]).

Improving skills development throughout all stages of education and training to address skills shortages and stagnating productivity

Equity challenges and significant urban-rural disparities persist as major weaknesses in the education system. While average performance in basic skills has remained overall stable, Lithuania faces an urban-rural achievement gap that exceeds the EU average, partly due to a high number of small schools suffering from teacher shortages. Rural areas struggle with lower enrolment in early childhood education and care (ECEC) and weaker educational outcomes. To 'improve the quality, equity and efficiency of the general education system, particularly addressing the urban-rural achievement gap' (2025 CSR), Lithuania has expanded funding for vulnerable pre-primary and higher education students. Efforts to rationalise the school network, supported by the recovery and resilience plan (RRP), have started to deliver results: schools participating in the Millennium Schools Programme outperform those that do not (see Annex 13). The programme has improved inclusion, student well-being, and learning environments. However, recent regulatory changes allowing smaller classes to be formed in gymnasiums in smaller towns risk stifling progress. The rationalisation of education networks, the 2023 skills-based

([9]) European Commission, SWD(2026) 122. The analysis relies on all the available quantitative and qualitative evidence and the policy response undertaken and planned.

curriculum, and the expansion of inclusive education all have significant potential to improve the quality, equity and efficiency of education. Yet, these reforms require changes to staff training and practice, consistent implementation across schools, further evaluation of education quality and spending efficiency and strengthening data-based decision making.

Teachers are central to developing the skills of the future workforce, yet the teaching profession faces persistent shortages. The ageing of the teaching profession is particularly concerning, even more so as new survey results reveal that around half of young teachers intend to leave the profession within five years. Shortages are especially acute in rural areas, as well as in STEM and foreign languages. In order to 'increase the attractiveness of the teaching profession and to address persistent shortages and ageing in the workforce' (2025 CSR), Lithuania has taken positive measures to further increase salaries, attract new entrants and improve teacher induction training. However, factors related to working conditions continue to impact teachers' well-being and their retention, including in ECEC. Compared with the EU average, salary satisfaction remains low alongside significantly higher working hours. Specific training needs remain unmet (see Annex 13). The attractiveness of the teaching profession would benefit from further targeted measures, including making initial teacher education more appealing and improving both entry routes and working conditions.

Lithuania has advanced the acquisition of green skills. To 'address the skills mismatch via promoting the acquisition of green skills' (2025 CSR), Lithuania has made substantial progress by embedding green skills in competence-based general education curricula, and by continuing the implementation of the RRP measures on the update of vocational education and training (VET) programmes and the adult learning platform kursuok.lt (see Annex 13).

Low VET attractiveness and STEM education gaps drive labour shortages in key sectors, hampering Lithuania's efforts to increase productivity. VET remains insufficiently attractive, contributing to labour shortages in certain sectors such as transportation and storage, water and waste management, as well as some occupations in construction (see Annexes 11, 13 and 16). Although the overall vacancy rate remains lower than the EU average, certain key transition and growth sectors already face or are forecast to face labour shortages, notably STEM fields (including information and communications technology). This is further exacerbated by low enrolment and high dropout rates in STEM tertiary education, relatively low labour market absorption of graduates, and low participation of women (see Section 2 and Annex 13). The recent tightening of immigration rules and reduction of quotas, while aiming to address national security concerns, could further exacerbate the shortage of labour. At the same time, the country lacks a holistic view on the long-term integration of foreign labour force. All these factors risk further hindering labour productivity in the country, which lags behind the rapid increase in wages in recent years, despite a rebound in 2025 (see Annex 11). Further efforts are thus needed to increase labour productivity, including by improving the education system's alignment with labour market needs and strengthening career guidance in schools (for example by integrating VET job shadowing and employer visits), accelerating digitalisation and making better use of upskilling and reskilling mechanisms, as well as through holistic support for long-term integration of foreign workers.

Efforts are being made to improve the labour market relevance of higher education, but outcomes will take time to materialise. To 'increase the labour market relevance of higher education' (2025 CSR), Lithuania has implemented reforms supported by the RRP that aim to reshape the higher education landscape. It has benefited from the Technical Support Instrument to improve the quality and the labour market relevance of education and training. However, improved outcomes are only expected as from 2028 (see Annex 13).

Increasing the participation in adult learning and improving the labour market relevance of adult learning offers is essential to support upskilling, reskilling and growth in Lithuania. To 'address the skills mismatch via improving adult learning including for unemployed people, low-skilled people and other vulnerable groups' (2025 CSR), Lithuania has prioritised these groups for access to state-funded credit for learning offers on the individual learning accounts (ILAs) platform www.kursuok.lt (see Annex 13). However, it remains to be seen if these changes will increase participation rates for these population groups. At the same time, there is still scope to increase overall participation in adult learning and improve the labour market relevance of the courses offered through the ILA system (see Annex 13).

Addressing the insufficient capacity for labour market activation and the shrinking labour force

The unemployment rate has decreased but remains high, with significant regional disparities, exacerbated by the underperforming and underfunded labour market activation system. While the employment and activity rates are constantly increasing, the unemployment rate remains above the EU average (6.9% vs 6% in 2025). Significant regional differences in unemployment underscore that opportunities for labour market integration are uneven, with some counties and municipalities bordering Russia and Belarus being particularly vulnerable (see Annexes 11 and 19). In order to 'increase the coverage of active labour market policies, including through improved incentives to participate' (2025 CSR), Lithuania has reformed the unemployment benefit system to address the high unemployment trap and strengthen incentives to participate in the labour market, but it is too early to assess the effect of this reform. The EUROMOD simulation shows varying results across different households and earning levels (see Annex 11). While the country has expanded the network of regional career centres and is rolling out a debt counselling system for those outside the labour market, it is too early to assess the impact of these measures on ALMP coverage. The ongoing RRP measure on the acquisition of high value-added qualifications and competences has proven highly effective in terms of labour market integration, and Lithuania could benefit from continuing the measure also after 2026. At the same time, demand for ALMPs consistently exceeds the allocated budget, which is also unsustainably dependent on EU funds. Due to rising costs of ALMPs, ALMP participation and coverage went down significantly in 2025 and is expected to diminish even more in 2026 (see Annex 11). Therefore, the need to ensure adequate and sustainable financing and coverage of ALMP measures remains pressing.

Adverse demographic trends and a recent slowdown in labour migration pose long-term challenges to the country's competitiveness, underscoring the need to improve the activation of under-represented groups. The surge in immigration (mainly from Belarus and Ukraine) substantially increased the working-age population (15-64) between 2021 and 2024. Nevertheless, the working-age population is forecast to start shrinking this year, at one of the fastest rates in the EU (see Annex 11). This risks exacerbating labour and skills shortages, with further negative spillover effects on growth and pension system sustainability. The situation also calls for efforts to improve the activation and integration of under-represented groups, including young people and persons with disabilities, whose labour market situation is worrying. The rate of young people (15-29) not in employment, education or training remains above the EU average (12.4% vs 10.9% in 2025). Among them, the share of inactive people and of people aged 15-19 and 20-24 is particularly high, signalling the potential benefits of expanding outreach and prevention efforts, including via the framework of the reinforced Youth Guarantee (see Annex 11). Persons with disabilities are also experiencing structural barriers to entering the labour market, reflected by very low employment

levels. This suggests that the 2023 and 2024 reforms on their integration into the open labour market and the one-stop-shop model for disability assessment offer scope for further improvement (see Annexes 11 and 12).

The low rate of collective bargaining hinders further progress on wage growth and job quality. Lithuania has experienced one of the fastest rates of wage growth in the EU in recent years, which together with the relatively low prevalence of part-time and temporary employment (including among women) contributes towards improving job quality in Lithuania. At the same time, the in-work poverty rate increased in 2024 and 2025, especially among young people (18-24), signalling that there is still room for improvement in terms of wage levels. The very low collective bargaining rate in Lithuania hinders workers' bargaining power and is one of the remaining barriers to a faster growth of wages and overall job quality (see Annex 11). In addition to traditional capacity-building measures, Lithuania is also planning amendments to its laws to address this, but the shape and impact of such planned adjustments remain to be seen.

Improving services and addressing workforce shortages in healthcare and long-term care, including through adequate and sustainable funding

Lithuania's healthcare system is characterised by suboptimal funding. To 'provide adequate financing for healthcare' (2025 CSR), Lithuania has increased spending per inhabitant, but it still remains below the EU average. Outpatient care receives the largest allocation, accounting for nearly one third of health expenditure. Lithuania has consistently underinvested in the health sector, recording some of the lowest levels of health infrastructure investment per capita in the EU. Furthermore, transfers from the National Health Insurance Fund are not sufficient to cover the full demand for and costs of healthcare services. This limited funding of healthcare infrastructure and services has contributed to poor health outcomes, including low life expectancy and a high treatable and preventable mortality rate. A reform of the healthcare funding mechanism could be considered to increase funding adequacy.

Progress has been made to strengthen Lithuania's long-term care (LTC) system and improve care outcomes, but more is needed. Lithuania is developing an integrated LTC model, aiming to provide a one-stop-shop basis for organising, delivering and financing LTC services. However, it is not expected to be completed until after 2027, subject to adequate and sustainable financing. The current spending on LTC, which stands at only 1% of GDP (EUR 343 million in 2020), is below the EU average of 2.2%. By strengthening access to affordable high-quality LTC, including in remote areas, and developing a comprehensive and integrated LTC system, Lithuania could reduce unmet needs for LTC and improve care outcomes.

Lithuania's healthcare system continues to face significant challenges. These include limited access to primary care, particularly in remote areas, high unmet medical needs, long waiting times and substantial out-of-pocket spending. In response to the 2025 CSR to 'make the health system more resilient [...] by strengthening access to primary and preventive care and increasing the availability of health workers', Lithuania has made some progress by setting up health centres across municipalities. However, health outcomes remain among the worst in the EU. Life expectancy in Lithuania is 77.5 years in 2024, 4 years below the EU average. Many deaths in Lithuania are from illnesses that could have been treated or prevented, with 163.3 deaths per 100,000 people from treatable conditions and 264.8 deaths per 100,000 people from preventable conditions in 2023, significantly higher than the EU averages of 86.8 and 150.9 respectively. Households in Lithuania face one of the highest out-of-pocket healthcare costs in the EU, with 31.4% of all healthcare spending coming from individuals in 2024, compared to around 15% in the rest of the EU in 2023, underscoring the need for targeted

action to strengthen primary and community-based care.

The shortage of health and LTC professionals is a pressing concern. Lithuania has only 3.4 practising doctors per 1 000 inhabitants (EU average: 3.9). At the same time, both the population and the workforce are ageing, increasing demand and raising significant concerns over workforce renewal, particularly among nurses. In 2022, over half of Lithuania's nurses were aged over 55, while fewer than 20% were under 44. 34% of doctors are aged 55 or over. Staff shortages are also high in LTC: Lithuania has only 1.2 LTC workers in employment per 100 people aged 65 and over, well below the EU average of 3.3. The uneven geographical distribution of medical professionals and underdeveloped public transport (see Annex 12) further limit access to care, with remote areas being particularly affected. Working in these areas is often unattractive due to lower salaries and more challenging working conditions. While Lithuania intends to attract and retain health professionals, including over 1 600 specialists across 53 municipalities by 2029, the shortage remains a challenge.

Addressing income inequality, poverty and social exclusion, including through adequate and sustainable funding

Further efforts are needed to address persistently high income inequality and poverty, and wide regional disparities. In order to 'address income inequality, poverty and social exclusion, including via increasing the coverage, adequacy and effectiveness of the social protection system, improving the design of the tax system and improving access to and quality of social housing' (2025 CSR), Lithuania has adopted an RRP-based minimum income reform on benefit indexation, increasing child maintenance and other benefits, as well as an income tax reform (see Annex 12) and an unemployment insurance reform (see Annex 11). While the income tax reform introduced more progressivity in taxation, the impact of these reforms on poverty and income inequality is expected to be rather incremental. In the meantime, the already high levels of poverty and income inequality have increased, especially with regard to vulnerable groups (e.g. persons with disabilities, who face the highest risk of poverty and social exclusion in the EU) and in the more remote regions, including the ones bordering Russia and Belarus. These challenges are exacerbated by persistently uneven access to social services across municipalities, unsustainable reliance on EU funds for their financing, and the lack of comprehensive data and effective centralised monitoring (see Annex 12). The social services which are funded from municipal budgets remain uneven across municipalities, do not fully match actual demand, and are often characterised by long waiting times and insufficient municipal funding (see Annex 12). The weaknesses in the local assessment and provision of social services are compounded by the lack of comprehensive local-level data, a centralised database and an effective centralised monitoring system. This limits oversight, planning and management of social service provision across the country. Lithuania has earmarked considerable EU funds to improve access to and quality of social housing, but these efforts will only address the issue to some extent, while waiting times and the number of people waiting for social housing remain very high (see Annex 16).

Older people (65+) continue to face high poverty and social exclusion, which could be exacerbated by the rapidly ageing population. In order to 'address income inequality, poverty and social exclusion also via increasing the adequacy of old-age pensions, while maintaining the sustainability of the pension system' (2025 CSR), Lithuania has continued to increase old-age pensions, including through the 2022 pension indexation reform under its RRP. However, the adequacy of pensions remains relatively low, whereas the reform of the second-pillar pension scheme, notably the move to an opt-in model and expanded withdrawal possibilities, is expected to materially reduce participation and may weaken future pension adequacy.

The projected rapid ageing and the related shrinking of the working-age population risk increasing the old-age dependency ratio, underscoring the need to find sustainable ways to ensure pension adequacy (see Annex 12).

Government spending on social protection remains low, hindering the impact of social transfers on poverty reduction. The social protection system in Lithuania is characterised by low adequacy of pensions and social benefits, and persisting gaps in social protection coverage. In order to 'provide adequate financing to social protection' (2025 CSR), Lithuania has adopted a minimum income reform that improves the indexation mechanism of social benefits. The reform commits Lithuania to increase spending on social benefits, which is significantly below the EU average, resulting in low adequacy of social transfers, limiting their impact on poverty reduction. However, the effects of this reform are yet to be seen, while increasing poverty and income inequality rates call for further efforts. In order to ensure that the needs of the most vulnerable groups are adequately supported, it is necessary for Lithuania to ensure appropriate resources for social protection, as well as for developing and providing social services, including for addressing material deprivation. Furthermore, there is scope to expand community-based services for persons with disabilities to better support the right to independent living.

KEY FINDINGS

In areas **covered by existing country-specific recommendations**, Lithuania would benefit from:

- **raising tax revenues** by increasing taxes less detrimental to growth, improving tax compliance, simplifying and rationalising special tax regimes, and continuing efforts to phase out non-targeted fossil-fuel subsidies;
- **strengthening intermunicipal cooperation** by providing institutional support and incentives for the provision of shared public services and for attracting investments to regions;
- **enhancing access to finance** by addressing structural barriers to lending, increasing the number of initial public offerings of state-owned enterprises and strengthening supplementary pension schemes to increase investment-based savings;
- **improving business-science linkages** by addressing the fragmented university network and streamlining existing tax incentives to facilitate private investment in R&D and support innovative capacity;
- **supporting energy system integration** by accelerating offshore wind deployment and investments in the distribution grid, strengthening system flexibility and restoring cross-border connections;
- **improving housing quality and energy efficiency** by accelerating renovations, thereby reducing energy demand and housing costs;
- **advancing industrial transformation and circularity to strengthen economic competitiveness** by promoting decarbonisation of industrial production, improving resource efficiency, increasing the use of circular materials and developing recycling and recovery capacities;
- **decarbonising transport** by accelerating the electrification of the public and private car fleet and rail infrastructure, completing Rail Baltica, and improving the coordination and attractiveness of public transport;
- **fostering upward social convergence by addressing skill shortages,** in particular by increasing the attractiveness of vocational education and training, improving participation in and labour market relevance of adult learning, increasing the coverage of active labour market policies, and enhancing the integration of persons with disabilities, foreigners and other under-represented groups;
- **promoting human capital development by improving the education and training system,** including by addressing the urban-rural achievement gap, incentivising enrolment in science, technology, engineering and mathematics, particularly for women, increasing the attractiveness of the teaching profession, and retaining new entrants;
- **improving the quality and accessibility of public services** by providing adequate financing and improving funding models;
- **improving health outcomes** by strengthening primary community-based care, addressing shortages of health and long-term care professionals,

particularly in remote areas, and developing an integrated long-term care system;

- **addressing income inequality, poverty and social exclusion** by increasing the coverage, adequacy and effectiveness of the social protection system, improving access to social housing and its quality, and increasing the adequacy of old-age pensions, while maintaining the sustainability of the pension system.

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ANNEX 1: CSR IMPLEMENTATION

Table A1.1: **CSR implementation and Commission assessment**

Lithuania faces challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs). Lithuania was recommended, among other things, to reinforce defence spending while ensuring fiscal sustainability, enhance SME financing and regional innovation, accelerate the green transition and energy independence, strengthen healthcare resilience and social equity, and improve education and labour market alignment.

The Commission has assessed the degree of implementation of the 2025 CSRs considering the policy action taken by Lithuania to date*. To do so, the Commission has taken into account the information provided by Lithuania in its Annual Progress Report as well as other information sources. This annex provides summary information on the policy actions taken or planned by Lithuania for each CSR. More detailed information on these actions is included in the relevant chapters and other annexes of the report.

**CSR 2 is not assessed in CeSaR. RRP implementation is monitored through the assessment of RRP payment requests and analysis of the bi-annual reporting on the achievement of the milestones and targets, to be reflected in the country reports. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.*

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
1.1 Reinforce overall defence and security spending and readiness while ensuring debt sustainability in line with the European Council conclusions of 6 March 2025.	Total general government defence expenditure in 2026 is projected at 2.9% of GDP, corresponding to an increase of 0.5 ppt. compared to 2024.	Total general government defence expenditure in 2027 is projected at 3.5% of GDP, corresponding to an increase of 1.0 ppt. compared to 2024.	Substantial Progress
1.2 Adhere to the maximum growth rates of net expenditure recommended by the Council on 21 January 2025, while making use of the allowance under the national escape clause for higher defence expenditure.	Cumulated deviation in 2025 amounted to 1.5% of GDP and is only partially explained by the NEC flexibility (1.2 pps. of GDP). Cumulated deviation in 2026 projected at 2.2% of GDP and is only partially explained by the NEC flexibility (1.5 pps. of GDP).		Limited Progress
1.3 Provide adequate financing for healthcare	Lithuania has increased the health insurance contribution paid by the state for persons insured at its expense from EUR 773.9 to EUR 781 per person.		Limited Progress
1.4 [Provide adequate financing for] social protection	Lithuania has taken initial steps to increase funding for social protection by adopting a reform of social benefit indexation.		Some progress
1.5 [Provide adequate financing for] general public services	Lithuania concluded a binding collective agreement on wage-setting for general government employees.		Limited progress
1.6 Improve tax compliance	Lithuania has strengthened tax collection by adopting measures laid down in its RRP: upgrading IT systems, including real-time VAT reporting, introducing automated transaction data reporting and e-receipts, new cash registers, limiting cash payments and providing training for civil	IMF technical assistance to help reduce the size of the shadow economy and the value-added tax (VAT) gap, as well as improve tax administration and collection.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	servants.		
1.7 Broaden the tax base to sources less detrimental to growth	In 2025, Lithuania adopted a tax package, that included raising revenues through measures that are less detrimental to growth, including a levy on non-life insurance premiums, an excise on sugar-sweetened drinks, a reduction of VAT tax exemptions, changes in taxation of immovable property, and further increases in excise duty rates on ethyl alcohol and alcoholic beverages, tobacco products, and their alternatives.		Some Progress
3.1 Improve access to finance for small and medium-sized enterprises including by stimulating competition in financial services and participation in financial markets by facilitating the use of savings for investment	Introduction of the Investment Account regime and the Capital Market Development Guidelines Launch of the 50 million Baltic Capital Market Acceleration Fund; Strategic Private Credit Co-Investment: Lithuania has launched a €191.6 million initiative in partnership with the European Investment Fund (EIF). Amended Law on Supplementary Voluntary Pension Accumulation introduces significant changes to the investment framework by expanding eligible asset classes and establishing a new regime for derivatives. Law on the Accumulation of Pensions abolishes automatic enrolment, introduces broader exit possibilities including full withdrawal in exceptional health cases and during a 2026–2027 transitional window, allows partial or early withdrawals under specified conditions. Amendment to Government Resolution No. 910, strengthens ILTE's mandate, and creates the conditions for more streamlined administration of state- and EU-funded financial instruments	The government is injecting €412 million into the national development bank (ILTE) to reach a total capital of €800 million by 2026 and enabling it to raise additional capital on the market. A comprehensive market gap assessment is planned to better calibrate and target interventions As of early 2026, Lithuania is enshrining the ESAP into national law. This creates a centralized digital platform for SME financial data, directly addressing the "information asymmetry" and "poor documentation" issues that remain a primary cause of SME loan rejections.	Limited Progress
3.2 Facilitate investment in R&D and support innovative capacity,	New support initiatives launched: nationally funded measures in AI aimed at SMEs and different measures in the Cohesion programme (STEP, procurement,	Plan to establish national AI factory	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	AI) Lithuania is on track to meet its national target for public R&D investment.		
3.3 including by reviewing and streamlining existing tax incentives for R&D,	N/A	Proposal for reform to simplify R&D tax incentives initiated by MoE (ex-ante certification of initiatives which qualify for R&D exemptions), but it did not yet pass the government vote.	Limited Progress
3.4 reinforcing institutional and structural capacity of higher education institutions and research institutes in particular through improving the university network to foster business-science linkages	N/A	Preparing for 2028 exercise to evaluate performance of whole public science base.	Limited Progress
3.5 and incentivising enrolment in post-secondary education in science, technology, engineering and mathematics (STEM) fields.	Lithuania continued several initiatives in 2025 dedicated to address the shortage of talent in STEM, notably the STEM scholarships initiative.	N/A	Some Progress
3.6 Address regional disparities by improving the legal and institutional framework to promote intermunicipal cooperation and development of local clusters in order to attract investments to regions	Late-December amendments to the Public Administration Law improving the legal and governance framework for inter-municipal cooperation for joint provision of services		Some Progress
3.7 and to improve provision of public services, including the coordination of public transport routes and modes.	Health reforms introduced a needs-based, state-funded municipal service model.	Travel planning and ticketing system is foreseen to be implemented as part of the Social Climate Plan, which should provide a more coordinated public transport solution and facilitate access.	Limited Progress
4.1: Further reduce reliance on fossil fuels and imported energy	Acceleration of domestic renewable electricity deployment: Overall installed renewable capacity at 6,200 MW (+36% vs 2024). Solar PV capacity reached 3.3 GW (+27% vs 2024). Onshore wind capacity reached 2.5 GW (+37% vs 2024). Expansion of decentralised renewable generation: growth in prosumers	Offshore wind deployment for renewable electricity self-sufficiency by 2030, following state aid approval (2023) for 700 MW with a 15-year CfD , although the 2nd tender (Jun - Oct 2025) was invalid.	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	to 170 000 in 2025 (+37% vs 2024). Expansion of energy communities (23 new ones in 2025; total 62).		
4.2 and ensure sufficient capacity in and access to the electricity grid with a view to maintaining a fast pace of deployment of renewable energy.	Reinforcement & modernisation of transmission infrastructure linked to synchronisation (although interconnectivity was temporarily reduced to 21% due to synchronisation). Advancement of network planning to address growing connection demand from decentralised renewable generation and storage. Expansion of system flexibility and storage capacity through development of the Kruonis pumped storage expansion.	Completion of the Kruonis pumped storage expansion (fifth unit, +110 MW), expected by end-2026. Development and/or planning of additional cross-border electricity interconnection capacity (Harmony Link with PL, reinforcement with LV, possible offshore interconnector with DE); and public consultations on additional system operation measures to increase the commercial electricity trade capacity of the LitPol Link interconnection.	Some Progress
4.3 Make buildings more energy efficient to reduce energy poverty,	Reinforcement of the building renovation framework in the context of the RRP (improved national coordination, enhanced digitalisation and better management of information). Increased funding for building renovations (with RRF and other sources of EU funding). Renovations of more than 500 buildings underway. Draft National Renovation Plan prepared.	Further implementation of building renovations under the reinforced framework. Measures for energy efficiency renovations are being included in the draft Social Climate Plan and National Building Renovation Plan.	Limited Progress
4.4 and continue to take action to phase out non-targeted fossil-fuel subsidies, notably ones for heating.	Abolished the reduced VAT rate for residential heating hot water and firewood starting in January 2026. The excise tax on certain fossil fuels has been increased, but further increase has been put on hold due to concerns about cross-border fuel purchases.	N/A	Limited Progress
4.5 Increase resource productivity to progress towards a circular economy, by focusing on resource efficiency	Landfilling successfully reduced surpassing the EU 2035 target mainly by investing in incineration capacity with energy recovery. Circular economy strategy 2035 adopted in the context of the RRP advancement in metrics on green public procurement.	Implementation of the Circular economy strategy 2035, but with no specific actions.	Limited Progress
4.6 and the transformation and decarbonisation of industrial production.	Modernisation Fund used to support industry decarbonisation through energy efficiency improvements, substitution of	National carbon capture and storage legislation planned for 2026, including provisions on regulatory governance,	Limited Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	polluting technologies and renewable energy deployment. Additional support from Cohesion Fund and the Just Transition Fund is provided to industrial installations to aid decarbonisation.	infrastructure ownership, third-party access and tariff design.	
4.7 Increase the uptake of public and sustainable transport.	Increase of excise duties, and Introduction of CO2 component in excise duties, gradually increasing until 2030. RRF and Modernisation Fund: Subsidies for individuals and legal entities for purchasing zero-pollution heavy vehicles and electric buses; introduction of VAT deduction on BEV purchases up to €50,000 Revision of the Law on Alternative Fuels implementing low-emission zones in cities with over 80,000 inhabitants and establishing LEZs in highly polluted areas. Increasing publicly accessible charging points to 4,800 points (15-fold since 2020); Electrification of the Kaišiadorys–Klaipėda train line is almost complete.	The goal is 6,000 points by 2030, with 43 charging pools along TEN-T corridors. Approximately 100 km of cycling infrastructure is implemented annually. Nine electric (EMU) and six battery-electric (BEMU) trains will enter service in late 2026. Rail Baltica: Construction is ongoing on the North-South axis, although it is heavily delayed due to high costs. Social Climate Plan: €440 million is planned for transport-sector measures (2026–2032)	Limited Progress
5.1 Make the health system more resilient and improve health outcomes by strengthening access to primary and preventive care and increasing the availability of health workers.	In 2025, Lithuania made some progress in improving healthcare services, including the continuous implementation of Health Centres in municipalities and introduction of new services in Mental Health Centres.	Ongoing implementation of the hospital network reorganisation reform. Consideration of a single-payer model for healthcare financing to reduce OOP payments Preparation of procedures for mobilisation actions of the National Crisis Management Centre and the Emergency Management Plan.	Some Progress
5.2 Address income inequality, poverty and social exclusion by increasing the coverage, adequacy and effectiveness of the social protection system,	Lithuania has reformed benefit indexation to reflect inflation and wage growth, increased child maintenance benefits and extended unemployment insurance for persons nearing retirement. Further amendments seek to broaden access to social assistance and reinforce labour market incentives.	Several initiatives, including labour-market and pay-transparency reforms, remain under preparation or pending implementation. Most measures will enter into force from 2026 onwards	Some Progress
5.3 improving the design of the tax system,	In June 2025, Lithuania amended the Law on Personal Income Tax, increasing the progressivity of	Lithuania plans to carry out a comprehensive review of the business regimes legal	Substantial Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
	personal income taxation, and also introducing unified progressive rates for many sources of income]	framework. Based on the results of the review, legal amendments should be adopted, which will also affect special tax regimes.	
5.4 improving access to and quality of social housing,	The Government earmarked EUR 126 million of European funds to build social housing for 3850 users (90M€ have been committed for 45 projects representing ca 2200 users. The projects are still ongoing). Adopted legislative amendments setting standards for social housing to ensure dignified living conditions.	Earmarking of EUR 35 million for social housing through the social climate fund. Continuation of the construction of the units of social housing. Law on "Support for Housing Acquisition and Rental" which will inter alia define decency criteria for social housing.	Some Progress
5.5 and increasing the adequacy of old-age pensions, while maintaining the sustainability of the pension system.	The 2026 budget foresees a 12% increase in the average old-age pension. The second-pillar pension scheme is being reformed, notably moving to an opt-in model and expanded withdrawal possibilities	A review of the State Social Insurance Reserve Fund (to be carried out in 2026-2027) is planned.	Limited Progress
6.1 Improve the quality, equity and efficiency of the general education system, particularly addressing the urban-rural achievement gap,	Establishment of The Subject Council to review and update the competence-based curriculum. Funding increases for non-formal education by EUR 5M (to a total of EUR 25M). Vilnius Municipal Council approved a rule that newly arrived children from non-EU countries must receive primary education in Vilnius municipal schools only in Lithuanian-language schools. Permitted small class sizes in schools with municipalities paying half the costs; no quality impact assessment was conducted.	Finalisation of the Millennium Schools Programme	Limited Progress
6.2 while increasing the attractiveness of the teaching profession to address persistent shortages and ageing in the workforce.	Increase in teachers' salaries by 8.41%. Established working group to focus on training and attracting teachers into shortage subjects. Two-year teaching programme option for HEI graduates via streamlined process.	Annual provision for competence enhancement opportunities for 500 school leaders and staff, focusing on STEAM, until 2028. Financial incentives and international development opportunities to attract professionals from other	Some Progress

(Continued on the next page)

Table (continued)

Recommendation text	**Main measures adopted or implemented** *By 30 April 2026*	**Preparatory steps/ credibly announced measures** *By 30 April 2026*	**Assessm. of progress**
		disciplines.	
6.3 Address the skills mismatch by increasing the labour market relevance of higher education,	Continued initiatives: STRATA's Human Capital Status Reports, study field evaluations by SKVC and RRP incentive-based funding	Preparations are being made for the 2028 performance evaluation of higher education institutions	Limited Progress
6.4 promoting the acquisitions of green skills	Implementation of competence-based curricula which is aligned with the European Commission's GreenComp framework. Supported SMEs in green transitions.	Effectively enhanced green skills acquisition by updating vocational education programmes.	Substantial Progress
6.5 improving adult learning including for unemployed people, low-skilled people and other vulnerable groups,	The following measures were introduced or improved: acquiring high value-added qualifications and competences (AHVQ), learning platform www.kursuok.lt, improvement of the access to vocational training for people with special needs and from disadvantaged socio-cultural context in the regions, measures for drop-outs from vocational training reduction. A pricing system was developed	KURSUOK system is going to be developed further	Some Progress
6.6 and increasing the coverage of active labour market policies, including through improved incentives to participate	In 2025, the country reformed its unemployment benefit system, aiming to increase the incentives for the unemployed to return to work. New counselling system for persons in debt, partial compensation of transportation costs for people participating in the active labour market policies, additional incentives for employers participating in the employment under an apprenticeship, subsidized employment.	Improving the targeting and effectiveness of Active Labour Market Policies. Simplification of documentation and improvement of participant selection criteria. 22 Regional career centres providing career planning services should operate by the end of 2026. Debt consultants have to complete 40 academic hours trainings.	Limited Progress

Source: Lithuania's reporting and Commission assessment

This annex discusses selected topics in public finances and developments on fiscal-structural country-specific recommendations (CSRs) addressed to Lithuania in July 2025. These CSRs include a call to increase defence spending and readiness while implementing a fiscal strategy in line with the Council Recommendation of 8 July 2025. Lithuania was also called on to provide adequate financing for healthcare, social protection and general public services, to improve tax compliance and to broaden the tax base to sources less detrimental to growth. On 8 July 2025, the Council adopted the Recommendation endorsing Lithuania's medium-term fiscal-structural plan ([10]), which includes a fiscal adjustment over four years. On 8 July 2025, the Council also activated the national escape clause for Lithuania in order to facilitate the transition to higher levels of defence spending ([11])([12]).

Developments in government balance, debt and public expenditure ([13])

At the end of 2025, Lithuania's government deficit was 1.8% of GDP and the government debt-to-GDP ratio stood at 39.5%. According to the Commission Spring 2026 Forecast, Lithuania's government deficit is projected to increase to 2.2% of GDP in 2026 and 2.7% of GDP in 2027. The main reasons for this are the projected increase in i) expenditure relating to national investments, ii) social spending, iii) intermediate general government consumption and public wages, and iv) interest expenditure. General government revenue is forecast to increase due to factors such as i) higher excise duties on polluting fossil fuels, ii) the abolition of the VAT exemption for central heating and hot water supply, iii) the introduction of a security contribution, iv) the increase in the corporate income tax rate, and v) the increase of excise rates on tobacco products and electronic cigarettes. However, the projected increase in revenue is not expected to fully offset the higher expenditure.

Lithuania has made limited progress in addressing the CSR to provide adequate financing for social protection and public services. Policy areas such as healthcare, social protection and general public services ([14]) remain underfunded: the current budget and the medium-term budgetary plan fall short of providing sufficient funding to address structural spending needs in these areas. Social protection expenditure stood at 14.7% of GDP in 2024, well below the EU average (19.6%) (see Annex 12). Low spending continues to limit the poverty-reducing impact of transfers, while gaps persist in the provision of social services due to the weakness in the current funding model. Although Lithuania finances some social services from the national budget and plans to introduce individualised social service baskets setting minimum funding levels, social services financed from municipal budgets remain uneven across municipalities, do not fully match actual demand, and are often characterised by long waiting times and insufficient municipal funding (see Annex 12). Healthcare is also underfunded, with public expenditure at 5.8% of GDP (EU: 7.4%) (see Annex 15). The funding model of healthcare institutions lacks effectiveness as revenues from health insurance contributions remain structurally insufficient to cover the demand for and cost of healthcare services, contributing to increasing deficit of the National Health Insurance Fund, debts of the healthcare institutions, unmet healthcare needs, difficulties in retaining healthcare staff, and one of the highest out-of-pocket payments for the patients in the EU, with pharmaceuticals and dental care each accounting for a third of these payments (see Annex 15). Spending on general public services, which covers

([10]) OJ C, C/2025/3959, 08.08.2025, http://data.europa.eu/eli/C/2025/3959/oj

([11]) OJ C, C/2025/3970, ELI: http://data.europa.eu/eli/C/2025/3970/oj

([12]) Compliance by Lithuania with the maximum growth rates of net expenditure recommended by the Council is assessed in COM(2026)200

([13]) Figures underpinning fiscal surveillance (net expenditure growth) are provided in the Fiscal Statistical Tables (SWD(2026)200) providing background data relevant for the assessment of the budgetary policies of the Member States.

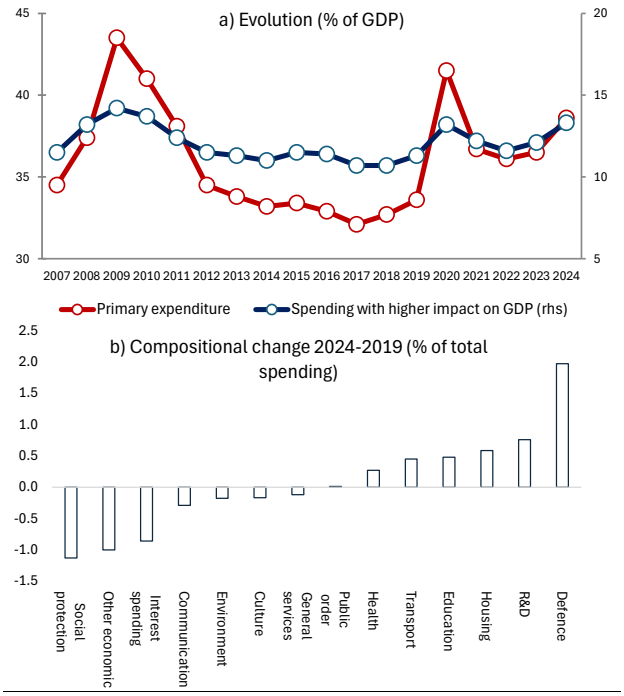
([14]) According to the COFOG classification, "general public services" refer to expenditure for the overall functioning of government, including central administration, legislative and executive bodies, fiscal and foreign affairs, public debt transactions and general transfers between levels of government.

the overall functioning of government, is similarly low, at 3.6% of GDP (EU: 6.1%).

Lithuania has made little progress in making its tax system more conducive to growth. The authorities have adopted a set of revenue-raising tax measures, many entering into force in January 2026 and linked to commitments under the recovery and resilience plan. These include i) reforming commercial and residential property taxation, ii) gradual increases in excise duties (e.g. on polluting fuels), iii) an introduction of a new tax on sweetened beverages, and iv) VAT base-broadening measures such as the removal of the reduced rate on heating (see Annex 3). While these measures broadened the tax base and somewhat increased tax revenues, taxation from sources least detrimental to growth – such as recurrent property taxes – remains among the lowest in the EU (see Annex 3). The recurrent property-tax reform increased the frequency of updates of cadastral values to better reflect market prices. However, high exemptions for primary residences and limited rate progressivity hinder its revenue potential. The tax system continues to allow arbitrage between employment, self-employment and certain forms of business (see Annex 3). As regards compliance, digitalisation and the widespread use of pre-filled returns have helped reduce the VAT gap to 13.2% in 2024. Challenges persist, however, and the shadow economy remains above the EU average (see Annex 3).

While expenditure with a higher impact on GDP remained broadly stable over three decades, it has slightly increased since 2019. This may be related to the impact of the Recovery and Resilience Facility, which allows for a more quality-based fiscal strategy. As regards the composition of spending, social protection accounts for the largest proportion of total expenditure (around 40%), followed by health education and economic affairs ([15]), each equal to or above 10% of total spending. Since 2019, there has been a substantial increase in public expenditure on defence, reflecting recent security developments (See Graph A2.3). Spending on research and development, housing, transport, health and education has risen more modestly. Despite sustained investment in education, there is still an urban–rural achievement gap, which is wider than the EU average (See Annex 13 for further details). By contrast, spending on communication has declined. This trend deserves attention, as this category is generally considered conducive to growth.

Graph A2.1: **Primary spending evolution and compositional change**



Source: Eurostat

Note: Based on economic literature, the categories considered to have the higher growth impact include education, research and development, health, transport and communication (See Barbiero and Cournede (2013), Gemmel et al. (2016), Lupu et al (2018), Cepparulo and Mourre (2020) and OECD (2025)).

Cost of ageing

Total ageing-related spending in Lithuania is projected to rise by about 2 pps of GDP by 2040, to around 18% of GDP, with a further 1.5 pp increase by 2070 (see Table A2.1)([16]). The overall increase is mainly the result of a projected rise in pensions, with smaller increases

([15]) This refers to the set of government activities, policies, and expenditures aimed at regulating, supporting, and developing economic activity across major sectors, including general economic and labour policies, agriculture and natural resources, energy, industry, construction, and other economic functions not elsewhere classified. Although transport and communication, as well as research and development activities, are normally considered part of this function, they are treated separately in the graph presented.

([16]) The projections are prepared based on the 2024 Ageing Report data.

Table A2.1: **Projected change in age-related expenditure in 2025-2040 and 2025-2070**

	ageing-related expenditure	change in 2025-2040 (pps GDP) due to:					ageing-related expenditure	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
LT	15.7	*1.9*	*0.4*	*0.3*	*-0.3*	***2.3***	18.0	**LT**
EU	24.3	*0.5*	*0.3*	*0.4*	*-0.3*	***0.9***	25.2	EU

	ageing-related expenditure	change in 2025-2070 (pps GDP) due to:					ageing-related expenditure	
		pensions	*healthcare*	*long-term care*	*education*	*total*		
LT	15.7	*2.3*	*0.8*	*0.9*	*-0.3*	***3.7***	19.4	**LT**
EU	24.3	*0.2*	*0.6*	*0.8*	*-0.3*	***1.3***	25.6	EU

Source: 2024 Ageing Report (EC/EPC).
Note: 2025, 2040, and 2070 projections are prepared based on the 2024 Ageing Report data.

in healthcare and long-term care expenditure. Total spending on ageing-related items is set to remain below the EU average.

Public pension spending as a proportion of GDP is projected to increase by around 2 pps over the next decades and to be more or less unchanged thereafter. At around 10% of GDP in 2070, gross spending on public pension benefits is expected to be lower than the projected EU average. In 2025, Lithuania received a CSR to increase the adequacy of old-age pensions, while maintaining the sustainability of the pension system. To address this CSR, Lithuania increased the old-age pensions in 2026 by, on average, around 12%. However, the reform of the 'second-pillar' pension scheme ([17]), i.e. the move to an opt-in model and expanded withdrawal possibilities since the beginning of 2026, is expected to reduce participation in this supplementary pension scheme and may undermine future pension adequacy.

Supplementary pension schemes can boost the resilience of the pension system by diversifying sources of retirement income. In Lithuania, however, there has been limited uptake: by the end of 2024, private pension assets amounted to around 12% of GDP while 76% of the working-age population participated ([18]). As mentioned above, the pension reform is expected to reduce participation in 2026 and 2027. This coincides with rising pressure on medium-term spending on public pensions and a projected decrease in the replacement rate by 2 pps between 2025 and 2040 (See Tables A2.1 and A2.2) ([19]).

Public healthcare expenditure is projected at 4.4% of GDP in 2025 (below the EU average of 6.6%) and is expected to increase by 0.4 pps by 2040 and by a further 0.4 pps by 2070.

Public expenditure on long-term care is projected at 1% of GDP in 2025 (below the EU average of 1.7%) and is expected to increase by 0.3 pps of GDP by 2040 and by a further 0.6 pps of GDP by 2070.

National fiscal frameworks

([17]) The second pillar is a supplementary pension saving scheme which is run by private-sector investment funds.

([18]) Source: OECD Pension Market in Focus 2025. The highest participation rate in at least one supplementary pension plan is reported.

([19]) The (gross) replacement rate refers, depending on data availability, to both public and private pensions. It is based on projections from the 2024 Ageing Report.

Table A2.2: **Supplementary pension schemes - Scope for expansion**

	Assets in 2024 (% GDP)	Gross replacement rate at retirement: (pps change 2025-2040)	Participation in 2024 (% working-age population)	
LT	12.2	*-2.0*	76.0	**LT**
EU	32.4	*-2.8*	55.9	EU

Source: European Commission.

Table A2.3: **Fiscal Governance Database indicators and Public Accounting Maturity**

2024	Lithuania	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	22.02	14.81
Medium-Term Budgetary Framework Index (MTBFI)	0.73	0.72
2025 Public accounting maturity of general government	85%	65%

(1) "The Country Fiscal Rule Strength Index (C-FRSI) shows the strength of national fiscal rules aggregated at the country level based on i) the legal base, ii) how binding the rule is, iii) monitoring bodies, iv) correction mechanisms, and v) resilience to shocks. The Medium-Term Budgetary Framework Index (MTBFI) shows the strength of the national MTBF based on i) coverage of the targets/ceilings included in the national medium-term fiscal plans; ii) connectedness between these targets/ceilings and the annual budgets; iii) involvement of the national parliament in the preparation of the plans; iv) involvement of independent fiscal institutions in their preparation; and v) their level of detail. A higher score is associated with higher rule and MTBF strength. The score for public accounting reflects the degree of maturity in relation to the International Public Sector Accounting Standards (IPSAS). Countries with an accounting maturity of 70% or more in relation to IPSAS are deemed to apply accrual accounting. For more information, see the report on public accounting in the EU (COM(2025)746 and accompanying Staff Working Document SWD(2025)396)."

Source: Fiscal Governance Database, European Commission

The Budget Monitoring Department (BMD) of the National Audit Office of Lithuania (NAOL) is around the average size for an independent fiscal institution (IFI) and is active in many of the usual areas covered by IFIs. It uses its own internal forecast model to assess government forecasts before endorsement decisions. As part of the NAOL the BMD is able to enjoy the support of its 'mother institution'. However, this hampers the development of a proper identity as an IFI and impinge on its freedom to make recruitment and communication decisions. The BMD has undergone external evaluations.

Lithuania has made its public investment management considerably more efficient. "Lithuania 2050" outlines a long-term development vision rooted in spatial planning and is complemented by an integrated national progress plan, which presents 10-year financial ceilings broken down by source of financing (i.e. national, EU and other) and main user ([20]). In order to ensure that the plan is fiscally realistic and affordable, the Ministry of Finance plays a key role in coordinating the drafting and implementation of the plan. It is also involved in managing development programmes. All public investment projects, including public-private partnerships, exceeding EUR 1 million are prepared and appraised in accordance with the methodological rules laid down by the central project management agency, under the authority of the Ministry of Finance. Life-cycle costs are available for all projects. There is a standard methodology for estimating routine maintenance needs and costs, which is used to estimate life-cycle costs, but this does not yet form part of the decision-making process ([21]).

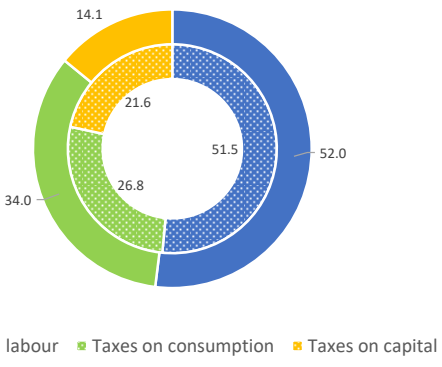
([20]) The 2021-2030 National Progress Plan was approved by Resolution No 998 of the Government of the Republic of Lithuania of 9 September 2020 on the Approval of the 2021-2030 National Progress Plan.

([21]) Belu Manescu, C, Cariou-Reynell E., and L. Dimitriadis, (forthcoming), Lessons learnt from public investment management reforms in the EU, ECFIN Discussion Paper Series.

This annex provides an indicator-based overview of Lithuania's tax system. It includes information on the tax mix, on competitiveness and fairness aspects of the tax system, and on tax collection and compliance. In the area of taxation, the 2025 country-specific recommendations for Lithuania highlighted challenges in improving tax compliance, broadening the tax base, improving the design of the tax system and streamlining tax incentives for R&D.

Lithuania's tax revenues are rising but meeting spending pressures and rising defence expenditure remains challenging. At 33% of GDP, revenues remained considerably below the EU average in 2024 (39.4%), despite increasing by 1.1 percentage points (pps) year-on-year. Just over half of Lithuania's tax revenues come from labour taxes, in line with the EU average (see Graph A3.1). However, this still leaves Lithuania's labour-tax revenue as a percentage of GDP significantly lower than the EU average. Taxes on capital as a percentage of GDP are only just over half of the EU aggregate. Revenues from consumption taxes and environmental taxes were close to the EU aggregate as a share of GDP but higher as a share of total taxation.

Graph A3.1: **Tax revenue by economic function in 2024, LT (outer ring) and EU-27 (inner ring)**



Source: Taxation Trends Data, DG TAXUD

Lithuania has reformed the tax system to raise revenue and to reduce variation in the taxation of different sources of income. These changes are linked to its country-specific recommendation to broaden the tax base and its recovery and resilience plan commitments to (i) remove certain tax exemptions and special tax regimes; (ii) make taxes more growth-friendly, and (iii) reduce income inequality and poverty. The new government adopted a set of tax reforms with a net revenue-raising effect, many of which entered into force in January 2026. These include the aggregation of some but not all types of income for personal taxation purposes, the introduction of more progressive personal income tax (PIT) rates, reforms to commercial and household property taxes, and a further rise in the corporate income tax (CIT) rate from 16% to 17%, and VAT reforms with a net base-broadening effect. The latter includes an increase in VAT on heating, hot water and firewood from a 9% reduced rate to the full 21% rate.

Despite these measures, the income tax system continues to offer tax arbitrage opportunities, e.g. between employment, self-employment, and some forms of incorporated business. The preferential CIT treatment for the smallest businesses also creates a cliff-edge effect and encourages tax-motivated incorporation and potentially underreporting. The government plans to reform the legal framework governing various business forms. Under the reformed recurrent property tax, the updating of cadastral values to market values is up-to-date and will be regularly updated. However, the exempt value for primary residences is high, which will continue to limit the revenue yield (see Annex 16).

Lithuania raises relatively little CIT revenue, although the headline rate has risen. In 2024, Lithuania's CIT revenues were equivalent to 2.5% of GDP, below the EU average of 3.1% and a fall of 0.2 pps compared with 2023. Lithuania's top statutory CIT rate increased from 16% to 17% at the start of 2026, though this is still below the EU-27 average of top statutory CIT rates (around 21%). The country's forward-looking effective CIT rate was 12.4% in 2025, the fifth lowest in the EU (the EU-27 average was around 19%). While the top statutory CIT rate has decreased from 29% in 1995, Lithuania's effective average tax rate was the same in 2024 as in 2002. Overall, Lithuania's relatively low CIT yield is now driven more by the statutory CIT rate than by tax expenditures.

Dividend income received by individuals in Lithuania is taxed at 15%, which is slightly below the top rate of capital-gains tax of 20% and well below the top income-tax rate of 32%. A special favourable regime with a 7% tax rate exists for some of the smallest companies, which can act as a distortive disincentive to the growth of firms. Lithuania also has special economic zones, where it offers firms

Table A3.1: **Taxation Indicators**

		Lithuania					EU-27				
		2019	2022	2023	2024	2025	2019	2022	2023	2024	2025
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	30.3	32.0	31.9	33.0		39.9	39.7	39.0	39.4	
By tax base	Taxes on labour (% of GDP)	15.3	16.0	16.3	17.1		20.6	20.1	19.9	20.3	
	of which, social security contributions (SSC, % of GDP)	9.6	9.9	10.2	10.6		13.0	12.7	12.7	13.0	
	Taxes on consumption (% of GDP)	11.5	11.6	10.9	11.2		11.2	10.9	10.5	10.6	
	of which, value added taxes (VAT, % of GDP)	7.8	8.4	8.0	8.1		7.1	7.4	7.1	7.1	
	Taxes on capital (% of GDP)	3.5	4.4	4.8	4.6		8.1	8.7	8.5	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	7.2	7.6	7.7	8.0		9.6	9.4	9.3	9.6	
	Corporate income taxes (CIT, % of GDP)	1.5	2.3	2.7	2.5		2.6	3.2	3.2	3.1	
	Total property taxes (% of GDP)	0.4	0.4	0.4	0.4		2.2	2.1	1.9	1.8	
	Recurrent taxes on immovable property (% of GDP)	0.3	0.3	0.3	0.3		1.2	1.0	0.9	0.9	
	Environmental taxes (% of GDP)	2.0	1.7	1.7	1.8		2.6	2.1	2.1	2.1	
	Effective carbon rate in EUR per tonne of CO_2 equivalents	na	na	61.8	na		na	na	84.8	na	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	33.4	31.5	31.4	30.3	30.8	32.4	31.6	31.5	31.5	31.6
	Tax wedge at 100% of average wage (single person) (*)	38.4	39.0	39.5	39.8	40.1	40.1	39.7	39.9	39.9	40.0
	Corporate income tax - effective average tax rates (1) (*)	12.4	12.4	12.4	12.4		20.0	19.2	19.0	19.3	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	5.8	7.7	7.7	7.4		7.8	8.0	7.9	7.8	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)	4.8	4.5	3.8	na		31.8	32.6	30.7	na	
	VAT gap (% of VAT total tax liability, VTTL) (**)	20.9	12.2	15.1	13.2		10.5	7.3	8.2	na	

(1) Forward-looking effective tax rate (KPMG).
(2) A higher value indicates a stronger redistributive impact of taxation.
(*) EU-27 simple average.
(**) Forecast value for 2024. EU-27 refers to the median value. For more data on tax revenues as well as the methodology applied, see the Data on Taxation Trends webpage.
Source: European Commission, OECD, ISORA.

a tax holiday for the first 10 years in which they conduct business and a 50% tax exemption in the following six years.

Lithuania provides quite beneficial tax treatment through a new system of saving and investment accounts. Reforms to second pillar pensions are though set to reduce the pool of savings available to finance domestic investment (see Annex 6). Lithuania has chosen to delay the application of some aspects of the EU's Pillar 2 Directive, which implements the OECD's initiative on a global minimum tax.

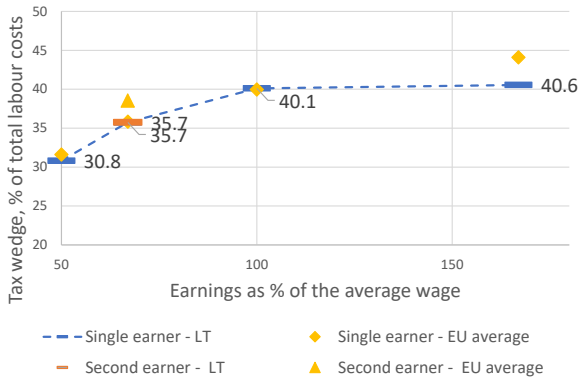
Lithuania has developed but not yet agreed proposals to reform the administration of its tax incentives for innovation. As discussed in Annex 4, R&D expenditure is relatively low in Lithuania. In the light of the 2025 country-specific recommendation on reviewing and streamlining existing tax incentives for R&D, Lithuania has drawn up proposals to clarify what spending is eligible for incentives and to simplify application and payment processes. If taken forward, this could help to improve the take-up of existing tax-based support schemes, especially among smaller firms. Lithuania is not currently taking steps to streamline the set of tax incentives or to re-orient support towards grants, which may more readily benefit start-ups that are not yet profitable.

Lithuania has reduced the labour tax wedge ([22]) at low earnings levels in recent years. Table A3.1 shows that the labour-tax wedge for Lithuania in 2025 was close to the EU average for all earnings levels except at high earnings where it was below the EU average. In particular, the tax wedge for single workers earning 50% of the average wage decreased from 33.4% in 2019 to 30.8% in 2025, below the EU average of 31.6%. Second earners at a wage level of 67% of the average wage, whose spouses earn the average wage, are subject to a tax wedge that is lower than the EU average (and equal to the tax wedge of single people at the same wage level; see Graph A3.2). Since 2019, the ability of the Lithuanian tax-and-benefit system to reduce the high level of market-income inequality (as

([22]) The tax wedge is an indicator of the tax burden on labour that can be assessed at various levels of earnings. It is defined as the sum of personal income taxes, employee and employer social-security contributions and other mandatory contributions, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Tax wedge data in the 2026 country reports are calculated by the Joint Research Centre of the European Commission and based on the EUROMOD model, while in the past country reports they were based on the OECD tax and benefit model. While the underlying methodology is very similar, differences in the assumptions can lead to different results between both models.

measured by the system's ability to reduce the Gini coefficient ([23])) has increased to 7.4 pps, remaining slightly below the EU average of 7.8 pps in 2024 (see Table A3.1). Tax changes coming into effect in 2026 include the introduction of a middle tax bracket of 25% between the existing lower 20% bracket and the top bracket of 32%. This is expected to increase tax revenue and the progressivity of the PIT system. Average effective tax rates for labour are somewhat higher than those for capital.

Graph A3.2: **Tax wedge for single and second earners as a % of total labour costs, 2025**



Note: The second earner tax wedge assumes a first earner at 100% of the average wage and no children. For the methodology of the tax wedge for second earners, see OECD, 2016, Taxing Wages 2014-2015.
Source: European Commission.

Lithuania reports tax expenditures annually, and breaks down the total into the main tax types and several individual exemptions. Generally speaking, tax expenditures as assessed in Lithuania's analysis and reporting are exceptions within the tax system. They take the form of allowances, deductions, exemptions, rate reductions and reliefs or tax credits, which affect the amount of tax paid. The budgetary costs of tax expenditures are only estimated for tax expenditures which are not mandatory under EU legislation. Depending on the tax, there can be multiple benchmarks defining whether something is considered a tax expenditure.

Overall, the methodology for defining a tax expenditure is quite broad. This is partly because it includes the non-taxable amount of personal income in the PIT tax expenditure figures. In the last State budget revenue report (covering 2023), tax expenditures were reported as amounting to EUR 3 490 million or 4.8% of GDP. Of this: EUR 528 million (0.7% of GDP) was tax expenditures in the VAT system; EUR 329 million (0.5% of GDP) tax expenditures in excise duties; EUR 855 million (1.2% of GDP) tax expenditures in the CIT system; and EUR 1 778 million (2.5% of GDP) tax expenditures in the PIT system. These headline tax expenditure estimates may not fully capture revenue foregone as a result of special regimes for income from different sources. Lithuania's VAT policy gap was estimated at around 35% of the notional ideal revenue in 2024, well below the EU median of around 47%.

Lithuania has a programme for assessing tax gaps but does not publish its own estimates ([24]). The State Tax Inspectorate (STI) assesses VAT and PIT gaps using different methodologies. Other tax gaps are not assessed. The PIT gap is assessed using STI's bottom-up methodology. The VAT gap is assessed using two top-down approaches (EC and IMF) and a bottom-up approach developed by the STI. The VAT gap is assessed partly with external support. The STI participates in the EC's annual, VAT gap assessment and also performs its own assessment using the EC methodology. With the exception of the Commission's published VAT gap, the other tax gap estimates are not published but are used internally.

VAT compliance and the shadow economy remain issues, though much tax administration is now digital. After a period of significant falls in Lithuania's long-elevated VAT compliance gap followed by an upward blip in 2023, it decreased to 13.2% in 2024. The size of the shadow economy in Lithuania is estimated to be above the EU average, with envelope wages remaining a significant issue. Lithuania offers electronic tax filing, which is widely used by taxpayers. Lithuania is one of the few EU Member States to provide pre-filling facilities for PIT, CIT (partial) and VAT returns. Tax arrears in Lithuania are well below the EU average and have fallen in recent years.

([23]) The Gini coefficient measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution. A coefficient of 0 expresses perfect equality where everyone has the same income, while a coefficient of 100 expresses full inequality where only one person has all the income.

([24]) European Commission, Directorate-General for Taxation and Customs Union, Mind the gap - 2025 report.

Through its recovery and resilience plan, Lithuania is continuing to implement a range of actions to strengthen tax administration and compliance. These actions include: (i) digitalisation projects; (ii) improving IT tools like taxpayer risk-profile assessments; (iii) the automatic collection of data on transactions; and (iv) training to improve the skills of tax and customs specialists.

A number of steps have been or are being taken to reduce the size of the shadow economy and make tax administration more efficient. These include measures to: (i) introduce electronic receipts; (ii) limit cash transactions; (iii) regulate the sale of used vehicles; and (iv) track alcohol sales. The i.KON system to automate monitoring and control of taxpayers, which was launched in 2022, is being upgraded. Lithuania has implemented a system to identify discrepancies in VAT returns and notify taxpayers in real time. Lithuania is conducting a technical assistance project with the IMF to help reduce the shadow economy and VAT gap and improve tax administration and collection.

Further development of Lithuania's innovation performance is hampered by the institutional and structural weaknesses of the public science base and the underfunding of the research and innovation (R&I) ecosystem. Lithuania has maintained its ranking as a 'moderate innovator' in the European Innovation Scoreboard. Its score on the Summary Innovation index has grown faster than the EU average since 2018 (+17.4% points vs +12.6% points for the EU), although it is still below the average for the moderate innovators group (81.0% of the EU average in 2025). The improvements are thanks notably to outstanding performances in venture capital expenditure and cloud computing. In 2024, Lithuania's R&D intensity maintained the same value as in 2023 (1.04% of GDP). Public R&D intensity has slightly increased from its historical low of 2022 and maintained the same value for the last two years (0.61% of GDP during 2023-2024). Business expenditure on R&D, at 0.43% of GDP in 2023 and 2024, dropped back from its historical high of 2021 (0.54% of GDP) and continues to be more than three times below the EU average. Public science base institutional and structural weaknesses hold back Lithuania's further development, research breakthrough and science-business cooperation. The 2025 country-specific recommendation (CSR) called on Lithuania to facilitate investment in R&D, highlighting in particular the need to improve the effectiveness of tax incentives for R&D and to address the fragmentation of the public science base with a view to fostering science-business linkages.

Excellent science

Public research base underfunding and fragmentation remain major obstacles to further improvement. The overall quality of Lithuania's scientific production still lags well below the EU average, although the country has made significant progress over the last decade. The share of scientific publications within the top 10% most-cited publications worldwide as a percentage of total publications stood at 5.52% in 2022 (EU average: 9.44%). Public expenditure on R&D as a percentage of GDP was slightly higher in 2023-2024 than in 2021-2022, although a decade ago Lithuania had registered even higher values ([25]). The recent increase is the result of implementing the 2021 national agreement to reach a level of public support for R&D from national sources equal to 1% of GDP by 2030. Since 2022, funding from national sources has increased progressively, and in 2024 reached 0.45 % of GDP, with a forecasted value of 0.51% for 2025([26]). This is combined with the allocation of these additional resources to the public science base. Lithuania is so far on track to implement its national target and the 2025 CSR on *facilitation of investment in R&D* as regards the funding of the public R&D sector.

The public research base lacks critical mass to reach excellence. As reflected in the 2025 CSR on improving the university network, Lithuania's public science base is fragmented, with 7 colleges, 11 universities and 11 research institutes. This fragmentation prevents Lithuanian public institutions from reaching critical mass, thus impeding production of higher quality breakthrough research and its commercialisation. Such a fragmented system is not competitive in the international research and higher education space, except in niche cases. Over the past decade, Lithuania has received the same advice from the OECD, the IMF ([27]) and the European Commission to consolidate research-performing institutions.

Fragmentation is addressed through a combination of structural reforms, regulatory measures and performance-based evaluations. Under its recovery and resilience plan (RRP), Lithuania has carried out a consolidation of colleges. This led to four mergers, consisting of three college-to-college mergers and one college merging with a university. As one more merger was carried out outside of the RRP, five mergers were performed in total. Lithuania has also set up under its RRP a legal framework for mergers among universities but has not allocated dedicated funding for this process. Funding mechanism is envisaged in case an institution initiates reorganisation and is subject to the Government or parliamentary decision. To date no

([25]) Eurostat, Public expenditure on R&D as % of GDP value 0.76 in 2015 vs 0.61 in 2024.

([26]) Lithuania's State Data Agency.

([27]) IMF, Republic of Lithuania Selected Issues 2025.

universities have announced any intention to merge. Starting in 2028, Lithuania plans to carry out a comprehensive performance evaluation of the entire public research base — universities, colleges, and research institutes. The assessment cycle will consist of two complementary exercises: (1) expert evaluations of R&D and artistic activities (conducted by the Research Council of Lithuania), and (2) institutional external evaluations (carried out by the Centre for Quality Assessment in Higher Education). The primary aim is to ensure a comprehensive view of higher education institutions' performance, covering both the quality of research/artistic outputs and the effectiveness of governance and internal quality assurance systems. The institutional external evaluation, based on the new model now in development, is planned to start after the completion of the R&D assessment, in 2029–2030. The process will continue with higher education network analysis planned for 2029, which will assess institutional performance efficiency, results of external evaluations, trends in performance indicators, and future development prospects. These processes are expected to introduce higher and clearer thresholds for R&D and study quality thus incentivising institutions to consolidate resources, build critical mass, focus on areas of strength and trigger reorganization processes where needed. The first steps toward implementation of the 2025 CSR on improving the university network are thus expected to occur in 2028.

Despite many policy initiatives, cooperation between business and research-performing institutions remains limited, hindered by the institutional and structural weaknesses of the public science base. Lithuania ranks last in the EU on public-private scientific co-publications as a percentage of the total number of publications ([28]). The financial flows from businesses to higher education and research institutions reach only a third of the EU average and show downward trend since 2014([29]). Overall business investment in R&D remains three times lower than the EU average too. Under the RRP, Lithuania is implementing three mission-based research and innovation programmes. These bring together public research institutions and businesses to achieve the common goals of developing breakthrough science and technologies, creating new products and services, and establishing spin-off companies. Three consortia will establish competence centres, which will continue to operate after the end of the RRP implementation period. Lithuania continues support programme for innovation and technology transfer offices in public research-performing institutions. The programme's aim is to promote knowledge transfer and commercialisation, bridge science and business, and develop entrepreneurship skills. The business PhDs programme has been strengthened with additional funding allocation to businesses, aiming to motivate to companies' participation. The intellectual property of knowledge created in joint projects can be flexibly administered and shared between scientists and businesses. However, not all potential business collaborators are aware of this flexible regime, so raising awareness would be warranted. Despite the positive developments mentioned above as highlighted in the 2025 CSR, institutional and structural weaknesses of the public science base remain a hindrance to developing stronger cooperation and synergies between public research institutions and businesses, preventing Lithuania from reaching its full innovation potential.

The institutional set-up for delivering public support to research and innovation is still experiencing inefficiencies. The Research Council of Lithuania and the Central Project Management Agency share responsibilities throughout the funding cycle, from call design to project selection and funding. This is a key reason for process inefficiency, accompanied by lack of administrative and expert capacity in the Research Council. For the Research Council to become a fully functional one-stop shop delivering high-quality support to researchers as the Innovation Agency does for businesses, it would be beneficial to strengthen its administrative and expert capacity in the short term and to further adjust the institutional set-up post-2027.

Business innovation

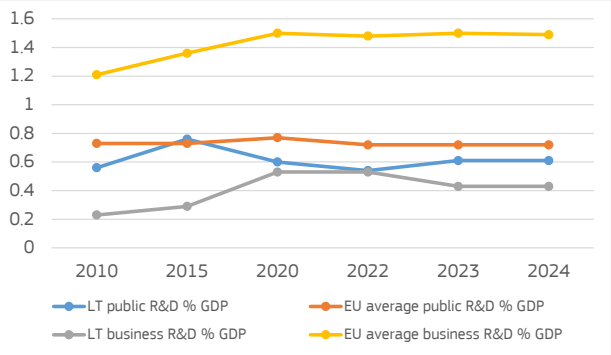
Business investment in R&D remains very low. Business enterprise expenditure on R&D as a

([28]) Eurostat, value 5.37 in 2024. EU average is 7.62.

([29]) Eurostat, Public expenditure on R&D (GOVERD plus HERD) financed by business enterprise (national) % of GDP, value 0.02 in 2023, compound annual growth from 2014 to 2023 equals to -15.39 %. EU average is 0.06.

percentage of GDP has stagnated since 2020 and even decreased in the last two years, reaching 0.43% in 2024. Lithuanian business continues to invest in R&D three times less than the EU average (1.49 % of GDP in 2024). The government has set a goal of increasing business investment in R&D to 1% of GDP in 2030, but so far Lithuania is not on track to reach its target.

Graph A4.1: **R&D investment as a percentage of GDP, 2010-2024**



Source: Eurostat

The Lithuanian authorities have developed initiatives to facilitate investments in R&D. The 2025 CSR called on Lithuania to *facilitate investment in R&D and support innovative capacity.* In response, the government is promoting a shift towards integrated and effective R&D financing, with a focus on the smart specialisation strategy (S3). This was renewed under the RRF and includes areas such as (1) biotechnologies, safe food, (2) new production processes, materials and energy efficiency, (3) ICT technologies, inclusive and creative society. The growing share of S3 sectors indicates a long-term structural transformation of the Lithuanian economy, with increasing numbers of companies and employees, and expanding productivity levels and exports. To unlock further growth, the S3 would benefit from fewer, deeper and more capability-anchored areas ([30]). New support initiatives were introduced, notably two measures both aimed at SMEs. The first focuses on the development of AI technologies, particularly in the regions, while the second supports the deployment of AI-based solutions to upgrade processes and develop new digital services. In addition, Lithuania has enabled cohesion policy financing to be used for three other measures. The first most notable of these supports cutting-edge technologies in the defence and security sector under the Strategic Technologies for Europe Platform (STEP) and the development of advanced materials, technologies and prototypes for the transition to climate neutrality. The other two measures financed by cohesion policy focus on pre-commercial procurement of innovative products and solutions and on funding the development of AI solutions in the country's Central and Western Lithuania Region'. The previously launched 'Billion for Business' national loan facility continues to support technology adoption, production expansion and the scaling of innovative companies. Initiative 'Encouraging innovation supply' boosts new high value-added products development and researchers' recruitment in companies. Meanwhile, the Green corridor initiative and free economic zones ensure fast-track permitting and long-term tax incentives for large industrial and R&D investments. Besides the support measures, in 2026 Lithuania plans to establish a national AI factory known as 'LitAI'. This will be a state-of-the-art centre dedicated to developing and applying AI technologies. The facility will be the largest AI facility in the Baltic states, co-financed by the EuroHPC Joint Undertaking. Lithuania has set a goal of life sciences contributing to around 5% of GDP by 2030 and to Lithuania positioning itself as a leading European hub for advanced technologies. While these initiatives will address to some extent the 2025 CSR *on facilitation of investment in R&D,* they are not sufficient for Lithuania to increase business enterprise expenditure on R&D as a percentage of GDP threefold, enabling it to reach the EU average.

Lithuania is preparing changes to its R&D tax incentives framework. While Lithuania's available tax incentives for business R&D are generous, only few firms take advantage of them ([31]). Following the 2025 CSR on *reviewing and streamlining existing tax incentives for R&D*, Lithuania is preparing to adjust its R&D tax incentives framework to make it more accessible, predictable and business-friendly, which could lead to greater use of these incentives by companies. This entails simplifying documentation requirements and defining eligible R&D activities more clearly. Under the proposal, the Innovation Agency would be authorised to issue expert assessments confirming whether company activities qualify as R&D. In addition, Lithuania

([30]) Smart Specialisation Monitoring Report, 2025.

([31]) OECD, Economic Survey Lithuania, 2025.

plans to develop a mechanism specifying cases when companies' declared activities would not require additional verification and be considered as eligible R&D activities. As of 2026, amendments to the laws on corporate income tax and personal income tax allow companies to deduct: (i) scholarships for researchers carrying out R&D projects (without limits on the amount); and (ii) scholarships for students studying in the fields of mathematics, life sciences, engineering or technology (up to EUR 2 500 per tax period). For individuals, such scholarships are treated as non-taxable income. So far, the implementation of the 2025 CSR on *tax incentives for R&D* is in the preparatory stages.

Lithuania is focusing on strengthening dual-use and defence innovation ecosystem, building technological resilience, and deepening integration in EU and NATO strategic R&I programmes. The comprehensive national package for defence-related innovation includes support for creating the necessary infrastructure, the acquisition of production equipment, technological experimentation, prototyping and testing, and participation in international defence exhibitions. Support schemes like defence innovation vouchers, Strategic Technologies for Europe Platform and the Miltech Sandbox are accelerating existing processes and strengthening international collaboration in photonics, cyber-security, autonomous systems, semiconductors and AI. Given the current geopolitical situation, the Lithuanian authorities are trying to help Lithuanian companies to integrate into international defence and security production and supply chains, start providing high value-added products themselves, and carry out R&I relevant to the business sector. As of 2025, companies working on projects of strategic importance with NATO, the EU or Ukraine are eligible for specific legal exemptions or regulatory facilitation. Under the mid-term review of the cohesion policy funds programme, Lithuania has diverted significant budgetary resources to measures strengthening the defence and security industry capabilities. In response to growing security threats and hybrid provocations, the country has launched an initiative to develop innovative technological solutions for airspace security.

Adoption of advanced digital technologies continues to increase. Lithuania's share of SMEs with at least a basic level of digital intensity reached 73.51% in 2025, slightly above the EU average (71.39%). For advanced technologies, Lithuania performs above the EU average in data analytics (54.11% vs 39.85% EU), cloud computing (54.90% vs 46.69% EU), and artificial intelligence (21.30% vs 19.95% EU). To support further uptake, Lithuania continues to rely on SME support tools such as the 'Digitalisation of SMEs' measure and 'Digital SME Vouchers', which cover eligible expenditures including cloud services. Complementary support is also available through regional 'hives' and accelerators. Lithuania relies on its network of three European Digital Innovation Hubs, which delivered large volumes of digital maturity assessments and advisory services in 2024, positioning them as key enablers of digital transformation for SMEs.

Entrepreneurial dynamism

The start-up ecosystem has expanded further. Lithuania is a home to over 1 300 start-ups, mostly clustered in the capital region. During 2020-2025, the top sectors to receive investment were enterprise software, fintech, security and health. Over the last five years, growth in the number of deep tech and fintech start-ups has slowed compared with the 2010-2020 period. However, the AI segment grew significantly and now accounts for 26.3% of all start-ups ([32]). Lithuania raised four homegrown unicorns ([33]) and contributed to the growth of another six. According to the Global Innovation Index, the combined value of Lithuania's unicorns equals 9.55% of GDP (the highest share globally), underscoring the country's attractiveness for innovation and investment. Via a snowball effect, former employees of the unicorn Vinted have founded around 18 start-ups of their own, some of which have attracted outside investment. Only 26% of Lithuanian scale-ups have moved their headquarters abroad, the lowest relocation rate in Central and Eastern Europe countries (CEE). This indicates that Lithuania is founder-friendly at scale, with the infrastructure, talent and ecosystem depth to support later-stage

([32]) The Lithuanian Startup Ecosystem 2025.

([33]) New companies with a market capitalisation of over one million dollars. Lithuania's unicorns are Vinted, Nord Security, Baltic Classifieds Group and CAST AI.

growth ([34]). Overall, the combined enterprise value of start-ups founded in Lithuania grew 5.9 times between 2020 and 2025, against a growth average of 1.6 in CEE countries. This makes Lithuania the fastest-growing start-up ecosystem in the region ([35]) .

Start-ups are finding investment in both the early and late stages of growth and are benefiting from favourable tax changes. While the venture capital market in Lithuania is more developed than in neighbouring Latvia, it is significantly lagging behind Estonia ([36]) (0.03% vs 0.2% of GDP in 2024) ([37]). However, start-ups are so far finding opportunities for sufficient early-stage financing from Lithuanian domestic investors, which lead this segment. Besides Lithuanian investors, early-stage start-ups also attract significant interest from US and Estonian investors, while the breakout and late stages are primarily backed by UK and US investors. Lithuania has no domestic investor in the growth and late-stage segments([38]). As of 2026, a new tax reform further incentivises people to hold option shares in start-ups, by applying a flat personal income tax rate of 15% on subsequent sales, thus exempting them from the new progressive income tax brackets. In addition, the tax holiday for newly incorporated companies with limited revenue has been doubled and now runs for two years – corporate income tax rate is 0%. However, the post-incentive rate was increased to 7% (from 6% in 2025).

Talent shortages continue, although Lithuania has dedicated policy initiatives to addressing it. According to Eurostat, the share of computing graduates in the population aged 25-34 has strongly increased over the last decade, despite a small dip in 2022-2023 (3.16% vs 3.11%; the lowest value was 1.57% in 2015). The share of graduates in science and engineering had an opposite trend – the numbers sharply diminished, including during 2022-2023 (11.89% vs 11.70, with a peak of 22.49% in 2013). To counteract this trend, the 2025 CSR called on Lithuania to *incentivise enrolment in post-secondary education in science, technology, engineering and mathematics* (STEM). While there were no new measures to address these recommendations, Lithuania continued several initiatives in 2025 dedicated to addressing the shortage of talent in STEM. Particularly noteworthy were the supplementary STEM scholarships to support students in the regions outside Kaunas and Vilnius([39]), and additional financing allocated to the DeepTech Entrepreneurship master's programme at Vilnius University, developed in collaboration with the European Organization for Nuclear Research (CERN) (see Annex 13). The cohesion programme supports postdoctoral fellowships and research trips to and from Lithuania, attracts foreign researchers to carry out R&D activities, and funds mobility initiatives for Lithuanian researchers. There is both international and intersectoral mobility, with PhDs in business and postdoctoral internships in business. Lithuania is attractive to potential start-up founders due to income and tax regime, the quality of opportunities and future prospects, but scores low on quality of life ([40]).

Lithuania has prioritised entrepreneurship education at the national level. Lithuania's entrepreneurship education is embedded in long-term national development planning, notably through the 'State Progress Strategy: Lithuania's Future Vision – Lithuania 2050'. The strategy emphasises entrepreneurship as a key driver of innovation and economic sustainability. In the school curriculum, entrepreneurship education is integrated using cross-curricular and subject-based approaches, with strong emphasis on financial and economic literacy, particularly at upper secondary level. Lithuania is an active participant in large-scale international programmes, most notably Junior Achievement, which provide students with hands-on entrepreneurial experience such as mini-companies, competitions and mentoring, often in cooperation with businesses. These initiatives play a major role in delivering practical entrepreneurial experience, which are otherwise more commonly offered as extracurricular activities rather than compulsory curriculum components. Lithuania also provides guidance encouraging a whole-school

([34]) The Lithuanian Startup Ecosystem 2025.

([35]) Ibid.

([36]) OECD Economic Surveys: Lithuania 2025.

([37]) Capital Markets Union Dashboard, 2025.

([38]) The Lithuanian Startup Ecosystem 2025.

([39]) Ministry of Economics and Innovation, 2025.

([40]) OECD, What are the top OECD destinations for start-up talents? 2023.

Table A4.1: **Key innovation indicators**

Lithuania	2010	2015	2020	2022	2023	2024	2025	EU average (1)	US
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.79	1.04	1.12	1.06	1.04	1.04	:	2.24	3.44
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.56	0.76	0.6	0.54	0.61	0.61	:	0.72	0.64
Scientific publications of the country within the top 10% most-cited publications worldwide as % of total publications of the country	3.11	4.31	5.34	5.52	:	:	:	9.44	12.31
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	4.9	4.4	5.1	5.4	5	4.9	:	4.3	:
International co-publications as % of total number of publications	27.46	40.24	49.42	48.49	50.28	52.58	:	57.24	:
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.23	0.29	0.53	0.53	0.43	0.43	:	1.49	2.70
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.11	0.22	0.47	0.41	0.31	:	:	<0.47>	0.30
Researchers employed by business per thousand active population	0.8	1.3	2.1	2.7	2.2	2.3	:	5.9	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.73	0.67	0.78	0.48	:	:	:	2.81	2.20
Employment share of high-growth enterprises measured in employment (%)	:	:	:	1.4	1.82	:	:	0.87	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity % SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	59.99	:	73.51	71.39	:
Data analytics adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	40.53	:	54.11	39.85	:
Cloud adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	33.60	:	54.90	46.69	:
Artificial intelligence adoption % enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	:	4.86	8.76	21.30	19.95	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	5.53	4.94	5.61	5.08	5.8	5.37	:	7.62	:
Public expenditure on R&D financed by business enterprises (national) as % of GDP	0.08	0.09	0.04	0.04	0.02	:	:	0.06	0.02
Public support for business innovation									
Total public-sector support for BERD as % of GDP	0.07	:	0.18	:	0.1	:	:	<0.21>	:
R&D tax incentives: foregone revenues as % of GDP	0.02	0.02	0.04	0.05	0.04	:	:	<0.1>	:
BERD financed by the public sector (national and abroad) as % of GDP	0.05	:	0.14	0.12	0.06	:	:	<0.11>	:
Financing innovation									
Venture capital (market statistics) as % of GDP (calculated as a 3-year moving average)	0	0.02	0.01	0.070	0.070	0.05	:	0.06	:
Seed stage funding share (% of GDP)	0	0.01	0.01	0.01	0.01	0.01	:	0.01	:
Start-up stage funding share (% of GDP)	0	0.01	0.01	0.02	0.03	0.02	:	0.03	:
Later stage funding share (as % of GDP)	0	0.01	0	0.04	0.03	0.03	:	0.03	:
Innovative talent									
New graduates in science & engineering per thousand population aged 25-34	:	18.37	14.74	11.89	11.7	:	:	16.82	:
Graduates in the field of computing per thousand population aged 25-34	:	1.57	2.67	3.16	3.11	:	:	3.84	:

(1) EU average for the last available year or the year with the highest number of country data.
Source: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database and the European Patent Office's Patent Statistical Database), Invest EU.

approach, particularly by promoting partnerships with businesses.

Lithuania benefits from a growth-conducive business environment and has demonstrated a high degree of resilience in navigating major shocks in recent years. The 2025 country-specific recommendations (CSRs) called for measures to strengthen Lithuania's competitiveness by removing not only obstacles for small to medium-sized enterprises (SMEs), such as skills mismatches and labour shortages, but also constraints in access to finance, particularly for SMEs. These challenges weigh more heavily on smaller firms, limiting their ability to scale up and fully benefit from investment and structural change. As a result, and despite strong investment, productivity growth has stagnated in sectors which traditionally have driven convergence, including manufacturing, transport and logistics as well as professional services.

Business dynamics

Lithuania shows comparably high levels of investment, which are supported by ambitious government initiatives. Since the pandemic, investment measured as a share of GDP has increased considerably. With 22.4% of total investment over GDP, Lithuania ranges above the EU aggregate of 21.7%. In particular, business investment as a share of GDP has seen a substantial increase, rising from 12.4% to 13.7% since 2020. This has been accompanied by strong GDP growth in recent years. In absolute terms, gross fixed capital formation (chain-linked volumes, 2015 prices) has increased by 30% since 2020 (against 7% in the EU)([41]). At the same time, however, convergence in labour productivity has slowed down and stagnated at around 70% of the EU aggregate, with total factor productivity growth turning negative and capital-deepening stagnating at comparably low growth rates, with the latter being driven by employment effects in the course of COVID19([42]).

Investment patterns are increasingly shifting away from Lithuania's traditionally productivity-driving sectors, which is accompanied by structural changes in the make-up of the economy. Between 2015 and 2019 and before the recent slowdown in productivity growth, manufacturing, wholesale/retail, and transport accounted for 21%, 12% and 13% of total investment growth([43]), reflecting their role as the main drivers of productivity and GDP growth. Since 2020, however, their contribution has fallen markedly (manufacturing to 6%, wholesale to 9%, transport to 7%), which is consistent with a relative contraction of these sectors in the economy (measured as a share of total gross value added (GVA)([44]). At same time, investment growth has become concentrated in the capital-intensive energy sector, contributing 35% to investment growth since 2020, and public administration, including defence which contributed 9% to overall investment growth (9%)([45]). The administration sectors seem to generate productivity gains only with long lags. Overall, these represent efforts on the part of the Lithuanian government and businesses to become energy independent, modernise energy systems (see annex 9) and adapt to geopolitical circumstances([46]). Investment conditions include the green corridor for strategic and sustainable projects, the investment highway fast-track mechanism, and the smart specialisation strategy guiding public investment and innovation support.

The recent shift in investment patterns reflects firms' efforts to adapt to emerging challenges and strengthen their resilience. According to the EIB Investment Survey([47]), Lithuanian firms have increasingly invested beyond pure replacement, with a higher share than the EU average in planning capacity expansion, supported by an improvement external financing environment and high internal financing capacity (46% of investment funded internally in 2025[?]). Investment dynamics were also shaped by the need to strengthen supply-chain resilience, diversify import sources and accelerate digitalisation, with a rising share of firms adopting digital inventory tracking and advanced

([41]) Eurostat.

([42]) Ameco & The Evolving Growth Model of Lithuania: Republic of Lithuania.

([43]) Eurostat.

([44]) Ibid.

([45]) Ibid.

([46]) IMF, Article IV consultation Lithuania, 2025, authorities' opinion.

([47]) EIB Investment Survey, 2025.

technologies([48]). At the same time, sizeable investments have been required to meet climate-related demands, with Lithuanian firms leading the EU in adopting measures to reduce emissions and adapt to physical climate risks, pushing up near-term investment needs even in low-productivity sectors([49]).

Business dynamism indicators point to very high firm turnover in Lithuania, particularly among small and young firms. In industry, construction and services, business birth rates reached 19.6% in 2023, almost twice the EU average of 10.5%, while death rates increased to 16.2%, against 8.5% in the EU([50]). As a result, the overall churn rate amounted to 35.8% in Lithuania, substantially above the EU level of 19.0%, with especially elevated churn observed in construction, transportation, administrative services and information and communication([51]). High turnover is accompanied by markedly lower firm survival: in 2023, only 69% of one-year-old firms and 53% of two-year-old firms in Lithuanian market sectors remained active, compared with 81% and 67% respectively in the EU([52]). Together, high entry and early exit rates reduce the pool of firms that persist beyond the initial years of activity, pointing to barriers to firm scale-up and limiting the extent to which investment can be absorbed by expanding firms over time. Lithuania has sound insolvency frameworks, which support the reallocation of resources and recovery of debt in the case of market exits (OECD Economic Survey).

Business environment

In the past decade, Lithuania has successfully taken steps to improve its business environment. Following a series of reforms, Lithuania ranked first among OECD countries in the Product Market Regulation index in 2023([53]), reflecting an open and competitive market. Key measures taken by the Lithuanian government include simplifying business start-up procedures through a single online entry point([54]), strengthening transparency in the regulatory process, and improving the governance of state-owned enterprises by separating ownership and regulatory functions. A more competitive and less restrictive market environment has supported firms' ability to adapt, innovate and use resources more efficiently, reinforcing Lithuania's overall competitiveness ([55]). This development is reflected in a comparatively low share of companies reporting labour or business regulations as a major obstacle to investment (19% vs an EU average of 27% and 19% vs 34%)([56]). The 2025 CSRs called for measures to strengthen Lithuania's competitiveness by removing not only obstacles for SMEs, such as skills mismatches and labour shortages, but also constraints in access to finance, particularly for SMEs.

Several barriers continue to hinder more productivity-enhancing investment and scaling up, particularly for SMEs. Firms consistently cite uncertainty about the economic outlook, shortages of skilled labour (71%, see Annex 11) and high energy costs as major obstacles, while smaller firms are disproportionately finance-constrained (19.8%, see Annex 6) and face burdensome business and regulatory requirements across EU markets([57]). Also, when it comes to short-term constraints, companies from the services and industrial sectors report that financial constraints pose a limiting factor to either production or business activities. In industry, 16.5% of firms, compared with an EU average of 5.2%, report that they could produce more if they were not financially constrained. 25.4% of companies from the service sector report that financial constraints limit their business activities (vs an EU average of 11.1%). These frictions limit the ability of SMEs to shift from maintenance and compliance-driven investment to innovation-oriented projects that would more effectively raise Lithuania's productivity trajectory (see Annex 4)([58]).

([48]) EIB Investment Survey, 2025.

([49]) Ibid.

([50]) Eurostat.

([51]) Ibid.

([52]) Ibid.

([53]) OECD PMR, 2024.

([54]) One of the 'Terrible Ten' in the Single Market strategy, COM(2025) 500, 21.5.2025.

([55]) National Productivity Board, 2025.

([56]) EIB Investment Survey, 2025.

([57]) Ibid.

([58]) IMF, Article IV consultation Lithuania, 2025.

These barriers weigh on SMEs' business prospects, especially micro firms, while SMEs play a central role in Lithuania's economy. In 2024, SMEs represented 99.8% of enterprises, employed 71.8% of the workforce and generated 62.6% of total value added in the non-financial business sector, with micro firms alone accounting for 95% of all enterprises but less than one fifth of value added([59]). SME performance weakened in 2024, with employment broadly stagnating (–0.1%) and real value added declining (–0.4%), although outcomes remained significantly better than in 2023. Developments varied across firm sizes, with declines concentrated among micro firms, while the rest of the SMEs continued to make modest expansions in employment. Looking ahead, SMEs are expected to recover in 2025, driven in particular by strong growth in information and communication, where SME employment and real value added are forecast to increase by 7.5% and 10.3% respectively, underscoring the importance of SMEs for Lithuania's growth dynamics despite their heterogeneous performance across sectors and size classes.

Investment and business activity of SMEs remain constrained by difficulties in accessing external finance. Progress on the CSR relating to improving access to finance for SMEs has been limited. While the overall macroeconomic situation is improving (decreasing interest rates), and financing conditions have eased slightly([60]), Lithuanian SMEs continued to have difficulties in accessing external finance in 2025 (see Annex 6). The share of firms citing the availability of finance as an impediment to investment, decreased from 52% in 2024 to 42% in 2025. Nevertheless, this development has been driven by an improvement for medium/large firms (according to the EIB Investment Survey. By contrast, the situation for micro/small enterprises worsened, with 54% of firms naming access to finance as an obstacle to investment. The situation mainly improved in the service sector. For manufacturing and infrastructure companies the situation remained challenging, while it worsened drastically for firms in the construction sector([61]).

The late payment situation has been improving but delayed payments remain prevalent in business-to-business (B2B) transactions. In 2024, 55% of firms in Lithuania reported experiencing problems related to late payments, according to the ECB/EC SAFE survey, down from 59% in 2023([62]). While the incidence of late payments remained above the EU average (52%), the gap narrowed substantially compared with the previous year, as the share of firms affected declined in Lithuania but increased at EU level between 2023 and 2024([63]). Additionally, companies are experiencing delayed payment mainly in B2B activities. According to the SAFE survey, 60% of companies report that they experience late payments from private entities either regularly (15%) or occasionally (45%), while only 13% report it in business-to-government (B2G) transactions (5% regularly, 8% occasionally).

Although mobile connectivity performance is very strong, fixed network deployment remains uneven, particularly in rural areas. Lithuania reached 78.29% fixed very high-capacity network (VHCN) coverage in 2024, below the EU average of 82.49%, with a low annual growth rate of 0.3% compared with 4.9% at EU level. In sparsely populated areas, coverage stood at 39.78%, significantly below the EU average of 61.89%, and rural growth remained limited at +0.5%. Fibre-to-the-premises (FTTP) coverage reached 78.29% in 2024, above the EU average of 69.24%. In rural areas, FTTP coverage stood at 39.78%, below the EU average of 58.78%, highlighting persistent territorial gaps. By contrast, overall 5G coverage reached 99.71% in 2024, above the EU average of 94.35%. Rural 5G coverage was also high at 99.06%, well above the EU average of 79.57%. Coverage in the 3.4-3.8 GHz band reached 75.13%, above the EU average of 67.72%. However, harmonised 5G spectrum assignment remains below EU levels at 47.22%, compared with 74.63% in the EU in 2025. Two major publicly funded projects, supported by the Recovery and Resilience Facility and the European Regional Development Fund, aim to extend fibre and telecom infrastructure in underserved areas.

([59]) European Commission, SME Performance Review 2025.

([60]) Bank of Lithuania, lending survey, 2025.

([61]) EIB Investment Survey, 2025.

([62]) SAFE

([63]) EU payment observatory, annual report, 2025.

Single Market

Lithuania is well integrated into the Single Market, with trade integration accounting for up to half of its GDP, but businesses are subject to fragmented regulatory environments across the EU. Regarding services and goods, the Lithuanian economy relies more than other EU Member States' economies on trade within the Single Market. With a trade integration of 17% for services and 34% for goods([64]), Lithuania is comparably well embedded into European supply chains([65]). Nevertheless, companies are being held back by regulatory fragmentation within the EU and ineffective mutual recognition. 96% of businesses in the manufacturing sector and 93% in the services sector report that their main product or service must comply with differentiated regulatory requirements, standards or consumer protection rules across EU Member States([66]). **Lithuania's deep integration into the Single Market has supported the resilience of its supply chains amid trade disruptions and heightened geopolitical uncertainty.** Import dependencies are predominantly concentrated within the EU, ensuring access to diversified and stable supply networks, while exposure to higher-risk trading partners has declined markedly since 2012-2014. The episode of economic coercion by China in 2021-2022 had only limited and short-lived effects on Lithuania's overall exports, as firms were able to redirect trade towards alternative markets, supported by the openness and depth of the Single Market([67]).

Lithuania has been actively reforming its public procurement system, but single bids remain elevated. In 2025, 40% of procurement contracts were awarded following a single bid, exceeding the EU median of 27%, while 6% of contracts were awarded without a public tender, corresponding to the EU median. To address these challenges, Lithuania has rolled out a range of measures aimed at enhancing competition and broadening supplier participation, particularly among SMEs, which accounted for 81-84% of awarded public procurement contracts between 2021 and 2023([68]). Lithuania's reform efforts focus strongly on the areas of centralisation and professionalisation. With the ongoing centralisation of procurement through the national Central Purchasing Body (CPO LT) e-catalogue, Lithuania is seeking to reduce single bids significantly in the future. According to national data, increasing shares of centrally awarded contracts leads to a reduction in the share of single bids([69]). By 2025 35.9% of contracts were awarded centrally in terms of their numbers (up from 2.8% in 2021) and 50.4% of contracts were awarded centrally in terms of their value (up from 11.7%). Another key element of the reform is the ongoing effort to professionalise public procurers. Here, Lithuania introduced a national certification framework, expanded training resources and launched a dedicated master's programme in public procurement to further professionalise procurement practices. Moreover, a plan is underway to engage more suppliers, particularly SMEs, through regional events, education programmes and standardised contract terms. Additionally, the proportion of procedures awarded solely because the offer was the cheapest one available has been consistently decreasing from 88% in 2021, down to 73% in 2024. This was supported by the Lithuanian recovery and resilience plan.

Businesses' views on corruption risks in public procurement are above the EU average. In Lithuania, 59% of companies (EU average: 58%) consider tailor-made specifications for particular companies in public procurement procedures, and 52% (EU average: 51%) collusive bidding to be a 'very' or 'fairly widespread' practice. 49% of businesses perceive the level of independence of the public procurement review bodies (district courts) as very or fairly good when it is reviewing public procurement cases.([70]) Public procurement is a high-risk area of corruption in Lithuania.([71]) The National Audit Office carries out regular assessments of corruption risks in various

([64]) Measured as the average of imports and exports as a share of GDP.

([65]) Eurostat.

([66]) EIB Investment Survey, 2025.

([67]) Lithuania's trade dependencies | OECD

([68]) Member State reporting.

([69]) Centralizacijos pažangos stebėsena.

([70]) Justice Scoreboard (2025), p. 53; Flash Eurobarometer 555, p. 39.

([71]) Rule of Law Report- Country Chapter Lithuania (2025), p. 10.

sectors.([72]) In 2024, a project was launched aiming at identification of corruption risks based on artificial intelligence in cases of use of public and EU funds.([73]) In 2024, the Procurement Office established a department responsible for procurement governance and presented analytical findings revealing the reasons for the persistently high single supplier indicator([74]).

Lithuania's e-procurement landscape and data quality issues highlight the need for interoperable systems, common standards and stronger data governance. Lithuania's centralised e-procurement service allows economic operators to use a single system to access all national public procurement procedures. However, concerning cross-border procurement, issues remain which create complexity and barriers to participation for firms from other Member States. This fragmentation underscores the need for introducing interoperability and common standards. The once-only principle is not yet implemented at national level (see Annex 7), and buyers across the EU still lack digital access to relevant evidence. Additionally, Lithuania has a data strategy that sets out the processes and objectives in terms of managing and utilising data related to their procurement processes. Additionally, Lithuania has publicly available public procurement dashboard which shows every contracting authority and its score based on 19 different indicators.([75]) [LT comment] Moreover, Lithuania has a dedicated entity in charge of monitoring and accessing the uptake of public procurement at the national level, the public procurement office. Therefore, the Lithuanian system benefits from a dedicated public procurement data collection and analysis service within the government to support data-driven oversight of the procurement lifecycle([76]).

Additional resources for Lithuania's standardisation system could improve access to the Single Market. To this end, Lithuania should provide additional support to the *Lithuanian Accreditation and Standartization agency*to ensure it can undertake the necessary transition toward a digitalised standardisation process, allowing for faster, more efficient and more inclusive standardisation. Moreover, additional resources could be directed toward ensuring Lithuanian experts can effectively participate in the European Standardisation System, notably in new critical sectors such as AI and quantum.

Lithuania is among the best performers in complying with Single Market legislation. As of 2025, only 0.6% of all Single Market directives have not been fully transposed into national law, well below both the EU average of 1.1% and the 1% target set by the EU Council. Only 0.3% of transposed directives are not transposed correctly (EU average: 1.1%). This is also reflected in a comparably low number of pending infringement proceedings against Lithuania (10 vs the EU average of 25). However, the average duration of infringement proceedings requires attention. This has increased, from 46.8 months in 2024 to 57.8 months in 2025, above the EU average of 44.5 months([77]). Moreover, the Lithuanian SOLVIT centre has resolved 100% of cases handled as lead centre in the past year (EU average: 84.6%).

Compliance of products circulating in the Single Market([78]) is key to ensuring a level-playing field for law-abiding companies and the safety of consumers. In Lithuania, the number of market surveillance investigations has increased compared with 2019. In 2025, national authorities reported in the EU system for market surveillance (ICSMS) a total of 548.3 investigations per one million inhabitants, which is higher than the EU median of 136.2. The number of notifications remains limited in absolute terms, which may also be the result of insufficient IT national interoperability to the ICSMS system. The upcoming revision of the

([72]) Ibid.

([73]) Rule of Law Report- Country Chapter Lithuania (2025), pp. 10-11.

([74]) Rule of Law Report- Country Chapter Lithuania (2025), p. 11.

([75]) https://vpt.lrv.lt/lt/statistika-ir-analize/pirkimu-vykdytoju-zemelapis-svieslente-1/.

([76]) European Court of Auditors, Special Report 28/2023: *Public Procurement in the EU. Less competition for contracts awarded for works, goods and services in the 10 years up to 2021*, 2023,

([77]) Single Market Scoreboard, 2025.

([78]) *Part of the barriers highlighted in the Single market strategy ('Terrible Ten') and the 2026 Annual Single Market and Competitiveness Report.*

Market Surveillance Regulation will upgrade ICSMS to a fully interoperable EU digital platform.

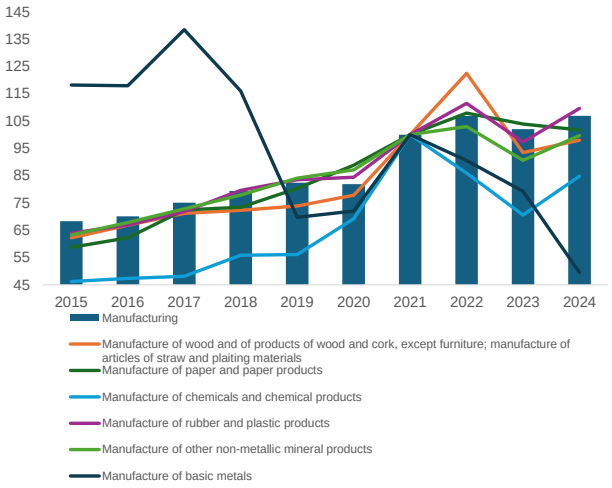
Industry and economic security

Lithuania's industrial sector remains an important part of the economy within a service-oriented structure. Industry, excluding construction, represents about 19% of GVA. Manufacturing continues to play a key role in the industrial sector and drives exports, with producers of chemical products, optical instruments and computers becoming increasingly important. Lithuania's economy is highly open and export-oriented in both goods and services, and its share in global exports has increased by more than 50% since 2006([79]). Although the overall size of high-technology manufacturing remains limited, Lithuania holds a strong position in selected niche areas, notably specialised laser technologies, pointing to an ongoing shift of the industrial base towards activities with higher technological content. Within services, the wholesale and retail trade and transport remain the largest sectors, while information and communication has become one of the fastest-growing activities, now accounting for close to 5% of GVA and increasingly linked to global value chains. In parallel, a growing fintech ecosystem has supported the expansion of financial services since the pandemic, yet the sector remains relatively small.

The information and communication (ICT) sector has become an increasingly important pillar of Lithuania's growth model over the past decade. The sector expanded at an average annual rate of around 10% in GVA, driven by increases in labour inputs, foreign investment and targeted policy support, including tax incentives for start-ups and strategic frameworks such as the smart specialisation strategy and the fintech strategy([80]). As a result, the share of ICT in the economy increased from around 3% of GVA in 2015 to over 5% by 2024, while its contribution to employment rose steadily([81]). In recent years, ICT has been the fastest-growing economic activity and has played a stabilising role, partly offsetting weaker performance in more traditional sectors.

The structure of the ICT sector has shifted towards higher value added and more export-oriented activities, strengthening its contribution to resilience and external performance. Telecommunications, previously dominant and largely domestically oriented, have been overtaken by rapidly growing IT, data processing, software and digital services firms, with exports accounting for more than half of sectoral revenue by 2024([82]). However, despite rapid growth in output and employment, productivity gains in the sector have so far been limited, reflecting the early stage of development of many firms and ongoing market selection. Looking ahead, the ICT sector is expected to remain a key driver of growth and competitiveness, provided that constraints related to firm scaling, skills availability and productivity enhancement are effectively addressed([83]).

Graph A5.1: **Manufacturing industry production: total and selected sector, index (2021=100), 2015-2024**



Source: Eurostat

While electrification rates remain low and electricity prices elevated, Lithuania's energy-intensive industries have partly recovered from recent shocks. With 16.5% Lithuania's electrification rate in industry is well below the EU average of 22.92%([84]). Electricity

([79]) Ameco.

([80]) IMF, Article IV consultation Lithuania, 2025.

([81]) Eurostat.

([82]) National Productivity Board, 2025.

([83]) IMF, Article IV consultation Lithuania, 2025.

([84]) Eurostat.

prices have recovered since the beginning of Russia's full-scale invasion of Ukraine but remain substantially higher in Lithuania than in other regions of Europe. The energy-price shock has initially taken a substantial toll on production volumes in Lithuania's energy-intensive industries, but due to the government's strong efforts to diversify energy imports and pursue an ambitious green agenda, prices have stabilised at a high level. Amidst recent recovery on domestic and export markets, production volumes have picked up again. Nevertheless, they have still not reached pre-2023 levels. (See also Annex 9.)

Lithuania has made progress in implementing the Net-Zero Industry Act (NZIA). It has successfully designated a single point of contact, which is crucial for streamlining communication and coordination among stakeholders. Furthermore, Lithuania has established a national contact point to process applications, facilitating the advancement of net-zero strategic projects, despite having no confirmed projects yet.

Table A5.1: **Single Market and Industry**

Lithuania								
POLICY AREA	**INDICATOR NAME**		**2021**	**2022**	**2023**	**2024**	**2025**	**EU-27 average**
Business environment and investment								
Productivity and investment	Labour productivity (GDP per hour worked in PPP terms), % of EU27[1]		73.3	70.7	70.0	70.2	70.6	100.0
	Business investment (share of GDP)[1]		14.7	14.2	15.0	13.7	-	12.6
	Public investment (share of GDP)[1]		3.2	3.2	4.2	4.2	-	3.9
Business environment and simplification	Impact of regulation on long-term investment, % of firms reporting business regulation as a major obstacle[2]		22.4	20.3	13.5	21.9	19.0	34.0
SME liquidity	EIF Access to Finance for SMEs index - loans[3]		0.34	0.42	0.27	0.37	-	0.43
	EIF Access to Finance for SMEs index - equity[3]		0.42	0.14	0.12	0.10	-	0.19
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment[4]		11.9	12.3	13.4	-	-	17.4
	Payment gap - public sector, difference in days between offered and actual payment[4]		10.6	17.3	18.7	-	-	13.6
	Share of SMEs experiencing late payments, %[5]	from private entities in the previous or current quarter	-	-	-	52.2	59.9	47.1
		from public entities in the previous or current quarter	-	-	-	15.3	13.4	15.9
Single Market								
Integration	EU trade integration, average(intra-EU imports + intra EU exports)/GDP, %[1]		51.2	58.2	51.6	50.1	51.0	40.7
	EEA Services Trade Restrictiveness index[6]		0.039	0.039	0.038	0.038	0.038	0.050
Public procurement	Single bids, % of total contractors[7*]		30	34	37	44	40	27
	Direct awards, % of negotiated procedures[7*]		6	7	6	5	6	6
Compliance	Transposition deficit, % of all directives not transposed[8]		1.7	0.3	0.3	0.3	0.6	1
	Conformity deficit, % of all directives transposed incorrectly[8]		1	1	0.7	0.4	0.3	1.1
	SOLVIT, resolution rate per country, %[8]		100	-	100	100	100	84.6
	Number of pending infringement proceedings[8]		16	15	15	12	10	25
Industry and economic security								
Energy-intensive industries	Electricity prices for non-household consumers[1]		0.1743	0.3065	-	-	-	0.1462
	Electrification (electricity as a share of total energy consumption in industry)[1]		30.5	32.4	32.3	-	-	32.7
	Share of energy from renewable sources (renewable energy generation as a share of overall energy consumption)[1]		28.2	29.6	31.9	35.4	-	25.2
Critical raw materials	Material import dependency, %[1]		37.9	36.8	34.7	33.4	-	22.4
	Circular material use rate[1]		4.1	4.0	4.1	4.2	-	12.2
Operational cleantech manufacturing capacity in 2025[9]	- Solar PV (c: cell, w: wafer, M:module), GW		0.345 (m)		- Electrolyzer, GW		-	
	- Heat pump assembly		-		- Battery, GW		-	

Source: (1) Eurostat, (2) EIB Investment Survey, (3) EIF SME Access to Finance Index, (4) Intrum Payment Report, (5) SAFE survey, (6) OECD, (7) data up to 2024: Single Market and Competitiveness Scoreboard, 2025: Commission calculation based on TED data, accessible at the Public Procurement Data Space (PPDS) (*) the value represented here under EU average is the median, (8) Single Market and Competitiveness Scoreboard, (9) European Commission calculations.

Table A6.1: **Savings and Investments Union summary diagnostic**

Topic	*Main features*	*Relative EU positioning*
Assets-backed pension schemes	Assets at 12.2% of GDP (32.3% in the EU) 10-year real return of 0.5% (1.4% in the EU)	The low pension assets yield a low real return.
Households' financial assets	EUR 22,821 per capita (EUR 85,098 in the EU) o/w 3.5% in listed shares and bonds (7.6% in the EU) o/w 2.7% in investment funds (11.0% in the EU) o/w 1.7% in life insurance (13.4% in the EU) o/w 14.4% in pension claims (13.6% in the EU)	A very low share of households' low financial assets is invested in equity and in capital markets.
Venture capital (VC) **Private equity (PE)**	VC at 0.057% of GDP (0.064% in the EU) PE at 0.286% of GDP (0.487% in the EU)	Medium venture capital and medium private equity investments.
Capital taxation	Flat rate of 15% is applied to most assets and savings types ; exemptions apply; favourable treatment for private pensions (3rd pillar)	N/A
1-3 **4-10** **11-17** **18-24** **25-27**	Colours indicate the country's relative ranking based on five groups, ranging from the three best to the three worst performers. The relative ranking as regards an SIU diagnostic topic derives from a consistent cross-country comparison, the starting point of which is the average of the underlying main features.	
Data sources: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation).		

Source: OECD (pensions), Eurostat (households' financial wealth), FISMA CMU dashboard (VC and PE), national sources (capital taxation). End-2024.

Companies in Lithuania rely less than the EU average on funding from banks and only marginally on capital markets. They rely more on internal funding to fund their investments than their EU peers. The ratio of bank loans to GDP is among the lowest in the euro area. The domestic listed equity market remains modest from a European perspective, while debt markets channel savings mostly to the government, despite the recent positive trend in the corporate segment. Households still have ample space to increase their level of direct and indirect participation in capital markets, and one issue highlighted in the 2025 CSRs for Lithuania was the importance of savings for investment ([85]). The Lithuanian banking sector remains robust with most performance indicators ranking among the best across the EU. While corporate loan portfolios have shown growth, businesses have faced challenges in accessing finance due to high risk aversion from banks and structural factors. Non-bank financial intermediaries – which have both the funds and the capacity to drive capital market progress – allocate assets very conservatively, which does not favour equity. The reform of the supplementary pension system is expected to contribute negatively both to the size of the sector and to its role in funding the economy. The venture capital ecosystem remains quite small and is dominated by public funds channelled primarily by the various national development institutions.

Business landscape and company funding

Compared with the EU average, the Lithuanian business landscape, in terms of structure and size, relies less on large companies. In Lithuania micro, small and medium companies play a stronger role in the structure of the economy, at the expense of large companies (see Annex 5 for more details). This has implications for the corporate sector's demand for funding, which are discussed in this annex.

Companies in Lithuania rely less than the EU average on funding from banks, and even less so from capital markets. Compared with their EU peers, non-financial corporates (NFCs) in Lithuania use less external funding, as it represents only 121% of GDP, vs 226% for the EU (see Graph A6.1). Lithuanian NFCs rely less on loans and even less on stock and bond issuance or other alternative sources than their EU peers. At the end of 2024, finance through loans constituted 23% of all funding for Lithuanian NFCs ([86]), while listed shares and bonds represented only 3.6% of funding. The equivalent figures for the EU average were 27% and 19%. The market funding ratio ([87]) as of end 2024 was only 28.9%, compared with

([85]) 'Improve access to finance for small and medium-sized enterprises including by stimulating competition in financial services and participation in financial markets by facilitating the use of savings for investment.'

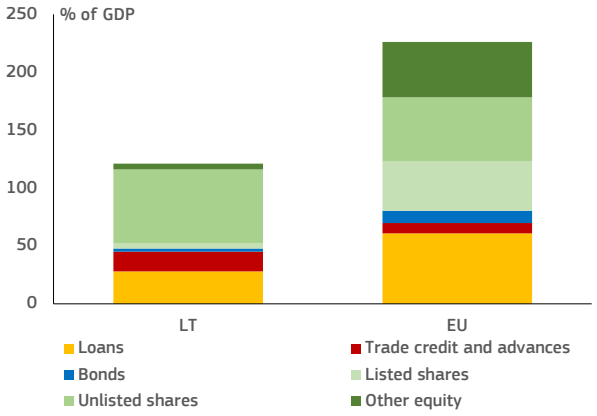
([86]) While financing from banks through loans in Lithuania accounted for 15.4% of GDP at the end of 2024, the broader financial sector (including banks' subsidiary leasing and other financial companies) accounted for 28% of GDP.

([87]) I.e. the volume of corporate bonds and listed shares of NFCs relative to the volume of those two and bank loans to NFCs.

an EU average of 49.7%. Conversely, unlisted shares ([88]) represent by far the largest source of external financing for local businesses: 53% of the total vs 24.5% for the EU as of end-2024. Companies prefer to rely on private equity over public listings, given the overall shallow capital markets. This also relates to the structure of local businesses, which are often SMEs or closely held companies.

Several lines of action have been taken to strengthen capital markets through public–private collaboration, building on cooperation among the Baltic national development banks. SMEs find it difficult to access and take advantage of Lithuanian capital markets, as there are no established SME growth markets in Lithuania, nor in the other Baltic states. In response, Lithuania's development bank, ILTE, and Latvia's development finance institution, Altum, previously set up a fund for initial public offerings (IPOs) to prepare businesses for listing. Once companies reach the stage that they have already proven their business model and start expanding internationally, they require larger long-term equity capital to continue scaling, while local equity funding options remain limited, and traditional banks are often reluctant to lend to innovation-driven or export-oriented companies without hard collateral. To ensure a more robust continuum of financing options, bridging critical financing gaps at the scale-up and growth stage, the two national promotional institutions – Altum and ILTE – approved the Baltic Capital Market Acceleration Fund in 2023. The fund, worth over EUR 50 million, began its operations in October 2025 and will remain active for the next decade. By investing through new share and bond issues over 10 years, it is expected to boost equity and bond listings on Nasdaq Baltic exchanges, enhancing market liquidity and access to growth capital across the region. Moreover, ILTE offers individual guarantees for bond issues of private and public companies, helping issuers to access capital markets with greater investor confidence.

Graph A6.1: **Composition of non-financial corporates' funding**



Source: Eurostat. End-2024.

Surveys suggest there is a financing gap relative to investment demand, especially for SMEs. According to the 2025 EIB Investment Survey, only half of all Lithuanian companies rely on bank finance to invest, the lowest proportion in the EU (with the EU average at 79%). Moreover, the country has a relatively high share of firms that consider themselves as finance-constrained (10.4%), although this share declined compared with 2024. As a result, they rely more heavily on internal funding. In the 2025 SAFE survey, 51% of SMEs indicated that internal funding (retained earnings or sale of assets) was relevant to their business, compared with an EU average of 28% ([89]). At the same time, 18% of all Lithuanian companies believed that their investment activities over the last three years were not sufficient. This is – together with the other two Baltic countries – one of the highest levels of underinvestment in the EU (EU average of 12%), suggesting that there may be a financing gap relative to investment demand, especially for SMEs. The 2025 CSR 3 for Lithuania highlighted the importance of improving access to finance for small and medium-sized enterprises ([90]).

([88]) Unlisted shares in Lithuania, also known as private limited company shares or public limited company shares that are not traded on a stock exchange, can be bought and sold, but not through traditional exchanges. These transactions typically occur through over-the-counter markets or private placements, often facilitated by intermediaries or investment platforms.

([89]) Data and surveys - SAFE - European Commission, 2025, Results by country, T20.

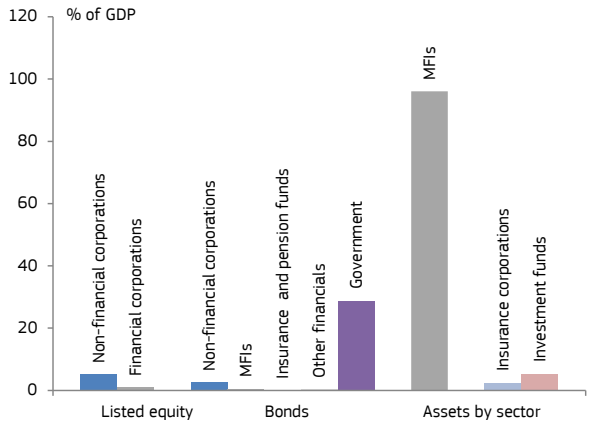
([90]) 'Improve access to finance for small and medium-sized enterprises including by stimulating competition in financial services and participation in financial markets by facilitating the use of savings for investment.'

Size and structure of the financial sector

Lithuania's monetary financial sector is very small compared with the EU average, and concentration is high. At the end of Q3-2025, total bank assets were equivalent to Lithuania's GDP, significantly below the EU average of 246.1%. Nevertheless, banks and other monetary financial institutions (MFIs) continue to account for the largest share (76%) of the Lithuanian financial market. Foreign presence is high and accounts for about three quarters of assets. With the top five MFIs representing more than 90% of the sector, banking concentration appears to be significantly higher than the EU average of 51%. The total assets of pension funds were equivalent to 12.2% of GDP at the end of 2024, vs an EU average of 32.3% at the end of Q3-2025. The rate of public pension spending as a percentage of GDP (6.2%) is currently one of the lowest in the EU. The Lithuanian insurance sector is even smaller, with total assets representing 2.5% of GDP as of end Q3-2025 (vs 53.9% for the EU on average).

Lithuanian capital markets remain relatively shallow, inactive and illiquid, despite efforts by authorities from Lithuania, Estonia and Latvia to develop and further integrate capital markets in the Baltic region. The three Baltic states have been working towards integrating their capital markets' infrastructure and in 2017 signed a Memorandum of Understanding to 'cooperate in developing a deeper and more efficient regional capital market'. This commitment was followed by efforts to harmonise regulation between them and create pan-Baltic products. The three national central securities depositories (CSDs) were also merged in 2017, resulting in the creation of Nasdaq CSD SE, legally based in Latvia. Despite these efforts, at the end of Q3-2025, the market capitalisation of Nasdaq Vilnius Stock Exchange ([91]) was just around 6.2% of GDP (compared with 30% before the 2009 crisis). This is extremely low compared with other EU countries (EU average of 69.9% as of end Q3-2025). The prospects for capital market development are limited by the low number of listed enterprises (25 as of Q4-2025). This results in few local investment opportunities, low interest from institutional and retail investors, and thus limited opportunities to raise capital locally. The lack of depth and liquidity of Lithuanian securities' markets makes them less attractive to international investors and is also reflected in the identification of Lithuania by the 2025 MSCI Market Classification Review as an 'advanced frontier market', a new subcategory added by MSCI to identify 'frontier markets' that demonstrate market accessibility characteristics closely aligned with those of developed markets but remain classified as frontier markets due to their size and liquidity constraints. Debt markets in Lithuania remain significantly underdeveloped as well and dominated by government securities. However, the corporate segment has experienced recently a positive trend. The liquidity of securities traded on Nasdaq Vilnius is limited.

Graph A6.2: **Capital markets and financial intermediaries**



Source: ECB, EIOPA, AMECO. End-2024.

In November 2022, the government approved the Guidelines for Capital Market Development 2023-2025 to help the capital markets to grow. The aim was to promote the stable and competitive development of the Lithuanian capital market, create alternative financing channels for businesses – especially SMEs, provide additional investment opportunities for both private and institutional investors, and improve cooperation between institutions and market participants to better address market needs. The Guidelines set forth key recommendations aimed at improving the legal and tax framework, expanding the availability of new financial products, further developing stock exchange activities, improving the environment for financial intermediaries, and strengthening

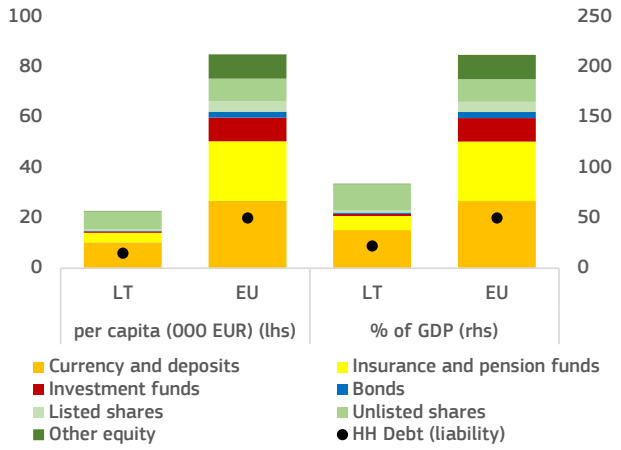
([91]) The Nasdaq Vilnius Stock Exchange belongs to the Nasdaq group, which in the EU operates other trading venues in the two other Baltic states of Estonia and Latvia, as well as in Sweden, Finland and Denmark.

financial literacy. Certain key measures have already been adopted, e.g. amendments to laws on investment by pension funds in alternative investments, but not all have fully matured yet. Among the most important achievements are the implementation of some of the amendments to the Law on Companies, the entry into force of the investment account initiative and the technical implementation of the investment account tax regime from 1 January 2025, as well as the launch of the ILTE Baltic Capital Markets Acceleration Fund. When preparing the Guidelines for Capital Market Development 2026-2028, it was decided to assess, by 1 March 2026, which existing or unimplemented guidelines should be continued, updated or revised to better reflect today's realities and market needs. A crucial role in the implementation of these initiatives is played by the Capital Market Council, a coordinating body comprising public and private sector representatives, tasked with setting the main policy directions for capital market development and ensuring the effective execution of the recommendations outlined in the Guidelines.

Households' participation in capital markets

The relatively low saving rate of Lithuanian households reduces the availability of funding for enterprise investments. Roughly half of the population's savings are held in demand deposit bank accounts. Conversely, Lithuanian households hold limited amounts in pension and insurance funds or directly in financial investment instruments. Although the share of households' financial assets held in those funds in total financial assets has risen from 13.5% in 2015 to 22.8% in 2025, it still falls substantially short of the EU average of 46.5%. By contrast, they hold more unlisted shares compared with other EU countries. These investments offer the chance to participate in companies, potentially at lower valuations than they might achieve on the stock market. However, unlisted shares also carry significant risks, including lower liquidity and limited information, requiring careful consideration and a long-term investment period.

Graph A6.3: **Composition of households' financial assets**



Source: Eurostat. End-2024.

The 2025 pension reform that allows opt-outs and withdrawals from private funds is likely to reduce the level of savings in Lithuania. In June 2025, the Lithuanian Parliament (Seimas) agreed to reform the second-pillar pension scheme, adopting amendments to the Law on the Accumulation of Pensions, as proposed by the government, with implementation starting in 2026. In a marked reversal, the Seimas decided to shift from the existing automatic enrolment model introduced in 2019, to a voluntary system with invitations to individuals under the age of 40 to join ('call model'). According to data collected by the Bank of Lithuania the participation rate in the second pillar of pensions decreased by 38% over the first quarter of 2026. Meanwhile pension funds' assets under management decreased by approximately 41%. This has further reduced Lithuania's already very low level of pension savings in all types of pension product (12.2% of GDP at the end of 2024). Besides the opt-out possibility, the new provisions also allow far-reaching withdrawal options with loose conditions (partial and full withdrawals of the accumulated savings). The reform represents a departure from good practices aimed at incentivising saving for retirement ([92]) and may not only lead to lower public pension replacement rates but also risks further undermining capital market development and complicating access to finance. Long-term economic growth and competitiveness can only be achieved by avoiding destabilisation of the pension

([92]) See EU Recommendation 2025/2384 of 20 November 2025 on pension tracking systems, pension dashboards and auto-enrolment.

system and instead strengthening it and letting people engage in long-term financial planning for retirement ([93]). This can greatly support pension adequacy and allow for more capital to flow towards local businesses. At the same time, the annuity regime often remains perceived as unattractive, discouraging savers who would otherwise be inclined to continue saving in the second-pillar pension scheme. In this respect, the findings in the context of the Technical Support Instrument (TSI) project kicked off in September 2024 between the Commission and Lithuania can provide insights in how to make Lithuania's pension system more robust and effective and achieve positive effects on pension adequacy as well as long-term fiscal sustainability. The pension tracking system in Lithuania is primarily centred on Sodra (the State Social Insurance Fund Board), which manages the first and part of the second pillar of the national pension system. Residents can track their pension accumulation, state social insurance contributions, and projected retirement benefits through the Sodra personal account system.

Financial literacy levels in Lithuania are in line with the EU average. The Ministry of Finance recently approved a financial education plan (2024-2028) with particular attention dedicated to challenges for consumers and retail investors, and which also covering SMEs. The level of financial literacy in Lithuania is in line with the EU average. The 2023 Eurobarometer survey showed that 25% of Lithuanians have a high level of financial literacy, 54% a medium level, and the remaining 21% a low level.

In an effort to boost household investment in capital markets, an investment account product has been operational since the beginning of 2025. From that date, the investment account tax regime also became applicable. Following the amendments to the Law on Personal Income Tax, taxation on capital gains will only be due when funds are withdrawn, and only when the amount withdrawn from the investment account exceeds the amount of funds deposited. This encourages long-term investment strategies and enables investors to grow their capital over time. The primary objective of these amendments is to simplify the taxation and declaration of financial investment income, creating better conditions for Lithuanian residents to invest continuously in a broad range of financial products: (i) stocks and bonds, (ii) investment funds such as mutual funds and ETFs, (iii) crowdfunding and peer-to-peer lending opportunities, and (iv) derivatives like options and futures. By combining favourable tax treatment with flexible features, the investment account is intended to create a stronger culture of investing among residents ([94]). The success of the investment account will depend on the provision of legal certainty in its practical implementation. The amendments also provide for a gradual phase-out of tax incentives related to long-term life insurance and third-pillar pension contributions, which will continue to be applied over the next 10 years to contracts concluded up until the end of 2024.

The banking sector: resilience and financing of the economy

Lithuania's banking sector remains resilient, with most performance indicators ranking among the best across the EU, so its lending capacity is not constrained. The sector's resilience is bolstered by strong capitalisation and asset-quality metrics, with a capital adequacy ratio of 22.1% at the end of Q3-2025, above the EU average of 20.2% (Table A6.2). This ratio comes with a high level of high-quality loss-absorption capital, as the CET1 ratio stood at 20.6% in Q3-2025, well above the EU average of 16.8%. Thanks to the strong and stable domestic customer-deposit base, credit institutions do not need to draw on additional funding from financial markets nor do they rely heavily on their cross-border parent banking groups. The liquidity coverage ratio was nearly 400% in Q3-2025, according to the EBA Risk dashboard, the highest level in the EU ([95]). Despite their high liquidity and

([93]) A gap analysis of the 2nd pillar of the Lithuanian pension system compared with international good practice is provided here: Technical Support in transforming the existing fully state-administered funded pension scheme in Lithuania - Reforms and Investments , direct link to gap analysis: here.

([94]) See EU Recommendation 2025/2029 of 30 September 2025 on increasing the availability of savings and investment accounts with simplified and advantageous tax treatment.

([95]) Note that the Revolut Group has a significant upward impact on the average liquidity ratio of the banking sector due to its specific business model.

ample deposits, Lithuanian banks convert a smaller proportion of these deposits into loans than occurs in other EU countries, due to structural inefficiencies (such as risk aversion and high market concentration). The accumulated excess liquidity together with a predominant share of variable-rate loans in the wake of higher key interest rates has led to an increase in the profitability ratios of Lithuanian banks; the return-on-equity ratio was 17.9% at the end of Q3-2025, almost twice as high as the EU average. For total net operating income, both the net fee and commission income as well as the net interest income are among the highest of the EU.

Although credit growth recovered recently for both households and NFCs, the ratio of bank loans to GDP is among the lowest in the EU. The combined ratio of Lithuanian bank loans to households and businesses relative to GDP has recently been below its long-term trend, and significantly below the EU average (37.8% as of end Q3-2025 vs the EU average of 72.9%). Credit growth has been on a general downward path since September 2022, both for households and NFCs. Demand from borrowers declined as a result of higher interest rates and heightened uncertainty, while the lending capacity of banks was not overly constrained. Over 2024, credit growth recovered, as lending standards eased on the back of expectations of monetary policy easing. For households, the adjusted annual credit growth rate for loans gradually edged up from 6.5% in March 2024 to 15.1% in November 2025. For NFCs, annual credit growth recovered from 2.9% in August 2023 to reach 20.1% in Q3-2025. Demand from companies was positively influenced by capital investments and declining interest rates. Lithuanian banks' balance sheets are relatively more exposed to smaller and riskier companies. On a cross-border consolidated basis, i.e. including foreign operations, the share of loans to SMEs in total loans to NFCs increased from 37.5% at end-2019 to 66.8% at end Q3-2025, way above the EU average of 40.5%, but explained by the predominance of SMEs in the Lithuanian corporate sector. Overall, the indebtedness of businesses and households remained stable, as indicated by the 52.4% private sector debt-to-GDP ratio at the end of 2024 according to Eurostat data.

Role of non-bank financial intermediaries

The role of the non-bank financial sector in the economy is still considerably less important than in other euro area countries. At the end of 2024, the Lithuanian second-pillar pension funds had accumulated around EUR 9.6 billion of assets (12.2% of GDP vs EU average of 32.3% of GDP), with 84% of them held in investment fund shares or units. Debt securities are the second largest investment asset held by pension funds, while equities only constitute around 2% ([96]). Lithuania has taken a very liberal stance on international investments. For example, in 2024, only 12% of assets under management in second pillar pension schemes were invested in Lithuania and only around 1% of that amount in equity. Providing a wider range of financial market instruments traded on the capital markets could diversify the pension funds industry's investment portfolio and render its role in the country's funding chain more significant. The investment portfolio of Lithuanian insurers is even more conservative. The Lithuanian insurance sector mainly invests in bonds, which represented around 60% of total assets by Q1-2025 (compared with 20% for the EEA) ([97]), the bulk of which consisted of government debt securities, with nearly 95% of them being issued by EEA countries. Another 7% was held in cash and deposits.

The provision by domestic institutional investors of funding for start-ups and venture capital investment decreased considerably over 2024 compared with previous years. This is most probably due to the fact that most fundraising in 2024 came from venture capital (VC) funds focusing on earlier stage investing, where pension fund activity and equity tickets provided are smaller ([98]). Recent Market Overview data show that pension funds in Lithuania accounted on average for 13% of

([96]) Lietuvos bankas, Pension fund balance sheet statistics (https://www.lb.lt/en/m_statistics/t-pension-fund-balance-sheet-statistics/?export=pdf)

([97]) Source: Bank of Lithuania, Review of Lithuania's insurance market (2025/Q1); EIOPA Insurance Statistics.

([98]) KPMG (2025), Baltic Private Equity and Venture Capital Market Overview 2024.

private equity (PE) and VC funds raised over 2024, a figure in line with the other Baltic states.

Venture capital ecosystem

Lithuania has implemented several policies to attract more foreign investment and nurture homegrown start-ups. These policies include streamlined business registration processes and financial support for innovative projects. The Lithuanian government also offers various grant programmes and schemes to mobilise VC investment to support start-ups. Lithuania's regulatory environment is conducive to innovation and entrepreneurship through initiatives focused on promoting fintech innovation, like the regulatory sandbox and the newcomers program, both managed by the country's central bank. The government has also taken steps to simplify licensing procedures, reduce bureaucracy and create a business-friendly environment. This approach makes it easier for start-ups to navigate legal and regulatory requirements. A significant proportion of the start-ups operate in the fintech industry, whose importance in Lithuania's financial system continues to grow. Lithuania now ranks first in the EU by the number of licensed fintech companies.

The start-up ecosystem has driven VC and PE funding levels. Lithuania has maintained its position as the fastest-growing start-up ecosystem in the Baltic region: the combined enterprise value of Lithuanian start-ups grew seven times larger between 2019 and 2024, against a Baltic growth average of 2.5 times and a European average of 2.3. Most investment went into Lithuanian companies operating in the consumer services sector, including fintech, ICT, games development, biotech and lasertech ([99]). In 2025, start-ups in the country raised a total of EUR 220 million, marking a considerable increase on a year earlier. Despite this, according to the capital markets union dashboard, Lithuania hovers around the EU average (0.064%) in terms of annual VC investments relative to GDP, with 0.057% over 2022-24. In terms of annual PE investments relative to GDP the country lags behind the EU average (0.3% in 2024, vs the EU average of 0.5%).

The establishment of VC funds in Lithuania, as in the other Baltic countries, still depends on public co-funding. It takes place through co-investments from the state budget, EU funds, the EBRD and the European Investment Fund, pension funds, and private investment funds. Government agencies remain a key funding source for local fund managers with the proportion of government-sourced capital around one third, comparable to that of the other Baltic countries ([100]). There is also high level of cross-border activity in the PE and VC industry, where fund managers operate across the Baltic countries. In this respect, there is a need to overcome regional fragmentation that stems from the use of public funds as well as to tap into the unused potential of pension funds (currently 90% of Lithuanian pension funds' assets are invested abroad). This may prove challenging given the liquidity management following the two-year withdrawal window opened by the second pillar reform and the abolition of automatic enrolment that would have been helpful in rebuilding depleted capital.

([99]) The Lithuania start-up ecosystem 2024, Dealroom, Feb 2025.

([100]) In 2024 government funding still accounted for 31% of VC raised, an increase from 23% in 2019. Source: KPMG, LTVC, LVCA, ESTVCA, Baltic Private Equity and Venture Capital Market Overview 2024.

Table A6.2: **Financial sector indicators**

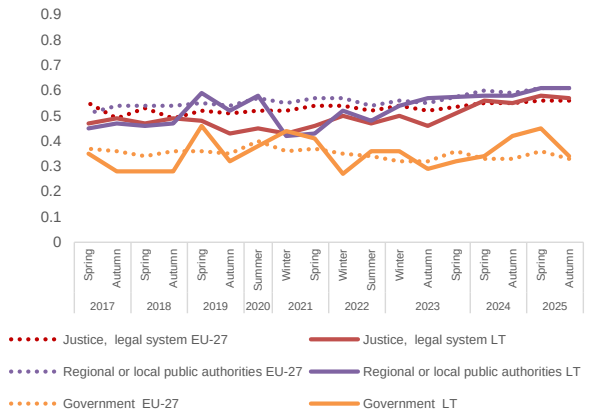
		2018	2019	2020	2021	2022	2023	2024	2025-Q3	EU
Banking sector	Total assets of MFIs, % of GDP	65.4	65.4	78.8	78.2	85.6	85.5	96.1	105.7	246.1
	Common equity Tier 1 ratio	18.4	19.5	21.5	23.2	20.2	18.6	21.1	20.6	16.8
	Total capital adequacy ratio	18.6	19.9	21.9	23.5	20.4	19.9	22.6	22.1	20.2
	Overall NPL ratio, % of all loans	2.6	1.7	2.2	1.2	0.9	0.8	0.7	0.5	1.9
	NPL ratio, loans to NFCs	4.1	2.9	3.5	1.7	1.5	1.4	1.4	1.1	3.5
	NPL ratio, loans to HHs	3.0	2.1	1.8	1.0	0.8	1.2	1.1	1.1	2.1
	Return on equity ratio[1]	12.3	14.5	10.0	10.4	13.5	21.2	18.7	17.9	9.6
	Loans to NFCs, % of GDP	18.7	17.4	14.8	15.4	15.3	14.4	15.4	16.6	29.3
	Loans to HHs, % of GDP	21.0	21.1	22.0	21.6	20.3	19.5	20.2	21.2	43.6
	NFC credit growth rate, %	4.7	-0.8	-12.7	11.7	18.5	4.6	13.9	20.1	2.5
	HH credit growth rate, %	8.6	7.2	6.5	10.7	11.3	6.6	9.8	14.8	2.6
Non-banking sector	Stock market capitalisation, % of GDP	7.3	7.5	9.0	9.1	7.1	6.1	6.1	6.2	69.9
	Initial public offerings, % of GDP	0.19	0.03	3.30	0.00	0.00	0.00	0.00	-	0.06
	Market funding ratio	21.7	22.3	36.7	36.2	33.1	31.5	28.7	-	49.7
	Private equity, % of GDP	0.190	0.278	0.321	0.486	0.386	0.444	0.286	-	0.487
	Venture capital, % of GDP	0.007	0.008	0.014	0.039	0.071	0.075	0.057	-	0.064
	Financial literacy, composite index	-	-	-	-	-	43.5	-	-	45.5
	Bonds, % of HHs' financial assets	0.9	1.0	1.1	0.5	0.8	1.3	1.3	-	2.8
	Listed shares, % of HHs' financial assets	1.6	1.6	1.7	2.2	1.9	2.0	2.3	-	4.8
	Investment funds, % of HHs' financial assets	1.7	1.7	1.7	2.3	2.2	2.2	2.7	-	11.0
	Insurance/pension funds, % of HHs' financial assets	11.9	12.9	12.9	13.9	12.9	14.2	16.5	-	27.8
	Total assets of insurers, % of GDP	3.0	2.5	3.0	2.7	2.4	2.4	2.5	2.5	53.9
	Pension assets, bn EUR	-	-	-	6.1	5.8	7.5	9.6	-	5813.8
	Pension assets, % of GDP	-	-	-	10.8	8.7	10.1	12.2	-	32.3
	10y real return average of pension assets, %	-	-	-	-	-	0.2	0.5	-	1.4
	Pension funds assets, ECB (% of GDP)	-	8.2	9.3	10.8	8.7	10.0	12.1	12.6	23.0
	1-3 / 4-10 / 11-17 / 18-24 / 25-27	Colours indicate performance ranking among the 27 EU Member States.								

Annualised data. EU data on credit growth and the ECB pension funds refer to the EA average.
PE and VC, % of GDP is calculated as a three-year moving average.
Source: ECB, ESTAT, OECD, CMU Dashboard, AMECO.

An effective institutional framework is essential for competitiveness. This requires public trust built on integrity, high-quality legislation, regulatory simplification and efficient services for people and businesses. For Lithuania, the 2025 country specific recommendations highlighted the need to reduce regional disparities by improving the legal and institutional framework to promote inter-municipal cooperation and development of local clusters to attract investments to regions ([101]). (see Annexes 18 and 5)

Public trust

Graph A7.1: **Trust in the justice system, regional / local authorities and in government**



(1) EU-27 since 2019; EU-28 before
Source: European Commission, Standard Eurobarometer surveys

Lithuania currently has a variable, but relatively consistent level of public trust. Trust in government improved between 2023 (Lithuania 29%; EU 32%) and 2025 (Lithuania 34%; EU 33%) with a high of 45% in spring 2025. Trust in the judiciary and legal system and in regional or local authorities have improved to align with the current EU average (57% and 61% respectively). Both the public and businesses trust that the public administration protects the personal and company data that it collects ([102]).

Quality of lawmaking and implementation

Lithuania's rules for lawmaking broadly conform to best practice by reducing the regulatory burden and ensuring effective implementation, albeit with scope for improvement ([103]) (Table A7.1). When developing primary and secondary laws the procedure for assessing the level of compliance could be improved ([104]). Lithuania has high-level requirements for regulatory impact assessment (RIAs), consultation and *ex post* evaluation. RIAs are mandatory for all primary laws. Consultation is required once a regulation is drafted. This obligation was updated in 2022 to determine more clearly when the public should be consulted, the purpose of the consultation and what data should be collected. A procedure for *ex post* evaluation was introduced in 2021, which determines i) the objectives, ii) the scope of applications, iii) the roles of those involved, and iv) extending its application to subordinate regulations. It includes an assessment of whether laws achieve their objectives and the associated costs and benefits.

Weak coordination at the central government levels and limited assessment of the impact of policy on regions are hindering efforts to tackle regional disparities (See Annex 18). Institutional fragmentation hampers the response to challenges such as housing, mobility and local development. Regional policy funding replicates the fragmentation and addresses symptoms rather than causes. An ongoing reform focuses on defining institutional roles in regional policy, supporting regional strategies and strengthening regional institutions.

Lithuania is working to reinforce the governance framework for effective regional policy under the Technical Support Instrument. Recent legislative amendments aim to resolve bottlenecks in inter-municipal cooperation for public service provision, including

([101]) 2025 European Semester: Country Specific Recommendations / Commission Recommendations - European Commission

([102]) European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([103]) OECD, 2025, Lithuania: OECD Regulatory Policy Outlook 2025.

([104]) OECD, 2025, Regulatory Policy Outlook 2025, OECD Publishing, Paris, https://doi.org/10.1787/56b60e39-en

Table A7.1: **Lithuania. Selected indicators on better regulation practices for primary legislation**

Tools for smart legislation:	
Share of possible impacts assessed for all primary laws when developing legislation	●
Regulators are required to identify and quantify the benefits of a new primary law	●
Regulators are required to identify and assess the impacts of alternative non-regulatory options	●
Tools for effective implementation: when developing laws, regulators are required to:	
Assess the level of compliance	●
Identify and assess potential enforcement mechanisms	●
Specify the methodology of measuring progress in achieving the law's goals	●
Oversight of better regulation:	
There is an external body responsible for reviewing the quality of RIAs and of ex post evacuations	●
There are publicly available assessments of the effectiveness of RIA in modifying regulatory proposals	●
There are reports on the level of compliance by government department with the requirements of RIA	●
There are indicators on the percentage of ex post evaluations that comply with guidelines	●
The effectiveness of ex post evaluations in improving the regulatory stock has been assessed in the last five years	●

● High / yes / for all primary laws ● Medium / in part / for major primary laws ● Low / for some primary laws ● Very low / no / never

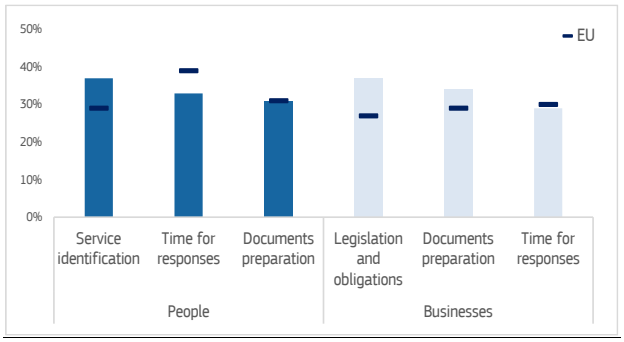
Source: OECD, 2025, Regulatory Policy Outlook 2025 [https://doi.org/10.1787/56b60e39-en] and Better Regulation across the European Union 2025

public-transport coordination. The government is working to strengthen the legal and institutional framework to develop local clusters, attract investment and enhance the provision of public services.

Public service delivery and digitalisation

Lithuania continues to make good progress in digitalising its public services but faces challenges in ensuring seamless user experiences. Overall people are satisfied with public administration (Lithuania 55%; EU 45%), yet 43% describe it as complex and burdensome ([105]). People identify multiple issues such as the time spent accessing public services, which involves identifying the correct service, processing and waiting times (Graph A7.2). A high proportion of respondents in Lithuania suggest that the area most in need of improvement is public services compared to other Baltic States and other EU countries (Lithuania 50%; Estonia 41%; Latvia 43%; EU 44%) ([106]). Among businesses, 43% are satisfied or very satisfied with public-administration services, whereas 41% report increased operational costs of public-administration services (compared to 30% for EU). The most time-consuming aspect for businesses is understanding legislative requirements and gathering the required documents (Graph A7.2). A higher proportion considers compliance and reporting to be challenging (Lithuania 19%; EU: 14%).

Graph A7.2: **Most time-consuming aspects of service delivery**



Source: European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Lithuania offers more digital public services to the public than the EU average (Table A7.2). Digital adoption is also high, with only 8% of people saying they never use digital services ([107]). As regards eID the average is 97.2%: 100% for businesses and 96.4 for members of the public

([105])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([106])European Commission, 2025, Flash Eurobarometer survey 561 Public opinion on urban challenges and investment in cities.

([107])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

Table A7.2: **Digital Decade key performance indicators: availability of digital public services**

	Lithuania			EU-27
	2023	2024	2025	2025
Digital public services for citizens (0 to 100)	84	87	88	82
Digital public services for businesses (0 to 100)	94	96	93	86
Access to electronic health records (0 to 100)	92	95	95	83

(1) Digital Decade target by 2030: 100. (2) Publishing year, data was collected in the previous year
Source: European Commission, State of the Digital Decade report 2025

([108]). The e-government benchmark results include a high score for pre-filled forms (96.5%) and 71% of people say that digital services save time. On the downside, according to 73% of people public administration asks for the same data repeatedly ([109]).

Lithuania is among the countries offering the most digital public services to companies (Table A7.2). Only 6% of businesses report that they never use digital services and 86% find that digital public services save time ([110]). Since 2018 Lithuania has been developing an e-government gateway (epaslaugos.lt), which provides life-event services. It acts as a central hub that streamlines access to essential public services and helps people find the portal they are looking for. For example, when registering a business, the centre of registries receives company applications through an integrated services platform, which connects to various state registers to validate and auto-fill data. After review via JADIS (Information System for Participants of Legal Entities), the company is registered in the Legal Entities Register (JAR), and its data are automatically shared with the taxpayers and social security registers ([111]).

Lithuania is working on enhancing its digital permit infrastructure and processes. There is a complex institutional landscape involving up to 30 institutional and non-institutional actors. System integration is required to fully transform this process: construction, environmental and energy permitting currently operate in parallel digital siloes ([112]) ([113]). For renewable energy projects steps are handled sequentially rather than in parallel. Public resistance to new industrial projects significantly affects the decision-making process, especially at municipal level, impacting both the content and timing of decisions ([114]).

Lithuania is involved in a number of projects to modernise and streamline the licensing process. The Technical Support Instrument supported Lithuania by giving recommendations on how to expand and enhance digital systems and tools that facilitate the exchange of information between the various authorities involved in renewable energy permitting processes ([115]).

The Ministry of the Economy and Innovation, in conjunction with multiple partners, is implementing a project to modernise and standardise the licensing process. The project helps businesses to comply with legal requirements under which all procedures relating to setting up, running and closing a business must be fully digitised and made available online to both national and cross-border users throughout the European Union. Its purpose is to create a one-stop shop for accessing all services, thereby reducing the administrative burden on businesses – both Lithuanian and from other EU countries – when they apply for the permits they need.

To strengthen the seamless provision of services, Lithuania has initiated legislative

([108])European Commission, 2025, Digital Decade 2025: eGovernment Benchmark 2025.

([109])European Commission, 2026, Flash Eurobarometer surveys 567 and 568 on satisfaction with administrative services.

([110])Ibid.

([111])European Commission, forthcoming, Simplification of key life events.

([112])Improving the efficiency of the construction supervision system in Lithuania - Reforms and Investments

([113])European Commission, Digital connectivity in Lithuania | Shaping Europe's digital future

([114])Semester mission questionnaire for Lithuanian authorities

([115])Lithuania - Reforms and Investments - European Commission

changes to limit public administration in terms of asking businesses and the public to provide data that is already in a state register or system. For these restrictions to work, however the authorities would need to improve interoperability and collaboration if they are to facilitate data exchange. Digital infrastructure is an obstacle to the delivery of public services in the regions and to overcoming regional disparities (See Annexes 5 and 18).

Lithuania has enabled the cross-border exchange of data and documents between authorities through the EU once-only technical system([116]). As more services ([117]) become accessible through the system, the public and businesses will no longer have to search for their data, download and upload documents manually across e-government portals in different Member States. Lithuania still needs to identify the types of documents needed to exchange through the system and explore ways to shift from the submission of unstructured to structured data formats. Lithuania has connected a procedure([118]) in the field of education (studying abroad) and authority registries in the fields of population and education are connected.

Civil service

Lithuania has a well-educated civil service, with higher education a mandatory requirement for civil servants and is working on increasing skills and performance. A large proportion of employees in public administration, defence and compulsory social security have higher education (Lithuania 81.9%; EU 54.6%)([119]) and participate in adult learning ([120]). A major reform of the civil service ([121]), due to be implemented in 2026, aims to improve leadership professionalism, flexibility and efficiency in the civil service. It will also modernise human resource management and introduce innovations in the civil service.

A procedure for applying the civil service's strategic-analysis and performance-evaluation system will be developed and enshrined in legislation. The purpose will be to monitor the implementation of indicators for performance analysis and efficiency evaluation ([122]). In the 2024 EU/OECD survey of public, carried out under the Technical Support Instrument, Lithuania scored lower than its EU peers in wellbeing and job autonomy ([123]). Making progress in these area may help to improve the attractiveness of careers in the service.

Integrity

Corruption is viewed as less of a concern for business in Lithuania than in the EU overall, and reported experiences are even rarer. Although a lower proportion of companies than the EU average say corruption is widespread (56% vs EU: 63%), there are major concerns about the potential for close links between business and politics to lead to corruption (Lithuania 84%; EU 76%). Yet only 21% see corruption as a problem when doing business (EU: 35%) ([124]), which suggests that concerns are driven more by perceived political influence than by day-to-day obstacles for companies. Sectors in Lithuania that are particularly vulnerable to corruption in Lithuania are public procurement, healthcare, local government, environmental protection, territorial

([116])European Commission, *Once-Only Technical System Acceleratormeter*, Ec.europa.eu.

([117])Procedure types under Annex II of the SDGR (2018/1724/EU) and directives 2005/36/EC, 2006/123/EC, 2014/24/EU and 2014/25/EU.

([118])European Commission, 2025, *Once-Only services going live! Applying for studies in Lithuanian higher education institutions*, Ec.europa.eu.

([119])European Commission, Eurostat, 2026, European Union Labour Force Survey, Employees by educational attainment level and NACE Rev. 2 activity (2008-2026).

([120])European Commission, Eurostat, 2026, European Union Labour Force Survey, Participation rate of employees in education and training (last 4 weeks) by NACE Rev. 2 activity (2008-2026).

([121])Public Administration Reform Project "Civil Service Reform" - GOVERNMENT OF THE REPUBLIC OF LITHUANIA

([122])Valstybės tarnybos pertvarka.

([123])Technical documentation supporting the 2024 EU/OECD Survey of Public Servants: Workforce Insights from Central Governments | OECD

([124])European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

planning and construction supervision ([125]) (see Annex 5).

Very few companies report being asked for gifts, favours or extra money in exchange for permits, services or procurement (Lithuania 3%; EU: 10%). A much higher proportion than the EU average consider sanctions for senior-level bribery to be appropriate (Lithuania 49%; EU: 33%) ([126]). This suggests limited exposure to bribery and a perception of strict enforcement.

Various initiatives are being carried out to prevent corruption and promote integrity in the public and private sectors. The results of the evaluation of the amendments to the Law on Prevention of Corruption were publicly presented at a dedicated event. The objective was to highlight the impact of the current legal framework on corruption prevention. As regards the implementation of that law, the guidelines for creating an anti-corruption environment in the public sector were updated in 2024, and several events were held on the subject, attended by business associations ([127]).

While Lithuania continued its efforts to combat corruption, majorsteps were taken to address shortcomings in the fight against foreign bribery. In the context of implementation of measures relating to foreign bribery ([128]), in October 2025, the STT (Lithuania's special investigation service) published tailored guidelines intended for all companies, institutions and organisations involved in international transactions and financial flows. The objective was to identify potential cases of bribery of foreign officials and to provide information on how to report such incidents ([129]). On 18 December 2025, the OECD acknowledged Lithuania's progress in implementing the 2023 recommendations ([130]) to address shortcomings in the fight against foreign bribery. According to the follow-up report, Lithuania has fully implemented 27 recommendations, partially implemented 14 and not implemented 8 ([131]).

Justice

The justice system continues to perform efficiently. In 2024, the time taken to reach a decision in civil and commercial cases in first-instance courts increased slightly to 127 days, from 120 days in 2023). It remained the lowest in the EU. The estimated time taken to resolve administrative cases in first-instance courts was also the shortest in the EU. However, this number doubled from 64 days in 2023 to 140 in 2024. There is widespread use of digital tools in the justice system. Lithuania performs well in i) digital solutions to initiate and follow proceedings in civil/commercial and administrative cases, ii) online access for the public to published judgments, and iii) arrangements for producing machine-readable judicial decisions ([132]).

([125])European Commission, 2025 Rule of Law Report, p.10.

([126])European Commission, 2025, Flash Eurobarometer survey 557 on Businesses' attitudes towards corruption in the EU.

([127])Euroepan Commission, 2025 Rule of Law Report, p.9.

([128])European Commission, 2025 Rule of Law Report, Lithuania, pp. 8-9.

([129])Guidelines for Identifying and Reporting Cases of Money Laundering Related to the Bribery of Foreign Officials, Special Investigation Service, 2025, STT official website.

([130])OECD (2023).

([131])OECD (2025).

([132])For a more detailed analysis of the performance of the justice system in Lithuania, see the upcoming 2026 EU Justice Scoreboard and the 2025 Rule of Law Report.

Lithuania faces challenges regarding the decarbonisation of industry and road transport, the circular economy, and resource productivity and efficiency. For Lithuania, the 2025 country-specific recommendations highlighted challenges in the transformation and decarbonisation of industrial production, the uptake of public and sustainable transport, resource productivity and efficiency, and the progression towards a circular economy. Lithuania is taking steps to address its decarbonisation challenges, including by making funding available, but progress remains slow. While it has made progress over the past year in municipal waste management, notably by reducing landfilling, several challenges remain. These include the slow transition to a circular economy and low resource productivity.

Industry decarbonisation

Greenhouse gas emissions from industry

In 2024, 14% of Lithuania's total greenhouse gas (GHG) emissions came from manufacturing ([133]). The manufacturing sector is relatively emissions intensive, with a major share of emissions coming from industry processes and product use. At 14%, the share of industry in Lithuania's total GHG emissions is below the EU average of 17% ([134]). The GHG emission intensity of Lithuania's manufacturing production was 360 g CO_2eq per euro of gross value added (GVA) in 2022. Since 2019, the GHG intensity of Lithuania's manufacturing production has decreased by 23%, which is more than the EU average (19%). Nearly two thirds of Lithuania's manufacturing GHG emissions – 65% in 2023 – come from industrial processes and product use, with the remainder being energy related. Between 2018 and 2023, the energy-related GHG emission intensity of manufacturing improved by 27%, above the EU average of 20% ([135]).

Policies to promote industry decarbonisation

Policies to promote the decarbonisation of industry in Lithuania largely draw on EU funding. The Modernisation Fund supports several industrial decarbonisation projects, such as the EUR 42 million project for 'Decarbonisation of industry through energy efficiency and substitution of polluting technologies with less polluting ones', for which the first call was published in July 2025. In addition, Lithuania has received a further EUR 11 million from the Modernisation Fund to accelerate the deployment of renewable energy in industry. Support is provided primarily to manufacturing installations participating in the EU emissions trading system, to help them install new renewable energy capacity and expand existing infrastructure. Cohesion policy funds also substantially contribute to decarbonisation of industrial production. Funds from the European Regional Development Fund and Cohesion Fund (EUR 41 million) support energy-efficiency measures by industrial enterprises and the deployment of renewable energy solutions for production lines and technologies. In addition, the Just Transition Fund (EUR 273 million) focuses on reducing GHG emissions and creating opportunities for economic diversification for enterprises and people working in the territories most affected by the transition towards a climate neutral economy, namely Kaunas, Telšiai and Šiauliai counties, where the highly GHG-intensive industrial installations are situated.

([133])This Annex discusses the transition of Lithuania's manufacturing industry, specifically its energy-intensive industries, to low-carbon and net-zero modes of production, which is key to preserving competitiveness on the path towards climate neutrality as mandated by the European Climate Law. A broader perspective on the current competitiveness challenges facing Lithuania's manufacturing industry is provided in Annex 5. For a more detailed description of greenhouse gas emissions from industry, see European Commission (2025), 2025 Country Report - Lithuania, Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation. – The above figure excludes NACE division C19 (manufacture of coke and refined petroleum products).

([134])Data on the manufacturing sector exclude the NACE division C19 – manufacture of coke and refined petroleum products, for better match of the sectoral data from Eurostat (gross value added) with those from the UNFCCC under the Common Reporting Format. Also see further indicators on industry decarbonisation, as well as the annotation for further information, in table A8.1 at the end of this Annex.

([135])See European Commission, 2025 Country Report – Lithuania, Commission staff working document, SWD (2025) 205 final, Brussels, 4.6.2025, Annex A7. Clean industry and climate mitigation, pp. 61ff.

Lithuania is taking some steps to promote the transformation and decarbonisation of industrial production, however a harmonised approach is missing. In an effort to address the 2025 recommendation on decarbonising industrial production, national legislation on the propagation of carbon capture and storage technology will be put in place in 2026. It will designate a competent regulator and a network operator, lay down rules on unbundling and permissible infrastructure ownership models, set conditions for third-party access and establish tariff mechanisms. Furthermore, a one-stop shop, the 'GreenTech Hub', was set up in 2024 within the Innovation Agency. It provides information on funding opportunities and how to prepare an application ([136]). In addition, Invest Lithuania serves as a single point of contact for permitting procedures.

Reduction of effort sharing emissions

Compliance with effort sharing limits with domestic measures

For 2030, Lithuania is projected to overachieve its effort sharing target ([137])**.** In 2024, GHG emissions from Lithuania's effort sharing sectors are expected to have been 2% above those of 2005. By 2030, with current and planned policies and measures, these emissions are expected to decrease by 21.2%, resulting in a surplus of 0.2 percentage points relative to the 2030 target of −21%. Lithuania is projected to exceed its effort sharing emission limits temporarily in the 2021-2030 period but could cover the gap with unused annual emission allocations from other years to comply with the Effort Sharing Regulation.

Sustainable transport

Road transport remains dominant in Lithuania's transport sector, underscoring the slow pace of decarbonisation efforts to date. Lithuania's old car fleet remains a key factor behind its GHG emissions from road transport. In 2024, 44% of Lithuania's effort sharing emissions came from road transport, and they have increased by 41% from 2005 levels ([138]). Car dependence is extremely high, with 92.1% of inland passenger journeys made by car in 2023 ([139]). Between December 2019 and December 2024, the number of registered passenger cars in Lithuania increased by 15%, which is among the highest increases in the EU ([140]). In addition, the car fleet is old and polluting; 27.6% of the passenger car fleet is 20 years old or more, and 48.7% is between 10 and 20 years old ([141]), and in 2024 71.5% of newly registered passenger cars were petrol-powered (including hybrids) ([142]).

Lithuania is taking some measures to try to address the 2025 recommendation on *increasing the uptake of public and sustainable transport*, however success is limited. Support is provided for the purchase of battery electric vehicles, under the Recovery and Resilience Facility, the European Regional Development Fund, the Cohesion Fund and the Modernisation Fund, to accelerate the renewal of the vehicle fleet and encourage the uptake of cleaner vehicles. In addition, municipalities are required to prepare and approve plans for the installation of publicly accessible charging points; all 60 municipalities have now prepared their plans. Despite these initiatives, electric vehicle penetration remains low for private use; in 2024, only 5.9% of newly registered passenger cars were battery electric, which is below the EU-27 average

([136])See more information here.

([137])The national GHG emission reduction target is set out in Regulation (EU) 2018/842 (the Effort Sharing Regulation). It applies jointly to buildings (heating and cooling), road transport, agriculture, waste and small industry (known as the effort sharing sectors). The emissions from effort sharing sectors for 2024 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections about the impact of current policies ('with existing measures', WEM) and additional policies ('with additional measures', WAM) as per Lithuania's 2025 reporting under Article 17 of Regulation (EU) 2018/1999 (the Governance Regulation). Also see European Commission (2025), Climate Action Progress Report 2025 – Technical Information, Commission staff working document, Brussels, Chapter 9 (pp. 111ff.), and in particular Tables 25 and 26.

([138])See Graph A8.1, and Table A8.1 at the end of this Annex.

([139])Eurostat data: tran_hv_psmod.

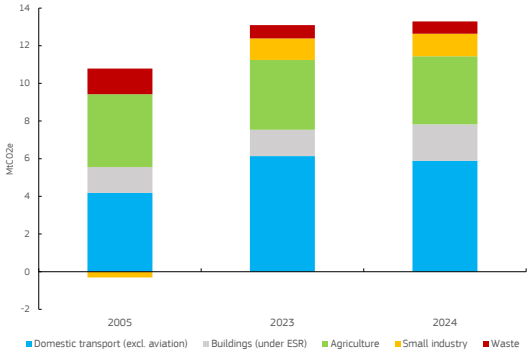
([140])Eurostat, 2026, *Passenger cars in the EU*, Link.

([141])Eurostat, 2026, *Passenger cars in the EU*, Link.

([142])EEA, 2025, *New registrations of electric cars in Europe*, Link.

of 13.6% ([143]). As regards public transport, just 7.9% of passenger journeys were made by trains, coaches, buses and trolley buses in 2023 ([144]). An integrated travel planning and single ticketing system is currently being developed as part of Lithuania's Social Climate Plan and is planned to be deployed by end-2028, which could make public transport a more attractive option. The cross-border Rail Baltica railway project, which aims to increase connectivity between the Baltic states and the rest of the EU, is crucial for shifting transport from road to rail and therefore boost sustainable mobility. In the context of soaring costs, however, its completion is not expected before 2030.

Graph A8.1: **Greenhouse gas emissions in the effort sharing sectors, 2005, 2023, 2024**



Source: European Environmental Agency

Rail transport continues to present untapped potential for decarbonising the transport sector. In 2023, only 1% of all inland passenger journeys in Lithuania were by rail, which is the second lowest share in the EU and below the EU-27 average of 8.4% ([145]). By contrast, rail accounted for 30.1% of freight transport in Lithuania in 2024 ([146]) compared with an average of 5.4%, but still a decrease of 7.1 percentage points since 2022 ([147]). To decarbonise transport, Lithuania could greatly benefit from electrifying its railways. Currently, only 8.1% of the railway network is electrified (EU-27 average: 57.6%) ([148]). The electrification of the Kaišiadorys-Klaipėda line, as currently planned, would significantly increase this share.

Lithuania has scope to improve fiscal incentives for zero-emission vehicles, including trucks. As regards toll exemptions for zero-emission vehicles, Lithuania has drawn up legislation to introduce tolls that would better reflect the infrastructure use and external costs of heavy-duty vehicles, but has not implemented it yet. Lithuania has some of the lowest transport taxes in the EU and is one of the few EU countries without an annual car pollution/circulation tax, thus missing out on an incentive for a shift towards more sustainable transport. Instead of encouraging the purchase of cleaner cars, the current model – a one-time fee paid at registration or ownership change — encourages owners to keep older, high-emission cars. This preserves a fleet where 63.4% of vehicles remain diesel-powered, stalling the natural turnover of the market ([149]).

Sustainable industry

Circular economy industry

As stated in last year's country report Lithuania faces challenges at national level in its transition to a circular economy. Lithuania received a country-specific recommendation in 2025 to increase resource productivity to progress towards a circular economy by focusing on resource efficiency and the transformation and decarbonisation of industrial production. With EUR 1.31 generated per kg of material consumed in 2024, resource productivity in Lithuania is less than half of the EU average of EUR 3 per kg and is the fourth lowest in the EU. Furthermore, at 34.7%, import material dependency in Lithuania was substantially higher than the EU average (22.4%) in 2024, although it had dropped from 41.4% in 2018. At 4.2%, the circular material use rate in 2024 was roughly one third of the EU average of 12.2%. The circular material use rate is stagnating and has been on a

([143])EEA, 2025, *New registrations of electric cars in Europe*, Link.

([144])Eurostat data: tran_hv_psmod

([145])Eurostat data: tran_hv_psmod

([146])Eurostat: tran_hv_ms_frmod

([147])Eurostat data: tran_hv_ms_frmod

([148])Eurostat data: tran_r_net and rail_if_line_tr

([149])As regards an annual fee, it should be noted that a flat tax without robust social safeguards would disproportionately penalise lower-income households that own older vehicles not by choice but through a lack of affordable second-hand alternatives.

downward trend since 2016. The recycling rate for construction and demolition waste was slightly above the EU average of 79.72%, at 81.26% in 2022. As for plastic packaging recycling, there was a drop from 71.5% in 2017 to 42.9% in 2023.

Lithuania has successfully reduced landfilling, surpassing the EU 2035 target, but its incineration rate has increased. Lithuania has been very successful in reducing landfilling, with only 5.6% of municipal waste sent to landfill in 2024, compared with the EU average of 21.3%. This marks a considerable decrease from a landfill rate of 86% in 2010. Lithuania has already overachieved the EU target of limiting landfilling to a maximum of 10% by 2035. On the other hand, the incineration rate has more than doubled since 2018 and stands at 38.7% in 2024, above the EU average of 26.1%. Lithuania's national waste prevention and management plan for 2021-2027 includes a ceiling for incineration capacity, stating that, by 2027, incinerated municipal waste must not exceed 429 000 tonnes per year. The municipal waste recycling rate stood at 52.5% in 2024, above the EU average of 48.1%.

Implementation of Lithuania's 2023 guidelines for the transition to a circular economy by 2035 is yet to bring about the necessary systemic change. One of the measures under the Lithuanian recovery and resilience plan was the adoption of a circular economy strategy in June 2023. Although it takes the form of guidelines, it serves as a mandatory action plan for stakeholders in the different sectors contributing to the circular economy. The goal is to create a fertile business environment for circular innovation and circular economy practices. Implementation is under way, but progress is slow. There has been a marginal 2% increase in circular economy jobs since 2014 ([150]), with the sector accounting for 4.2% of total employment in 2023, which is above the EU average of 2%.

Bioeconomy industry

Between 2018 and 2023, bioeconomy value added grew by 7.4% on average, which is below the EU-27 average of 5.1%. Of the bioeconomy subsectors, the bio-based chemicals and plastics subsector registered the highest growth in value added (17.0% on average between 2018 and 2023) ([151])([152]).

Overall bioeconomy employment has fallen slightly. However, the bio-based chemicals and plastics and wood products and furniture subsectors bucked that trend, recording growth in total employment between 2018 and 2023 (0.4% and 15.1% on average respectively).

Labour productivity in the bioeconomy – measured as value added per person employed – stood at 65.8% of the national average and has grown from 57.0% in 2018 ([153]).

R&D business expenditure from bioeconomy subsectors has grown by more than the overall R&D business expenditure in Lithuania (14.4% compared with an average of 10.4% between 2018 and 2023) ([154]).

Lithuania is rapidly scaling up its bio-based chemicals and plastics market, leveraging a biotechnology ecosystem and shifting toward manufacturing bio-based ingredients such as starch and proteins from local wheat. At the same time, bio-based textiles have been identified as an emerging high-potential niche within the national strategy to move towards higher value-added production. These efforts are central to the national bioeconomy strategy, which aims to reduce exports of raw biomass and achieve a 5% GDP contribution from biotechnology by 2030 ([155]).

Zero-pollution industry

Air quality in Lithuania is of concern, notably in the capital. Some 1 700 deaths could be attributed to air pollution in the form of fine particulate matter (PM2.5) and ozone exposure

([150])Eurostat, Persons employed in circular economy sectors, Link.

([151]) Joint Research Centre, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU, Link.

([152]) Bioeconomy subsectors: food and beverages; bio-based textiles; wood products and furniture; bio-based chemicals and plastics.

([153]) Ibid.

([154]) Joint Research Centre, Business expenditure in Research and Development (R&D) in the EU bioeconomy, Link,.

([155]) Bio-based Industries Consortium (BIC), *Mapping Lithuania's Bio-based Potential* (Brussels: BIC, 2020).

alone ([156]). The latest available annual estimates for 2023 attribute 14 500 years of life lost (YLL) to fine particulate matter (PM2.5) and 3 200 YLL to ozone exposure ([157]). As discussed in Annex 15 on health, environmental risks also weighed heavily on population health. The combination of behavioural risks (i.e. smoking, harmful alcohol use, poor diet and low physical activity) and air pollution accounted for 32% of all deaths in Lithuania in 2021, which is slightly higher than the EU average of 29%, underscoring the need for stronger and more comprehensive public health measures ([158]).

The solution to air pollution can be found through a combination of measures: (i) sustainable transport, energy and agricultural policies to reduce emissions of air pollutants; (ii) targeted urban and land-use planning policies; and (iii) specific fiscal actions (removing environmentally harmful subsidies and increasing targeted environmental taxation).

Water pollution from industry is low but increasing. Lithuania had the second lowest level of pollutant releases into water in the EU in 2022, with 0.07 kg/EUR 1 billion GVA, weighted by human toxicity factors (EU average: 0.86). Although there was a 71% decrease in industrial heavy metal releases (cadmium, mercury, nickel and lead) between 2010 and 2022, there was a 57% increase in total nitrogen releases and a 360% increase in total phosphorus releases, as reported under the Industrial Emissions Directive ([159]). In Lithuania, water pollution by industry imposes direct and indirect costs of EUR 54 million annually ([160]), not yet sufficiently borne by the polluters.

([156]) European Commission, 2025, *State of Health in the EU: Lithuania – Country Health Profile 2025*, p. 5, Link.

([157])EEA, 2025, *Harm to human health from air pollution in Europe: burden of disease status*, 2025, Link.

([158])European Commission, 2025, *State of Health in the EU: Lithuania – Country Health Profile 2025*, p. 5, Link.

([159])EEA, Water pollutant releases changes from 2010 to 2022 for the EU Member States, 2024, Link.

([160])European Commission: Directorate-General for Environment, IEEP, Green taxation and other economic instruments – Internalising environmental costs to make the polluter pay (p. 48, Table 5), 2021. Link.

Table A8.1: **Key clean industry and climate mitigation indicators: Lithuania**

Climate mitigation	Lithuania							Trend	EU	
Industry decarbonisation	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emissions intensity of manufacturing production, g/€ (1)	510	520	520	450	360	-	-	**#VALUE!**	330	-
Share of energy-related emissions in industrial GHG emissions (2)	30.6	29.7	29.1	31.7	35.0	34.7	-	↗	55.5	57.9
Energy-related GHG emissions intensity of manufacturing and construction, g/€ (3)	168.0	167.1	150.6	146.0	132.5	122.8	-	↘	203.9	163.0
Share of electricity and renewables in final energy consumption in manufacturing, % (4)	38.6	39.3	43.8	42.4	46.0	48.3	46.9	↗	42.8	43.9
Energy intensity of manufacturing, GWh/€ (4)	1.66	1.61	1.45	1.42	1.15	1.11	1.18	↘	1.27	1.05
Share of energy-intensive industries in manufacturing production, % in GVA (5)	-	-	-	-	-	-	-		-	-
GHG emissions intensity of production in sector [..], g/€ (6)										
- paper and paper products (NACE C17)	272	256	183	178	144	131	147	↘	722	619
- chemicals and chemical products (NACE C20)	3 474	3 481	2 613	1 952	1 569	2 508	2 295	↘	-	-
- other non-metallic mineral products (NACE C23)	3 621	3 921	3 648	3 817	4 546	3 383	3 407	↘	2 495	2 352
- basic metals (NACE C24)	220	330	69	30	27	41	24	↘	2 842	3 099
Reduction of effort sharing emissions	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2023**
GHG emission reductions relative to base year, %				5.1	2.1	0.6	2.0			
- domestic road transport	44.8	50.0	46.4	46.1	43.5	46.7	40.8	↘	-1.4	-5.6
- buildings	9.2	3.6	-3.1	9.6	7.8	1.5	40.7	↗	-20.3	-33.5
	2005			**2021**	**2022**	**2023**	**2024**	**Target**	**WEM**	**WAM**
Effort sharing: GHG emissions, Mt; target, gap, %	13.1			13.7	13.3	13.1	13.3	-21.0%	-17.9%	-21.2%
Sustainable road transport	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2018**	**2021**
New zero-emission vehicles, electricity motor, % (7)	0.65	0.68	1.17	4.53	6.25	8.23	6.74		1.03	8.96
Number of publicly accessible AC/DC charging points (8)	-	-	123	127	428	1313	2947	4713	446956	n/a
Share of electrified railways, % of total (9)	7.98	7.98	7.98	7.98	7.94	7.92	8.11		55.47	56.49

Sustainable industry	Lithuania							Trend	EU-27	
Circular economy transition	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**latest data**
Material footprint, tonnes per person	19.9	20.5	20.8	23.0	20.7	20.1	20.5	↘	14.8	13.7
Circular material use rate, %	4.3	3.9	4.0	4.1	4.0	4.1	4.2	↗	11.6	12.2
Resource productivity, €/kg	0.9	0.9	0.9	1.0	1.2	1.3	1.3	↗	2.1	3.0
Employees in circular economy	4.2	4.3	4.3	4.6	4.0	4.2	-		2.1	2.0
Patents in circular economy	0	1.5	-	1.0					12.3	12.0
Recycling rate	52.6	49.7	45.3	44.3	48.4	49.3	52.5		46.40	48.1
Plastic recyling	69%	70%	56%	45%	44%	43%	-		41%	42%
Construction and demolition waste (CDW) recovery	99	-	98						88	89
Bioeconomy industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**CAGR 2018-2023**	**2018**	**2023**
Value added, million EUR	3 319	3 619	4 133	4 584	5 984	5 106	-	7.4%	642 438	863 436
Employment, total number of people employed	195 545	185 266	173 370	173 984	180 773	170 903	-	-2.2%	17 649 040	17 085 642
Productivity										
Valued added per worker, thousand EUR	17.0	19.5	23.8	26.3	33.1	29.9	-	9.9%	36.4	50.5
Valued added per worker, % of national average	57.0	61.6	72.7	72.3	79.4	65.8	-	-	62.2	70.7
R&D business expenditure										
Total bioeconomy (biomass producing and converting sectors)	26	37	54	57	68	59		14.4%	15 672	23 335
Total R&D business expenditure	178	210	265	307	354	322	-	10.4%	196 587	259 525
Zero pollution industry	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**		**2018**	**2021**
Damage cost for industrial pollution	1.1	1.4	-	-	-	-	-		414.9	352.7

Water industrial pollutants releases	Cd, Hg, Ni, Pb		nitrogen		TOC		Phosporus			
	2021	change (2010)	2021	change (2010)	2021	change (2010)	2021	change (2010)		
	-	no data	-	no data	-	no data	-	no data		
Water chemical status	Good		4	Good (%)	0.0		Poor	61.0	Poor (%)	5%

Sources and notes: **Industry decarbonisation:** All data are from Eurostat; data following the UNFCCC Common Reporting Format (CRF) are from the European Environment Agency (EEA), republished by Eurostat. (1) Sectors covered: all divisions of section C - Manufacturing - of the NACE Rev. 2 statistical classification of economic activities, except C19 (manufacture of coke and refined petroleum products). (2) GHG emissions as per UNFCCC Common Reporting Framework (CRF) categories 1.A.2 - fuel combustion in manufacturing in industries and construction (that broadly correspond to the broadly correspond to the NACE sections C - Manufacturing and E - Construction, excluding C-19), and CRF2 - industrial processes and product use. The figures shows the emissions in the 1.A.2 category as a share of the sum of CRF1.A.2. and CRF2 emissions. (3) Sectors covered: CRF 1.A.2 as described above. Gross value added (GVA) data in the denominator aligned in sectoral coverage, in 2020 prices. (4) Sectors covered: NACE section C excluding C19. (5) Nominator: NACE divisions C17, 20, 23, 24; denominator: NACE section C excluding C19 (see above). (6) GVA (denominator) in 2020 prices. **Reduction of effort sharing emissions:** Data source: European Environment Agency, greenhouse gas data viewer; European Commission, Climate Action Progress Report, 2025. For details, see the footnote in the "Reduction of effort sharing emissions" section. **Sustainable road transport:** (7) Source: Eurostat; (8) Source: European Alternative Fuels Observatory; (9) Source: Eurostat. For all climate mitigation indicators, the trend arrows compare the latest available data (year t) with the data four years earlier (t-4). **Sustainable industry**: Bioeconomy value added, employment and productivity: JRC, Developments of Economic Growth and Employment in Bioeconomy Sectors across the EU. Bioeconomy R&D business expenditure: JRC, Business expenditure in Research and Development (R&D) in the EU bioeconomy. Damage cost for industrial pollution: EEA, The costs to health and the environment from industrial air pollution in Europe, 2024. Water industrial pollutants releases: EEA, Industrial releases of pollutants to water and economic activity in the EU-27, 2024. Water chemical status: WISE, Surface water bodies: Chemical status, 2024 and WISE Groundwater bodies: chemical status, 2024. Other indicators: Eurostat. For circular economy indicators, the trend arrows compare the latest available data (year t) with the data two years earlier (t-2).

This annex outlines the progress made and the ongoing challenges faced in increasing energy affordability, while advancing the transition to net zero. It reflects the implementation of past energy-related country specific recommendations.

Lithuania's core challenges are to manage the bottlenecks on both the transmission and distribution grids, arising due to the quick development of renewables in the country, and decrease its import reliance by confirming this trend of renewables development, while adressing the grid stability risks arising from this energy system transformation and the synchronisation to the European continental grid.

Energy prices and costs

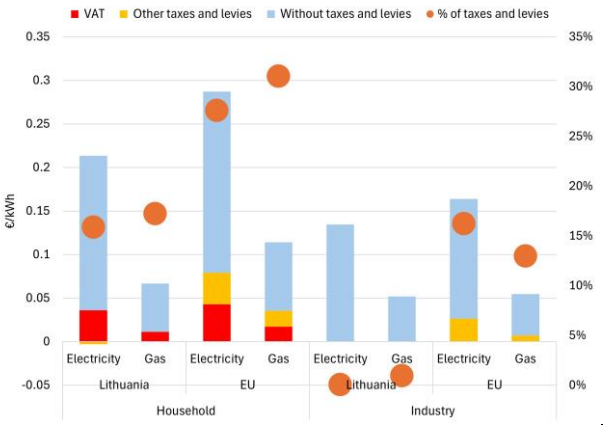
Alongside the continued lower fiscal components of retail energy bills compared to EU averages, household consumer energy prices in Lithuania decreased and remained below EU averages, as did electricity industrial prices, whereas non-household gas prices have increased since 2024.

In the first half of 2025, household electricity and gas prices in Lithuania decreased and remained below the EU average, at EUR 0.2109/kWh and EUR 0.0667/kWh respectively. Retail electricity prices for industrial consumers (EUR 135/MWh) also decreased and remained below the EU average (EUR 164/MWh), while industrial gas prices increased slightly to reach EU levels. While 60% of the electricity price for industry is accounted for by the wholesale cost, network cost, carbon cost and taxes represent 32%, 8% and 0% respectively of the electricity bill.

Final energy prices in Lithuania in the first half of 2025 remained unbalanced. For large businesses, electricity was 2.6 times more expensive than gas in the first half of 2025, while taxes and levies (excluding VAT) accounted for less than 1% of electricity bills and for 1% of gas bills. As with industrial prices, the impact of taxes and levies on the electricity-to-gas price ratio for household consumers does not demonstrate any balancing effect, bearing in mind that all taxes and levies represent over 17% of household electricity bills and 20% of gas bills (87).

Because it had a significant share of clean energy (70.6%) in its electricity mix, Lithuania's wholesale electricity prices averaged EUR 89/MWh in 2025 (88) – slightly above the EU average of EUR 85/MWh. Average day-ahead electricity prices in Lithuania decreased slightly in 2025 amid rising natural gas costs (89). Fossil fuels maintained their structural role as the dominant, and costly, marginal price-setting technology (48% of price-setting hours for 29.4% electricity generation), but their effect on electricity prices was mitigated by Lithuania's growing penetration of renewables.

Graph A9.1: **Electricity and gas prices for household and non-household consumers, first half of 2025**



(i) For household consumers, the consumption band is DC for electricity and D2 for gas.
(ii) For non-household consumers, the consumption band is ID for electricity and I4 for gas. VAT and recoverable charges are not displayed for non-household consumers as these are typically recovered by businesses. This also applies to the '% of taxes and levies', which is shown excluding VAT and recoverable charges for non-household consumers.
(iii) 'Without taxes and levies' indicates the retail price excluding all taxes and levies. It always includes the energy/supply and network cost components, which are not disaggregated in Eurostat's six-monthly price dataset.
Source: Eurostat

Although daytime prices have fallen in recent years, Lithuania remains vulnerable to price spikes during peak-demand hours. This is because falling solar output in the evening and early morning, combined with limited non-fossil flexibility, leads to costly ramp-ups of thermal plants to cover supply–demand gaps. As a result, price spreads (90) in Lithuania averaged EUR 158/MWh in 2025, a 4% increase compared to 2024, and significantly above the EU average of EUR 121/MWh.

Graph A9.2: **Low-carbon electricity generation vs. electricity wholesale prices, 2025**



Unavailable data for Cyprus and Malta. Wholesale price is given as average of day-ahead electricity prices over 2025. EU-27 average is calculated as consumption-weighted. EU low-carbon share is calculated out of total EU electricity generation. Low-carbon share by country is calculated out of total public electricity generation. Low-carbon includes renewables and nuclear.
Source: Eurostat

Flexibility and electricity grids

In February 2025, Lithuania, alongside Estonia and Latvia, disconnected from the Russian-operated IPS/UPS electricity system and successfully synchronised with the Continental European Synchronous Area (CESA) via Poland. The synchronisation with CESA allows the three Baltic countries to manage their electricity systems, ensuring stable and reliable frequency regulation, thereby increasing energy independence and energy security throughout the region. Lithuania is a significant net electricity importer (31% of its own consumption), exporting some volumes to Poland, while importing significant volumes from Sweden.

The EU has set an interconnection target of at least 15% by 2030. Nevertheless, because of this transition, Lithuania's interconnectivity level with neighbouring Member States has decreased to 21.45%. Originally, the LitPol Link interconnector between Lithuania and Poland facilitated cross-border electricity trade, contributing to a higher interconnectivity level. With LitPol Link's current use dedicated to synchronisation, the amount of transfer capacity available for trade has temporarily decreased, from 500MW to approximately 150MW. However, according to the Lithuanian authorities, with implementation of additional system operation measures, trade capacity is planned to be increased gradually to previous levels by 2027. The completion of the second interconnector between Lithuania and Poland – project of common interest (PCI) Harmony Link will significantly increase trade capacities and up to 1200 MW. The completion of this project, as well as raising the existing levels of interconnectivity with Latvia are essential aspects in increasing Lithuania's interconnectivity. Additional interconnectors could be considered, such as a possible offshore interconnector with Germany (currently known as the Baltic Hub).

With additional infrastructure developed for synchronisation such as battery storage, Lithuania is also prioritising the development of renewable energy. The enhanced transmission grids are now better equipped to integrate a higher share of renewables in overall electricity generation. Important challenges remain in the capacity of the distribution grids, following the increase of prosumers in the country.

Lithuania is also expanding the Kruonis pumped hydroelectric power plant (PCI No 4.7 on the fifth PCI list) by adding a new fifth unit, delivering 110 MW of capacity to the market, bringing the total installed capacity of the plant to about 1 010 MW once it has been completed by the end of 2026, which equals 40% of the peak hourly demand in Lithuania in 2025 at 2.5 GW. This additional unit will increase flexibility and storage capacity to better manage intermittent renewable generation from wind and solar.

Considering security concerns in the Baltic Sea region, Lithuania is taking measures to protect critical energy infrastructure against potential cyberattacks and physical attacks. In 2025, Lithuania invested in ensuring the security, reliability and stability of its electricity system. In June, Lithuania, together with Estonia, Latvia and Poland, signed a memorandum of understanding to improve regional energy security, focusing on resilience against cyberthreats and physical and hybrid threats to energy infrastructure, including subsea cables.

Under the mid-term review of cohesion policy, Lithuania has reallocated EUR 40 million in investment programme resources to increasing the resilience of

energy infrastructure, replacing substantial parts of underground power line cabling in forested areas of Lithuania by ensuring greater infrastructure protection in the event of hybrid attacks or military operations.

Besides electricity projects, Lithuania is involved in two other PCIs from the first Union list of projects of common interest and projects of mutual interest addressing hydrogen (the Nordic-Baltic Hydrogen Corridor). These projects are planned for completion by the end of 2029 and 2030 respectively and are expected to help decarbonise Lithuania's energy system and integrate more renewable energy.

Lithuania's permitting process works well and balances regulatory requirements with practical implementation. The efficiency of the permitting process has resulted in successful implementation of energy projects that led Lithuania to desynchronise from the post-Soviet energy system in 2025. Even though there is no specific legislation governing the permitting procedures for projects of common interest and projects of mutual interest, the Ministry of Energy engages early on with project promoters to streamline coordination and make sure that the projects benefit from special status (project of national significance or project of special national significance). This shortens specific stages of the permitting procedure.

Lithuania faces increasing demands for grid connection from decentralised renewable energy sources and storage. To address this, Lithuania is advancing network planning for future connection capacity needs and the reduction of bottlenecks for example through integrated electricity, gas and hydrogen scenario consultations. The estimated time range to connect a utility-scale photovoltaic system, as reported by the industry, ranges between 9 and 36 months, which is less than the EU average (around four years).

Lithuania's regulatory framework does not present barriers to the development of flexible resources, as it allows new stakeholders and distributed energy resources to access day-ahead and intraday markets. However, the Lithuanian national regulatory agency lacks information on aggregation models, and the 80% target for smart metering devices for consumers has not yet been reached, despite encouraging progress. Lithuania completed the first phase of smart meter deployment by end-2025, with 1.3 million next-generation meters installed. Smart meters now account for approximately 90% of distributed electricity volume, and are installed at 66% of all customers, from 58% in 2023. The second deployment phase, covering remaining low-consumption households, is under way from 2026.

Consumer empowerment in the electricity market is steadily improving. Due to substantial support from cohesion policy funds and a favourable regulatory framework, the number of prosumers continues to grow. In 2025 it reached 170 000 (37% increase compared to 2024). Overall, 53% of household and 90% of business customers use smart metering**.** The meters installed record around 90% of the distributed volume of electricity.

Household consumers in Lithuania have access to dynamic-price contracts, but their uptake remains very low (3% of all contracts). Flat-price and regulated-price contracts remain predominant among household consumers, at 61% of all contracts, indicating a consumer preference for stable pricing. The annual contract switching rate dropped to 4.14% in 2024 after peaking at 18.6% in 2022. Lithuania has developed a robust legal framework for energy communities, with dedicated support schemes. As a result, the number of registered energy communities has increased significantly, with 23 new communities registered in 2025 and the total number reaching 62.

In 2024, electricity accounted for 16.5% of Lithuania's final energy consumption, below the EU average of 23.4%, and this share has remained largely stagnant in the past decade ([161]). When it comes to households, electricity accounts for 17.3% of final energy consumption, while in industry it represents 31.1% (see also Annex 8). For the transport sector, this

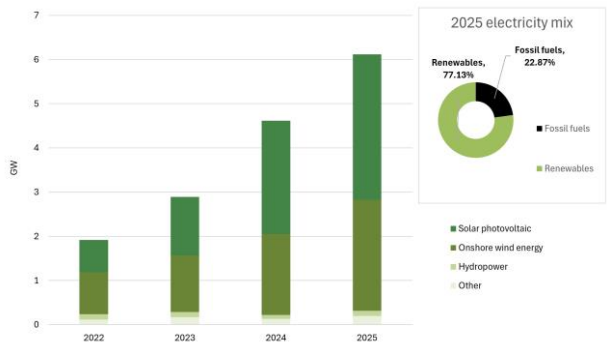
([161]) CAGR (compound annual growth rate) of −0.19% between 2015 and 2024 and minimum/maximum share of 16.4% and 17.1% respectively (source: Eurostat).

share remains negligible, at 0.5%. Further progress in electrification across sectors is required in order to cost-effectively decarbonise the economy and bring the benefits of affordable renewable generation to consumers.

Renewables and long-term contracts

In 2024, the share of renewables in final energy consumption – calculated using the RED methodology – was 35.4%, among the highest in the EU and significantly above the EU average of 25.2%. Hydro represented 3.3%, biomass 2% and solar 19.2% of the electricity mix. The proportion of electricity generated from renewable sources was 70.6% in 2025, above the overall EU share of 47.5% ([162]), but a decrease of 2.1 percentage points compared to the previous year (72.7% in 2024). The largest renewable generation sources were wind (51.1% of total electricity generation), biomass/combustible renewable fuels (10.6%), and hydropower (10.0%).

Graph A9.3: **Lithuania's installed renewable capacity vs electricity generation mix**



Electricity mix is given as net electricity generation (gross electricity production minus consumption of power stations' auxiliary services). Electricity produced in pumped hydro plants is excluded from total net electricity production, as it was previously counted as electricity produced from another source.
"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.
Source: IRENA, Eurostat

In 2025, Lithuania's installed renewables capacity increased significantly. Putting aside offshore wind, the country is on track to meet the ambitious targets that it has set for renewables in its final updated national energy and climate plan. Installed capacity for renewables in Lithuania represented 6,121 MW in 2025, a significant increase of 30.4% compared to 2024 (4,694 MW). Installed capacity for wind energy grew significantly to 2.5 GW in 2025 (compared to 1.8 GW in 2024, +37.0%), whilst installed capacity for solar also grew strongly (+27.9% compared to 2024), reaching 3.3 GW. There are no significant changes expected in the installed capacity of other renewable energy source

Renewables accounted for 52% of energy demand in heating and cooling, which is well above the EU average of 26.7%, despite a decrease from 2024. However, renewables accounted for only 8.9% of energy demand in transport, which is below the EU average of 11.2%, but a good increase compared to 2023 thanks to the uptake of biofuels.

Lithuania has made some progress in speeding up renewable energy source (RES) permitting, and related provisions from the Renewable Energy Directive, such as the renewables acceleration areas, are under way. Further steps would be beneficial, such as the streamlining of permitting procedures which are still split between different administrative bodies. While authorities help guide developers to the necessary institutions for their queries, this does not reflect the one-stop-shop approach that is promoted as a best practice across EU Member States. There is also no flexibility for developers to update technology specifications after a permit is issued, i.e. a developer is not allowed to request changes to increase the capacity. Furthermore, investments in administrative and human resources and new technologies (e.g. geospatial data management) would be useful to reduce future bottlenecks.

Lithuania has ambitious plans to build offshore wind parks in the Baltic Sea to reach full renewable electricity self-sufficiency by 2030 and replace imported power. However, these projects have faced major hurdles and a lack of investor interest due to increased costs. In 2023, Lithuania obtained State aid approval to support the development of 700 MW of offshore wind capacity with a 15-year contract for difference financed by EUR 193 million of public funding. After a delay in publication, the related tender, the second for

([162])Yearly electricity data, SHARES.

offshore wind in Lithuania, was organised between June and October 2025. However, it was rightfully deemed invalid as only one participant applied, and not the minimum of two. It is likely that this will jeopardise the 2030 target of 1.4 GW offshore wind, as only one wind farm of 700 MW is expected to become operational by that date (following the first tender of the country in 2023). The government has yet to decide if it will organise another offshore tender. Moreover, the government has created a number of State aid measures and loans to help promote the development of renewable energy and storage systems in particular. A state loan for energy storage systems with a call closing on the 1st of March 2026 was launched, covering batteries connected to renewable energy sources, through ILTE (ex. INVEGA) the national development bank, and stand-alone storage systems for public and private entities. Subsidies for home battery systems and solar panels also exist to develop even more self-producing consumers. Households that are unable to install solar panels can have shares in subsidised solar parks.

The market for power purchase agreements (PPAs) in Lithuania is still nascent, with only three existing deals, which mostly involve utilities. In 2024, only one deal was signed: Centrica Energy, Taaleri Energia and Lords LB Asset Management announced the signing of a PPA for two wind farms with a total installed capacity of 136 MW. The increased frequency of negative electricity prices and the limited number of large energy consumers are key challenges to developing the PPA market.

Energy efficiency

Lithuania made limited progress in improving energy efficiency. In 2024, final energy consumption (FEC) increased by 5.1%, compared with 2023, to 5.6 Mtoe, continuing the overall slight increase since 2019. FEC in 2024 was not in line with the trajectory to its expected contribution in 2030.

While FEC has decreased substantially in industry (by 12.2% since 2019) and moderately in transport (by 3.5%), it has increased in the residential sector (by 3.8%) and in services (by 1.4%). The increase in residential energy consumption reflects persistent structural challenges, including housing stock expansion and growing floor area, which have outweighed efficiency gains from renovation measures. Lithuania's policy response has focused on scaling up building renovation through a combination of grants and preferential loans (see Annex 16), reinforced by substantial Recovery and Resilience Facility (RRF), European Regional Development Fund and Cohesion fund funding for energy efficiency renovations, complemented by energy-saving measures introduced in response to the 2022 energy crisis and financial incentives supporting transport electrification (e.g. Modernisation Fund-backed electric vehicle purchase compensation).

Between 2019 and 2024, residential FEC increased by 3.8%, driven mostly by the construction of new dwellings and larger floor areas of existing buildings. The increase referred to above is not in line with the objectives set in Lithuania's 2020 long-term renovation strategy, which aimed to reduce primary energy consumption by 15% between 2020 and 2030.

However, Lithuania submitted its draft national building renovation plan, indicating a clear commitment to setting up a predictable pathway towards an energy-efficient and decarbonised building stock, which currently accounts for 40% of total final energy consumption, and therefore acknowledging the importance of the sector in increasing the country's energy security.

Heating and cooling account for 79% of the country's residential final energy consumption, with renewables supplying 54% of the total energy used for heating and cooling in all sectors. There are approximately 157 000 households using gas for heating purposes. Approximately 25 000 heat pumps were sold in 2024, taking the total stock of installed heat pumps to around 170 000.

In the residential sector, electricity in Lithuania was 3.16 times more expensive than gas in the first half of 2025. This means that end users save energy but pay more if they choose a heat pump for heating. Lithuania needs to further develop its energy renovation support framework in order to reach its 2030 target for the residential sector. The programmes planned for the renovation of both multi-apartment

buildings and detached homes as part of Lithuania's [draft] social climate plan should allow significant improvements, targeting vulnerable households in particular. Lithuania estimates that 146 000 households face energy poverty

Security of supply and diversification

Lithuania is no longer importing Russian natural gas since 2022. Natural gas demand in the country was reduced by 30% – well above the 15% EU target – between August 2022 and July 2024. Security of supply is still ensured by gas and electricity infrastructure.

Between 2022 and 2024, the share of renewables in Lithuania's energy mix rose from 28.5% to 31.9%. Oil and petroleum products remained the dominant source, with 44,8%%. Natural gas consumption stalled remaining at 19.1%. Solid fossil fuels, non-renewable waste and peat continued to fall, with solid fossil fuels dropping from 2.5% to 1.2%, non-renewable waste from 1.4% to 1.1% and peat from 0.4% to 0.1%.

In response to rising energy prices following the regional crisis in the Middle East, Lithuania has temporarily (for two months) suspended planned diesel excise increases, saving ~€0.06/litre, and released state oil reserves as part of the IEA collective action. Lithuania is also preparing liquidity support for businesses and farmers, a fuel price transparency tool, and legislative changes to recycle increased VAT revenues into price-reduction measures.

Fossil fuel subsidies

Lithuania has taken no measures to address the 2025 CSR on *taking action to phase out non-targeted fossil fuel subsidies, in particular subsidies for heating*. In 2024, environmentally harmful([163]) fossil fuel subsidies without a planned phase-out before 2030 represented 0.47%([164]) of Lithuania's GDP([165]). The reduced excise tax on natural gas used for heating in businesses and households, reduced excise tax on gas oil for fishing and agriculture and reduced VAT rate for heating residential spaces remain in place, as fossil fuel subsidies without a planned phaseout before 2030 which do not specifically address, in a targeted way, energy poverty or genuine energy security concerns. Additionally, Lithuania's 2023 effective carbon rate([166]) averaged EUR 61.8 per tonne of CO_2, below the EU weighted mean of EUR 84.80([167]).

([163]) Explicit fossil fuel subsidies (e.g. direct transfers) and implicit fossil fuel subsidies (i.e. tax expenditures linked to forgone tax revenues that have an identifiable fiscal impact for the central budget) that support fossil fuel energy production, transmission and/or consumption.

([164]) European Commission calculation based on underlying data from the *Study on energy subsidies and other government interventions in the EU – 2025 edition,* Enerdata.

([165]) 2024 gross domestic product at market prices, Eurostat.

([166]) The effective carbon rate is the sum of carbon taxes, ETS permit prices and fuel excise taxes, representing the aggregate effective carbon rate paid on emissions.

([167]) OECD (2024), Pricing Greenhouse Gas Emissions 2024.

Lithuania faces significant economic risks from climate change and nature degradation. This requires substantial cross-sectoral investment. While Lithuania has made some progress in developing resilience and adaptation policies over the last year, a lack of stable and predictable funding at both the national and municipal levels impedes investment and the systematic uptake of these measures; support relies heavily on EU funding. Lithuania struggles with water pollution and increasing water leakages, as nature degradation poses significant threats to its economy and competitiveness, necessitating urgent actions. While Lithuania progresses towards its 2030 carbon removal goals and aims to reduce agricultural impacts through sustainable food policies, drained peatlands continue to significantly contribute to greenhouse gas emissions.

Climate adaptation and preparedness

Climate change poses risks to Lithuania that will require significant cross-sectoral investment. The burnt area of most EU Member States is multiple times larger than its own average between 2006-2024. Nevertheless, Lithuania is amongst one of the Member States with a much lower number of burnt areas this year compared to their average. In addition, between 2022-2024, heat-related mortality in Lithuania was moderate in comparison to the rest of Europe ([168]). However, Lithuania is still exposed to climate change impacts, most notably an increasing number of warm days, more rainfall ([169]), and risk of flooding and windstorms ([170]).

A recent study commissioned by DG CLIMA estimates ([171]) that Lithuania will need to invest almost EUR 481 million per year up to 2050 in adaptation measures: first and foremost in ecosystems restorations (around 57% of the total), followed by infrastructure retrofitting and reinforcement (around 20% of the total) and the food sector (around 15% of the total). As a share of GDP, the proportion of Lithuania's total adaptation investment needs represents around 0.5%, just above the EU-27 average of 0.46%.

Lithuania has made some important steps to strengthen its climate adaptation and resilience framework, but steps remain to be taken in implementation. In 2024, Lithuania approved its national climate change adaptation plan for 2024-2030, as an annex to its updated national energy and climate plan. The adaptation plan complements the pre-existing national adaptation strategy, approved in 2021. A total of EUR 2 263 billion has been allocated for the implementation of climate adaptation measures under the plan. In addition, studies identifying sectoral and municipal vulnerabilities to climate change impacts have been carried out ([172]).

Lithuania is also currently preparing an Adaptation to Climate Change Law ([173]), which will create a legal basis for creating and implementing a national adaptation policy, formalise providing adaptation-relevant information, and provide requirements for sectoral adaptation planning documents, which was not previously included in existing legal/policy frameworks/regulations.

At the municipal level, eight of the 60 municipalities have prepared municipal climate change adaptation plans to date, as part of the Ministry of Environment's ClimAdapt-LT project ([174]). The municipal plans of another eight of the most vulnerable municipalities are also being worked on. The Adaptation to Climate Change Law will also

([168]) Janoš, et al., 2025, *Heat-related mortality in Europe during 2024 and health emergency forecasting to reduce preventable deaths,* Link.

([169]) EEA, 2024, *European Climate Risk Assessment*, Link.

([170]) EIOPA, 2025, *Dashboard on insurance protection for natural catastrophes,* Link.

([171]) European Commission, 2026, *Assessment of EU and Member States adaptation investment needs*, Table 25, Link. The study provides detailed estimates of adaptation investment needs at the level of the EU and individual Member States per type of measure. It relies on a common methodology that makes estimates comparable across the EU. Four accompanying methodological reports provide a detailed description of how the results were estimated to ensure full transparency.

([172]) Climate-ADAPT Country Profile, 2025, Link.

([173]) Publications office of the European Union, 2025, *Climate Action Progress Report*, Link.

([174]) Climate-ADAPT Country Profile, 2025, Link. EEA and Norway Grants, 2026, Link.

formalise the role of municipalities and oblige them to prepare municipal adaptation plans.

The Ministry of Environment's 2022-2030 development programme provides a framework to strengthen and mainstream environmental protection and climate change management. The programme identifies strategic objectives, progress measures and concrete monitoring indicators.

In addition, the share of Lithuania's population covered by EU Covenant of Mayors signatories has increased drastically in recent years, from 4.66% in 2022 to 26.45% in 2024 ([175]). This is still below the EU-27 level of 34.44%, however. In addition, none of these signatories have submitted a sustainable energy and action plan (SECAP) on time (i.e. within two years of their initial commitment to the EU Covenant), nor have they submitted any monitoring reports within the recommended timeframe (i.e. at least two years after submission of their SECAP) ([176]).

Climate risks have a direct effect on Lithuania's economy, but insurance coverage remains low. Between 1980 and 2024, Lithuania recorded EUR 2.97 billion in economic losses caused by weather-related and climate-related extreme events([177]). As a share of GDP, average annual economic losses from natural catastrophes in Lithuania are amongst the lowest in the EEA ([178]).

At the same time, standing at 2% Lithuania has one of the lowest rates of insurance coverage against weather- and climate-related extreme events in the EU between 1980-2024 (EU-27: 19%) ([179]). As of 2024, no national insurance scheme is in place ([180]) which could help improve insurance coverage and reduce the insurance protection gap ([181]). For the two highest risks (floods and windstorms) it is not mandatory to have an insurance coverage, while in the case of a disaster the compensation is on an ad hoc basis ([182]). Lithuania has nevertheless taken steps to integrate climate change impacts into its macroeconomic strategy, in particular by adopting amendments to the Law on Fiscal Governance which entered into force on 1 January 2026. These amendments provide that a government-authorised institution must, at least once every three years and before the submission of the draft budget law to the Seimas (Parliament), prepare reports assessing how the medium-term consolidated budget policy is going to affect sustainable and inclusive growth, taking into account climate-related risks to the economy and public finances (macro fiscal risks), as well as their distributional and environmental impacts, among others.

Critical infrastructure, and particularly Lithuania's transport network, is at risk due to climate change. The transport vulnerability index of the TEN-T network to climate change has been assessed to be one of the highest in the EU. This is mainly driven by the lack of mainstreaming of the transport sector into the national adaptation strategy, the limited extent of interoperability on the TEN-T, and the limited social and economic capacity to respond to climate-related disruptions ([183]). As for the energy sector, Lithuania identifies a moderate climate change risk to the sector in the long-term in its national climate change adaptation plan. In particular, Lithuania identifies a moderate risk of damage to electricity generation and transmission facilities and infrastructure, and a high risk of change in heating and cooling demand ([184]). In order to mitigate some of these

([175])European Commission, *EU Covenant of Mayors*, Link.. There are 18 local authorities that have signed the EU Covenant of Mayors in Lithuania.

([176])European Commission, *European Covenant of Mayors*, Link.

([177])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe,* Link.

([178])ECB and EIOPA, 2024, *Towards a European system for natural catastrophe risk management,* Chart 2, Link. This figure includes earthquakes which happened in the period 2020-2023.

([179])EEA, 2024, *Economic losses from weather- and climate-related extremes in Europe,* Link.

([180])ECB and EIOPA, 2024, *Towards a European system for natural catastrophe risk management,* Link.

([181])These type of schemes supplement private insurance cover for natural catastrophes by improving risk awareness and prevention, while increasing insurance capacity through more affordable (re)insurance.

([182])EIOPA, 2025, *Dashboard on insurance protection for natural catastrophes,* Link.

([183])Publications Office of the European Union, 2024, *Support study on the climate adaptation and cross-border investment needs to realise the TEN-T network,* Link.

([184])European Commission, 2024, *Lithuania - Final updated NECP 2021-2030*, Link.

risks, Lithuania is currently implementing a EUR 160 million project to replace above-ground power lines with underground cables, particularly in forested areas. Lithuania aims to replace 2 000 km of cables by 2028, which represents around 30% of the cabling network. Under the national climate change adaptation plan, Lithuania has allocated EUR 612 million to adaptation measures for infrastructure, which represents 27% of the total allocation.

There is scope to tap into nature-based solutions more widely and systematically. Nature-based solutions and prevention play a key role in increasing resilience. In Lithuania, there is some focus on the use of nature-based solutions. The Ministry of Environment's 2022-2030 development programme includes a Progress Measure on 'Increasing resilience to extreme hydrometeorological events', which provides a framework for deploying adaptation actions, several of which are nature-based or incorporate ecosystem-based elements. For example, there is work underway on hydro-morphological restoration of degraded river stretches, as well as coastal resilience measures including beach nourishment in Palanga and Šventoji, and coastal zone management along the Curonian Spit.

Despite these measures, nature-based solutions are still not widespread and are used mostly in pilot projects. It is expected that the national nature restoration plan, which is scheduled for completion by 1 September 2026, will help to formalise the role of nature-based solutions in climate adaptation.

Water resilience

Water productivity in Lithuania ([185]) stood at EUR 141 per m³ of abstracted water in 2023, below the EU-27 average of EUR 153 per m³. Lithuania's water productivity is showing an increasing trend since 2020, with the Water Exploitation Index Plus (WEI+) at 0.4 in 2022, a consistently low value quarterly ranging between 0.1 and 1.7 since 2016. Agriculture, alongside electricity cooling and manufacturing, remains a significant water consumer, despite an 8% decline in abstraction from 2018 to 2023, comprising 18% of water abstraction at 53 million m³ in 2023. However, public water supply is the largest water consumer, accounting for 47% of total abstraction ([186]).

Water pollution remains a challenge, marked by declining ecological status and a sharp drop in the number of surface water bodies with good chemical status. Lakes, rivers and coastal waters in Lithuania are polluted, with barely a third achieving good ecological status due to agricultural runoff, urban pollution, and nutrient flows contributing to the Baltic Sea's eutrophication ([187]). The assessment of the third river basin management plan (2022-2027) reveals a decline in the ecological status of Lithuania's surface water bodies, with only 36.4% achieving good status, largely due to nutrient pollution and diffuse agricultural activities. While groundwater bodies maintain good quantitative and chemical status, the confidence level in assessments has been reduced to 70%, indicating the need for improved pollutant monitoring and integration of environmental considerations into sectoral policies.

The Ministry of the Environment is preparing national water plans to improve water quality across the country. The ten-year strategic integrated Water project, valued at EUR 19.7 million and funded by the European Union's LIFE programme, will be instrumental in implementing these plans ([188]).

Lithuania is facing increasing water leakage and a significant financing gap in pollution protection and water management. In 2023, leakage data revealed a total of 23 220 million cubic metres, marking an increase from 2022, where the reported figure was 21 792 million cubic metres ([189]). This growing challenge underscores Lithuania's significant investment needs in water protection and management, where

([185])Water productivity is a metric that is calculated by dividing GDP (in chain-linked volume) by total water abstraction. It indicates the average economic value (GDP) a Member State creates for each unit of water it takes from nature.

([186])EEA, 2025, Water abstraction by source and economic sector in Europe. Link.

([187])Lithuania - Environment - European Commission.

([188])Integrated water management in Lithuania (LIFE SIP Water) - Environmental Project Management Agency.

([189])OECD, 2025 Lithuania Water Losses: Leakage | Economic Indicators | CEIC.

the financing gap is EUR 259 million. Increasing investment will be even more important, as the Urban Wastewater Treatment Directive was revised and strengthened in 2024 ([190]). It entered into force on 1 January 2025. Further infrastructure development would help improve water management, water reuse, and the general water supply. Additional investments are needed to improve monitoring and support nature-based solutions, flood prevention and river restoration.

Lithuania has a high compliance rate with the Urban Wastewater Treatment Directive – 99.5% in 2022. In Lithuania, urban wastewater is treated in 61 plants across the country before it is discharged ([191]). Overall, 99.5% of the urban wastewater in Lithuania is treated according to the requirements of the UWWTD. This is above the EU average of 75.9%.

Lithuania has yet to fully utilise tools for enhancing water resilience practices. In wastewater management, the recent economic analysis ([192]) suggests that a water effluent tax could generate EUR 57.9 million annually. Where pressures on water abstraction vary significantly across catchments, tailoring charges to local scarcity conditions can sharpen incentives without creating unnecessary burdens at national level.

Nature restoration

Nature degradation creates significant risks to the country's economy and competitiveness. Lithuania has a higher-than-average supply chain dependency on ecosystem services of 25% of its gross value added (EU average: 22%) ([193]). Overall, 41% of Lithuania's economy is highly dependent on ecosystem services to produce its gross value added (EU average: 44%). Several sectors such as agriculture, forestry, fishery, mining, construction and healthcare have 100% of their gross value added directly dependent on ecosystem services. It is estimated that the annual costs and benefits of ecosystem restoration and maintenance in Lithuania are EUR 80.3 million and EUR 1.1 billion, respectively ([194]).

Action on nature protection and restoration is needed to meet the goal of EU goal 30% by 2030. Including both Natura 2000 and other nationally designated protected areas, Lithuania legally protects 17.9% of its land (EU average: 26.4%) and 22.8% of marine areas (EU average: 12.3%). Targeted investment under the Lithuanian RRP in the amount of EUR 2 million for the acquisition of privately-owned, biodiversity-rich forest land will contribute to nature protection goals. Lithuania needs to restore up to 4 576 km^2 of the land habitats listed in Annex I to the Habitats Directive, corresponding to up to 7% of its land ([195]). According to the latest available assessments, only 22.2% of habitats and 36.7% of species have a good conservation status. The mean forest condition index was 0.59 in 2018 ([196]). Furthermore, Lithuania's common farmland bird index stood at 47.62 in 2023, the lowest in the EU-27. According to the latest national data, Lithuania's farmland bird index slightly increased to 48.94 in 2024, before declining again to 46.7 in 2025([197]).

Nature degradation is further amplified by invasive alien species, with 18 recorded in Lithuania in 2024 ([198]), inflicting estimated damages of EUR 80 million up between 1960-2020, primarily affecting agriculture([199]). Eutrophication – a threat to

([190])Directive - EU - 2024/3019 - EN - EUR-Lex.

([191])Lithuania | Country profiles on urban waste water treatment | WISE Freshwater,

([192]) RPA Europe, 2026 *Conduct in-depth assessments on environmental priorities to support the greening of the European Semester and integration of environmental priorities into the EU's economic governance framework,* Link.

([193])Dataset from Commission/JRC, based on Hirschbuehl et al., 2025, *The EU economy's dependency on nature*, Link.

([194])European Commission: Directorate-General for Environment, IEEP, IUCN, Trinomics and UNEP-WCMC, *Impact assessment study to support the development of legally binding EU nature restoration targets – Final report*, Table 6-11, p. 85, Link.

([195])European Commission, 2022, *Impact assessment accompanying the proposal for a Regulation on nature restoration,* Link.

([196])On a scale from 0 to 1, where 0 represents a degraded ecosystem and 1 represents a reference condition based on primary or protected forests.

([197])AKPPI II tarpine ataskaita 2026-03-04 galutine.pdf

([198])European Commission, 2025, Environmental Implementation Review, Lithuania Country Report, Link.

([199]) NeoBiota, *Economic Cost of invasive alien species across Europe*, 2021, Link, and European Commission: EMRC, Logika

biodiversity and ecosystem integrity – has shown small improvement, with the areas at risk declining from 99.5% to 97.8% since 2005 ([200]). However, Lithuania as one of the Baltic Sea countries is facing a significant environmental issue caused by excessive nutrient inputs. The results of the third HELCOM assessment show little or no improvement in the state of the Baltic Sea environment in 2016-2021. The poor environmental status of the Baltic Sea clearly affects, for example, the profitability of fisheries and tourism, and impacts a wide range of ecosystem services. Considering the high costs of inaction, achieving a healthy Baltic Sea is also an investment in the sustainable economic and societal development of the region. Achieving good environmental status in national marine waters by 2040 has been estimated to be worth 5.6 billion euro per year to the people around the Baltic Sea ([201]).

Sustainable agriculture and land use

Lithuania is on track to meet its 2030 target for land use, land-use change and forestry (LULUCF). To meet its 2030 LULUCF target, additional carbon removals of -0.7 million tonnes of CO_2 equivalent (CO2eq) are needed ([202]). The latest available projections show a surplus of around 0.42 MtCO2-eq to the estimated 2030 net removal target ([203]). Nonetheless, further investments in healthy forests and soils are key to building resilient biobased product value chains and enabling a growing, competitive EU bioeconomy. Continued improvements in the monitoring system of net removal data and projections will be crucial in supporting timely and effective action in the sector.

However, drained peatlands are an ongoing issue and contribute to GHG emissions. Around 70% of peatlands in Lithuania are drained for forestry, agriculture and peat extraction ([204]). While Lithuania is investing in peatland restoration as part of the LIFE programme in particular, including the now-completed multi-country project called 'Peat Restore' ([205]) as well as the ongoing project 'Forest Habitat LT' ([206]), more recent efforts to rewet peatland areas under the Recovery and Resilience Facility have been less successful ([207]). Issues linked to the economic viability of restoration projects are hindering their successful implementation, particularly when these projects target agricultural land. Despite these initiatives, projects to rewet drained peatlands in Lithuania are generally pilot projects and are not systematically implemented at the national level.

Lithuania is transitioning towards a sustainable food system by enacting policies aimed at minimising the environmental impact of agriculture. Organic farming, which reduces the use of synthetic fertilisers and pesticides, made up 8.77% of Lithuania's agricultural land in 2024, close to the EU average. Under its CAP strategic plan, Lithuania allocates approximately EUR 265 million to organic farming and aims to increase the area under organic farming very slightly – from 8.92% in 2023 to reach 9.75% of the utilised agricultural area by 2027. To mitigate the environmental impacts of agriculture, over EUR 1.15 billion of the CAP strategic plan's EU funds budget is earmarked for measures to support the climate and the environment. To this end, Lithuania has designed several agri-environmental interventions and nine eco-schemes that compensate farmers for the additional costs and income loss deriving from the adoption of more environmental and climate-friendly practices. These include reduced use of fertilisers and pesticides, farming techniques that protect biodiversity, and practices that reduce soil erosion or improve soil quality.

Group and RPA Europe, *Update of the costs of not implementing EU environmental law*, 2025, Link, p. 62.

([200]) EEA 2024, Eutrophication caused by atmospheric nitrogen deposition in Europe, Link.

([201])State-of-the-Baltic-Sea-2023-in-brief-final-2.pdf

([202])National LULUCF targets of the Member States in line with Regulation (EU) 2023/839, Link.

([203])Publications office of the European Union, 2025, *Climate Action Progress Report*, Link.

([204])United Nations Environment Programme, 2024, T*he Global Peatland Hotspot Atlas*, Link.

([205])The LIFE Peat Restore project ran between 2016 and 2022 across five Member States (Lithuania, Latvia, Estonia, Poland and Germany). In Lithuania, 465 hectares of peatland were restored. See more information here: Link.

([206])Link.

([207])As part of the Recovery and Resilience Facility, it was planned to rewet at least 6 000 hectares of peatland area. However, the project could not be completed under the RRF due to objective circumstances, namely that the project did not attract any applicants.

The utilised agricultural area (UAA) in Lithuania slightly decreased from 2 947 thousand hectares in 2018 to 2 872 thousand in 2023.

There has been some improvement in the overall nitrogen balance, with a drop from 25 kg of nitrogen per hectare of UAA in 2015 to 22.8 kg in 2023. The livestock density index in Lithuania was 0.23 in 2023, well below the EU average of 0.75

In 2022, the level of pesticides in surface water was 6% in rivers, 0% in lakes, and 17% on groundwater that exceed thresholds. Pesticides not only threaten aquatic ecosystems and related socio-economic activities (such as fisheries and coastal tourism) but also pose long-term risks to human health through contaminated drinking water and food chains.

Table A10.1: **Key Adaptation Indicators**

Climate adaptation and preparedness:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Drought impact on ecosystems *[area impacted by drought as % of total]*	50.24	3.39	2.08	0.02	32.04	-	2.76
Forest fires burned area (1) *[burned area in ha. per year]*	236	43	-	-	305	-	354 510
Economic losses from extreme events *[EUR million at constant 2022 prices]*	-	-	-	1	482	10	40 452
Insurance protection gap (2) *[composite score between 0 and 4]*	-	-	-	1	1	1	-
Sub-national climate adaptation action *[% of population covered by the EU Covenant of Mayors for Climate & Energy]*	1	1	1	5	24	26	34

Water resilience:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Water Exploitation Index Plus, WEI+ (3) *[total water consumption as % of renewable freshwater resources]*	0.50	0.86	0.64	0.40	0.41	-	4.53
Water productivity *[EUR per m^3]*	142	100	121	146	141	-	151
Water abstraction							
Water abstraction by source (% from surface water)	42.24%	59.76%	53.18%	44.45%	46.68%		-
Water abstraction by sector	Agriculture	Electricity cooling	Manufactu-ring	Public water supply	Mining and Quarrying	Construc-tion	
	18.18%	19.51%	8.33%	47.57%	6.41%	0.00%	
Status of water bodies (4) *[% of water bodies in a good status]*							
Surface water bodies (ecological)	-	-	-	-	-	36%	38%
Groundwater bodies (quantitative)	-	-	-	-	-	100%	93%

Nature restoration:	2019	2020	2021	2022	2023	2024	EU-27 latest data
Ecosystem dependency *[% of direct dependency]*	-	-	-	41%	-	-	44%
Protected area *[% of terrestrial protected areas]*	17.1	17.2	17.4	17.8	17.9		26.4
Invasive alien species (IAS) *[number of IAS of Union concern]*	-	-	-	-	-	18	29.2
Damage cost of IAS *[EUR billion]*	-	-	-	-	0.08		1.69
Eutrophication *[AAE of area at risk of euthrophication]*				314	314		295

Sustainable agriculture and land use:	2012-2018	2018-2021	EU-27 latest data
Yearly net land taken by Member State *[ppm of total urban surface per Member State]*	828	1 718	670
Land conversion in functional urban area *[% of total land taken from 2018-2021]*			
Arable land		22%	
Complex and mixed cultivation		0%	
Forests		5%	
Herbaceous vegetation associations		4%	
Open spaces with little or no vegetation		0%	
Pastures		69%	
Permanent crops		0%	
Water		0%	
Wetlands		0%	

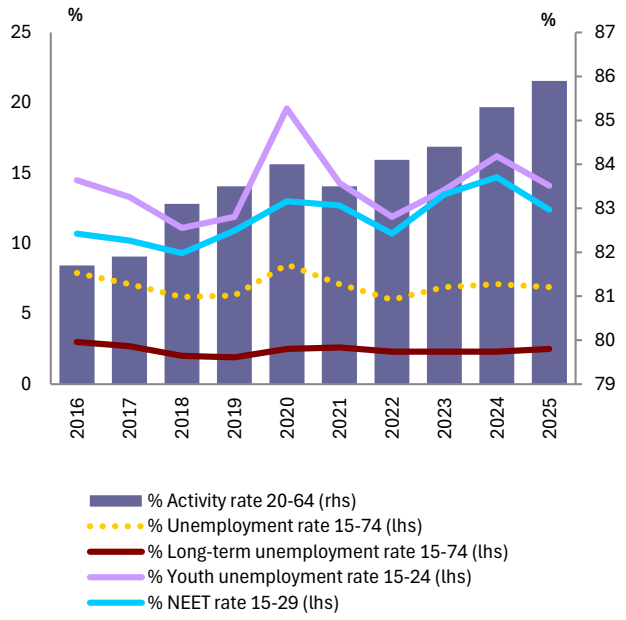
	2019	2020	2021	2022	2023	2024	EU-27 latest data
Nitrates in groundwater (5) *[mgNO_3/l]*	5.7	5.9	5.9	5.8	5.7		
Livestock density *(number of livestock units per hectare of utilised agricultural area)*		0.25			:		0.75
Ammonia emissions *[% of total utilised agricultural area]*	95%	95%	95%	95%	95%	-	94%
Pesticide contamination on rivers and lakes water bodies				rivers	6%		27%
[% of monitoring sites with pesticides exceeding thresholds, 2018-2023]				lakes	0%		18%
Pesticide contamination in soil *[% of samples with a concentration over 0.5 mg/Kg^{-1}]*					52%		57%
Net greenhouse gas removals from LULUCF (6) *[$ktCO_2$-eq]*	-5111.7	-5172.0	-5411.5	-5824.5	-5254.7	-	-198 421

(1) EFFIS (European Forest Fire Information System). Link.
(2) The climate protection gap refers to the share of non-insured economic losses caused by climate-related disasters, based on modelling of the risk from floods, wildfires, windstorms, and the insurance penetration rate. Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2025, Dashboard on insurance protection gap for natural catastrophes.
(3) Measures total water consumption as a percentage of the renewable freshwater resources available for a given territory and period. Values above 20 % are generally considered to be a sign of water scarcity, while values equal or greater than 40 % indicate situations of severe water scarcity.
(4) European Commission, 2024, 7th Implementation Report from the Commission to the Council and the European Parliament on the implementation of the Water Framework Directive (2000/60/EC) and the Floods Directive (2007/60/EC) (Third River Basin Management Plans and Second Flood Risk Management Plans).
(5) Indicator refers to concentrations of nitrate (NO3) in groundwater, measured as milligrams per litre (mg NO3/L). Nitrate can persist in groundwater for a long time and accumulate at a high level through inputs from anthropogenic sources (mainly agriculture). The EU drinking water standard is limited to 50 mg NO3/L to avoid threats to human health.
(6) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2025 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.
Source: Eurostat, EEA, JRC

ANNEX 11: LABOUR MARKET

Lithuania's labour market has shown signs of recovery, but structural challenges increasingly weigh on productivity and competitiveness. Challenges include weaknesses in the active labour market policy (ALMP) system, a high unemployment trap, stark regional differences and low labour market participation of young people and persons with disabilities. Adverse demographic trends are likely to exacerbate these challenges. As Lithuania works towards its 2030 employment target, it will be crucial to unlock the potential of under-represented groups, people outside the labour force and migrants, address regional disparities and increase labour productivity. For Lithuania, the 2025 country-specific recommendations highlighted labour market challenges, in particular the need to increase the coverage of active labour market policies, including by strengthening participation incentives.

Graph A11.1: **Key labour market indicators**



Source: Eurostat, LFS [lfsi_emp_a, une_rt_a, lfsi_neet_a, une_ltu_a]

Despite strong employment and participation outcomes, Lithuania continues to face high unemployment, exacerbated by regional disparities. The employment rate increased for the second consecutive year to 80% in 2025, well above the EU average of 76.2% and within reach of the national 2030 employment target (80.7%). Labour force (20-64) participation increased for the fourth consecutive year, reaching 85.9% (EU: 80.8%) but adding just 2 000 people in 2025, compared with 22 000 in 2024. After rising to 7.1% in 2024, the unemployment rate declined to 6.9% in 2025, still significantly higher than in 6% in the EU. Furthermore, in 2025, unemployment remained particularly high outside the capital region (7.8% vs 5.1% in the capital region), in rural areas (8.4% vs 5.3% in the EU) and in towns and suburbs (8% vs 5.6% in the EU), compared with the relatively lower levels in cities (5.4% vs EU 6.8%). Some counties, also due to Lithuania's location at the EU's eastern border, experience particularly high unemployment – for example, in Alytus and Utena counties, it was respectively 15.7% and 14.4% in 2025 (see Annex 18).

Low coverage of ALMP measures, together with a high unemployment trap, hinders the integration of unemployed people into the labour market. The unemployment trap remains among the highest in the EU (at 102% vs EU: 74.4% in 2024), which hampers efforts to reduce the unemployment rate. Furthermore, participation in ALMP measures remains very low: only 6.7% of people wanting to work took part in regular activation measures in 2023 (EU: 48.8%) ([208]). A key constraint is insufficient public spending on ALMP measures (0.13% of GDP in 2023 vs 0.51% in the EU). ALMP financing has become increasingly dependent on EU funds (European Social Fund Plus (ESF+) and the Recovery and Resilience Facility (RRF)). In 2024, the ESF+ and the RRF together accounted for more than 73% of total ALMP funding, compared with 53% in 2023 ([209]). These factors limit Lithuania's capacity to support unemployed people, including those who are long-term unemployed, in entering or re-entering the labour market. The long-term unemployment rate rose to 2.5% in 2025 (EU: 1.9%), after hovering at 2.3% for three consecutive years, underscoring the need to improve the capacity of the labour market activation framework.

([208])Number of participants in regular activation measures (categories 2-7) in relation to persons wanting to work (%) - European Commission - Directorate-General for Employment, Social Affairs and Inclusion.

([209])European Centre of Expertise (ECE) in the field of employment and labour market policies - ad hoc report on ALMPs.

Young people's transition from education to employment remains problematic. Although youth (15-24) unemployment rate dropped to 14.1% in 2025 (EU: 15.2%), difficulties faced by young people in transitioning to high-quality, stable employment are underscored by high share of young people neither in employment nor in education and training (NEETs, 12.4% vs 10.9% in the EU in 2025). The share of inactive NEETs stayed high in 2025 7.9% (vs 6.7% in the EU). Furthermore, the shares of NEETs aged 15-19 and 20-24 remained the largest, suggesting a likely correlation with the growth of share of early leavers from education and training during 2023-2024 (see Annex 13). The share of NEETs in rural areas (15.4%) was substantially higher than in cities (9.9%) and towns and suburbs (12.7%) in 2025. Structural challenges also play a role in the high NEET rate. These include limited job opportunities (especially in rural areas, see Annex 18), skills mismatches and inadequate support for transitions from education to work.

Persons with disabilities still face significant barriers to labour market integration. The disability employment gap increased significantly, from 32.4 pps in 2023 to 39.9 pps in 2024 (EU: 24 pps) and 42.8 pps in 2025, although national administrative data (based on registered disability) do not indicate any deterioration. At the same time, national data point to very low employment levels of persons with disabilities: 30.8% of working-age (16-64) persons with registered disabilities were employed in 2024 ([210]). Barriers to participation are complex and start early in life. Persons with disabilities record the highest rates of early leaving from education and training (25.3% vs 19.1% in the EU) ([211]) and NEET (30.3% vs 28% in the EU) ([212]) in 2023, hindering their labour market integration. Their labour force participation is relatively high among those with tertiary education – 75.4% in 2024 (EU: 75.8%) – but drops significantly at lower levels of educational attainment. Only about 10% of working-age persons with disabilities contact the public employment service annually, and only about 5% of working-age persons with disabilities participated in ALMPs in 2024. Public sector institutions with more than 25 employees must employ persons with disabilities in at least 5% of their positions. However, this quota is not sufficiently enforced, further hindering the integration of persons with disabilities into the open labour market.

Lithuania aims to address the challenges described above, but more efforts are needed. Despite the 2025 recommendation to increase ALMP coverage, there are no plans to increase ALMP financing from the national budget. The RRF is ending in 2026 and the available ESF+ resources are being exhausted. As a result, ALMP participation is expected to decrease substantially, from almost 38 000 in 2024 to ca 11 370 in 2025 and 2026, underscoring the need for further efforts in this area. In 2025, the country reformed its unemployment benefit system, which included aims to reduce the high unemployment trap. Nevertheless, it remains to be seen if this reform will achieve these aims: the EUROMOD simulation shows that the positive effect for lower earners might be outweighed by the increased trap for higher earners ([213]). The ESF+ continues to support young people's access to employment through the Youth Guarantee, and the new government's programme includes commitments to continue this implementation. To encourage more persons with disabilities to enter the labour market, since September 2024, beneficiaries can keep their social assistance disability pension if they find a job. In addition, in 2025, Lithuania expanded the eligibility for these benefits to people who have lost 45-55% of their work capacity after the age of 24. However, further efforts are needed to reduce high share of NEETs and improve the labour market integration of persons with disabilities.

The quality of jobs is improving, driven by fast growth of wages. The prevalence of part-time and temporary employment in Lithuania is one of the lowest in the EU, including among young people and women, and female employment rates are among the highest (80.3%

([210])Data from the Board of State Social Insurance Fund.

([211])EU-SILC 2023 (release 2024 v1), expert calculation, the number of observations of people with disabilities in the sample was less than 50, hence the mean value of 2022-2023 was used.

([212])EU-SILC 2023 (release 2024 v1), expert calculation, the number of observations for persons with disabilities in the sample is lower than 100, NEETs age group 16-29, both some and severe disability.

([213])Estimation performed by the European Commission, Joint Research Centre, based on the EUROMOD model *vJ1.164+*.

vs 71.4% in the EU n 2025) ([214]). The gross minimum wage has increased significantly in recent years – from EUR 607 in January 2020 to EUR 1 153 in January 2026. Nominal wages increased by over 7% in 2024 and by 10% in 2025, while inflation was already low. This resulted in strong real wage increases - by 6.3% in 2024 and 2025, and real wages are expected to remain among the fastest-growing in the EU in 2026 (2.8%). However, in comparison with other Member States, wages remain at relatively low levels, and in-work poverty rose slightly in 2024 (to 8.4% vs 8.2% in the EU) and in 2025 (to 8.7% vs 8.3% in the EU). Young people (18-24) were particularly affected, with in-work poverty rising by almost 10 pps to 17.2% in 2025 from 8.6% in 2023 (EU: 10.9%).

Low collective bargaining coverage risk limiting further progress in job quality. Trade union density was among the lowest in the EU (8.3% in 2022), and employer organisation density was also lower compared with other Member States (37.8%) ([215]). Collective bargaining coverage remains very low at 29% in 2023([216]), which hinders workers' bargaining power and is likely to slow further improvements to job quality. To address this, in October 2024, Lithuania adopted an action plan to increase collective bargaining coverage. However, the plan relies largely on traditional capacity-building measures, which so far have not brought about substantial improvements in the coverage. Amendments to the Labour Code are also being prepared to strengthen collective labour relations and social partners' representation. Although social partners have a formal role in policy discussions, insufficient information is shared with them, which limits their impact (see 2025 country report).

Labour productivity lags behind the wage growth, implying risks to Lithuania's cost competitiveness. Real labour productivity per hour worked recovered in 2025 by 2.9%, after having increased only marginally in 2024 by 0.3%, following decreases by 2.7% in 2022 and 1.6% in 2023. Such relatively slow growth in productivity overall, in combination with the substantial wage growth, resulted in a significant increase in Lithuania's real effective exchange rates between 2020 and 2024, which could imply risks to its cost competitiveness ([217]). The mechanism for setting the minimum wage now takes into account the dynamics of labour productivity. However, it remains to be seen if this will result in a better balance between labour productivity and wage growth, as the government retains some discretion in setting the level of the minimum wage. Overall, there is further scope to boost productivity growth, including through accelerated digitalisation, more intensive upskilling and reskilling and shifting the economy to high value-added sectors, such as ICT.

Labour shortages in certain sectors hinder potential productivity gains. In 2025, labour market slack remained below the EU average (9.6% vs 11.7%), driven by the continued expansion of the labour force. This helped contain labour shortages, with the job vacancy rate between 1.8% and 2% in the period from 2021 to 2024 (EU: 2.4% in 2024). However, in 2025 the overall vacancy rate rose to 2.2%, with intensified labour shortages in sectors such as public administration and defence (6%), transportation and storage (4.7%), financial and insurance activities (2.7%) and water supply and sewage (2.4%). Furthermore, other areas already reporting labour and skills shortages or expecting them in the near future include engineering and technology (including ICT) and education ([218]) (see Annex 13). The ICT sector has expanded in recent years, also due to immigration from Belarus (see 2025 country report), with ICT specialists accounting for 5.7% of total employment in 2025 (EU: 5.0%). However, due to the recent tightening of the immigration and residence rules, high rates of drop-outs and slow labour market absorption of ICT graduates, the overall supply of ICT professionals risks falling short of the demand, which is projected to grow by nearly 50% by 2035 ([219]) (see Annex 5 and Annex 13).

([214])This also indicates that low-wage and inactivity traps for second earners, which are relatively high in Lithuania, do not constitute a barrier to their labour market participation.

([215])OECD database - OECD/AIAS ICTWSS v2.0.

([216]) OECD AIAS-ICTWSS databasehttps://www.etui.org/publications/road-80-collective-bargaining-coverage. The threshold stipulated in the Minimum Wage Directive is 80%.

([217])Výškrabka, M. and A. Bodea (2026): 'After the Inflation Shock. Taking Stock of Price Competitiveness in the EU', European Economy Discussion Paper 240, Directorate-General for Economic and Financial Affairs, European Commission, see, in particular, pp. 25-26.

([218])Strata scoreboard.

([219])Cedefop skills forecast Lithuania 2025.

Adverse demographic trends and a recent slowdown in labour migration pose long-term challenges for the labour force. Lithuania experienced a net loss of more than 600 000 residents between 2003 (the year before joining the EU) and 2021. The country's population is projected to shrink by 12% between 2023 and 2040, contrary to the expected growing trend in the EU, and the working-age population (15-64) is projected to decline by 18% (6.7% in the EU) in the same period ([220]). Although a surge in immigration (mainly from Belarus and Ukraine, and to a lesser degree from Asian and African countries) increased the population (and the labour force) by nearly 80 000 between 2021 and 2024, this trend slowed noticeably in 2025, also due to security-driven policy adjustments. Natural population decline is forecasted to resume as early as 2026 ([221]). If left unaddressed, these demographic shifts will exacerbate labour shortages, which underscores the urgency of activating and better integrating under-represented groups, such as NEETs and persons with disabilities. In addition, the country lacks a holistic view on the long-term integration of foreign labour force, exacerbated by disagreements between the ministries and municipalities on the division of the respective competences in this field([222]). Further efforts to integrate the third country nationals into the society are increasingly needed to maintain sufficient human capital in key sectors and bolster Lithuania's competitiveness, at the same time avoiding shocks to the social fabric of the society.

Lithuania continues its transition to climate neutrality, but structural challenges remain. In 2025, employment in the country's energy-intensive industries was 1.6% of total employment (EU: 3.5%). At the same time, employment in the environmental goods and services sector exceeds the EU average. In construction, a key sector for the green transition, the job vacancy rate remains considerably lower than the EU average (1.5% vs 2.8% in 2025). However, labour shortages for certain occupations in the construction sector are more pronounced (see Annex 16).

([220])https://ec.europa.eu/eurostat/statistics-explained/index.php?oldid=497115.

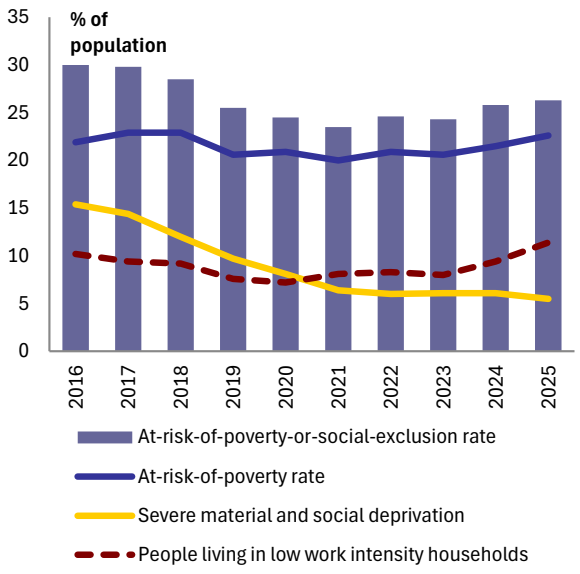
([221])Commission Autumn 2025 Economic forecast Lithuania.

([222])https://www.lrt.lt/naujienos/lietuvoje/2/2918009/benkunskas-prie-vrm-rinks-parasus-kad-salyje-gyvenantys-uzsienieciai-moketu-lietuviskai

Lithuania continues to face persistently high levels of income inequality and a high risk of poverty and social exclusion. The 2025 country-specific recommendations highlighted challenges in addressing income inequality, poverty and social exclusion and recommended increasing the coverage, adequacy and effectiveness of the social protection system, improving the design of the tax system, and increasing the adequacy of old-age pensions. Income inequality remains a pressing challenge, due to the limited redistributive capacity of the tax benefit system and its low and decreasing impact on poverty reduction. The share of the population facing poverty or social exclusion risks has increased, driven by the low adequacy of pensions and social benefits, coverage gaps, and inadequate access to quality inclusive education, employment support and health and social services. These risks are particularly high for certain groups such as unemployed people, older people (65+) and persons with disabilities. The majority of those affected live outside the capital region and in rural areas, including certain counties bordering Russia and Belarus. Energy and transport poverty remain relatively high. Addressing these challenges would contribute to inclusive growth and competitiveness.

Poverty and social exclusion rates are rising, putting the 2030 poverty reduction target at risk. The percentage of people at risk of poverty or social exclusion (AROPE) rose to 26.3% in 2025 (from 24.3% in 2023 and 25.8% in 2024) and remains significantly above the EU average of 20.8%. The number of people at risk of poverty or social exclusion rose to 762 000 in 2025, marking an increase in absolute terms of 50 000 compared to 2019. This puts Lithuania's commitment to reduce this number to 489 000 by 2030 at significant risk. The increase in the AROPE rate was driven by the growing proportion of people living in households with very low work intensity, and the percentage of people at risk of poverty (AROP). On the other hand, the child AROPE rate dropped to 19.9% in 2025, substantially lower than the EU average of 24.3%. Furthermore, the share of the population experiencing severe material and social deprivation in 2025 remained below the EU level for the fourth consecutive year (5.5% vs 6.3% in the EU).

Graph A12.1: **Poverty and social exclusion**



Source: Eurostat, EU-SILC [ilc_peps01n, ilc_li02, ilc_mdsd11, ilc_lvhl11n]

The rate of older workers, young people and those with a low educational attainment level living in very low work intensity ([223]) households contributed to rising poverty risks. The share of people living in very low work intensity households increased to 9.4% in 2024 and 11.4% in 2025 (EU: 7.9%). It was most pronounced in the 55-59 and 18-24 age groups, where it rose to 17.5% (EU: 10.2%) and 13% (EU: 7.8%) respectively, and for those with a low educational attainment level where it spiked to 34.3% (EU: 17.3%). Those in the 18-24 age group with low education levels were particularly affected (22.1% vs 12.8% in the EU). This may also be related to the 2023-2024 increase in the share of early leavers from education and training (see Annex 13) and in the number of young people neither in employment, nor education and training (NEETs) in the same period (see Annex 11). In 2025, 74.8% of people in very low work intensity households were at risk of poverty (EU: 64.1%).

([223]) People aged 0-64 years living in households where the adults (those aged 18-64, but excluding students aged 18-24, and people who are retired according to their self-defined current economic status or who receive a pension (except survivor's pension), as well as people in the age bracket 60-64 who are inactive and living in a household where the main income is pensions (except survivor's pension)) worked a working time equal to or less than 20% of their total combined work-time potential during the previous year.

Persistent and widening income inequalities are leaving more people below the poverty threshold. The AROP rate rose from 20.6% in 2023 to 21.5% in 2024 and 22.6% in 2025 (EU: 16.3%). Although the social benefits were raised in 2023 and 2024, these increases did not counterbalance the increase in the poverty threshold ([224]), which reached EUR 616 in 2024 and EUR 699 in 2025, and was fuelled by strong wage growth (see Annex 11). Furthermore, the depth of poverty increased for the third consecutive year, with the relative poverty gap ([225]) widening to 25.5% in 2024 and 26% in 2025 (EU: 22.5%). The income gap between the lowest and middle-income groups (S50/S20 ratio) rose to 2.61 in 2024 (EU: 2.18). The income quintile share ratio (S80/S20) also increased in 2024 and remained at the same level in 2025, with the income of the top 20% being 6.5 times that of the bottom 20% (EU: 4.6). According to national statistics ([226]), 7% of Lithuania's population were living below the absolute poverty threshold in 2025 compared to 3.6% in 2023.

The effectiveness of social transfers in reducing poverty is low, while gaps in the coverage and adequacy of the social protection system remain. Spending on social benefits in Lithuania stood at 16.9% of GDP in 2024, significantly below the EU average of 27.3%. The impact of social benefits (excluding pensions) on poverty reduction is also relatively low, despite the increase in 2025 (from 25.9% in 2024 to 27.3% in 2025 vs 33.2% in the EU). The adequacy of social benefits remains low – regardless of annual increases, the absolute majority of these benefits remain well below the poverty threshold, with the in-cash social assistance additionally suffering from low take-up levels. This is aggravated by the remaining gaps in social protection coverage – only 42.9% of unemployed people received any social benefits in 2025 (EU: 54.8%), which partly explains their higher AROP rate (61.9% in 2025 vs 49.3% in the EU). The take-up of voluntary insurance schemes among the self-employed was very low, contributing to their relatively high AROP rate (25.9% in 2025 vs 20.1% in the EU).

While Lithuania recently adopted a number of policy measures to reduce poverty and income inequality, their impact is yet to be seen. Under the recent personal income tax reform adopted as part of the recovery and resilience plan, unified personal income tax rates of 20%, 25% (additional tax bracket) and 32% apply to combined income, depending on the level of income. To improve the coverage, adequacy and effectiveness of the social protection system, Lithuania adopted the unemployment insurance benefit reform, which inter alia raises the minimum unemployment benefit, and the minimum income reform, with one of the aims being to improve the adequacy and indexation of minimum income benefits and expand eligibility criteria. However, the effects of these reforms are yet to be seen, although the first two reforms are expected to have only a marginal impact on income inequality and poverty ([227]). To improve the adequacy of financing for social protection, the minimum income reform introduced an improved financing model for in-cash social assistance, starting from mid-2026. To improve the availability and coverage of social services across the country, Lithuania finances a considerable proportion of social services directly from the national budget and plans to introduce social service 'baskets' customised to the needs of individuals, which would set minimum levels of funding for social services. However, the availability of social services (especially those for families and vulnerable groups) across the country remains uneven and financing is heavily reliant on EU funds. Implementation of the European Child Guarantee helps alleviate child poverty through positive actions in most areas, but there remains scope for further measures. Overall, Lithuania has earmarked over EUR 441 million from European Social Fund Plus for social inclusion. However, in the light of worsening social outcomes, continued efforts will be crucial to achieve the 2030 poverty reduction target.

([224]) The threshold is set at 60% of the national median equivalised disposable income (after social transfers).

([225]) The relative median at-risk-of-poverty gap is calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold (cut-off point: 60% of national median equivalised disposable income).

([226]) National Data Agency database.

([227]) The simulation was performed by the European Commission, Joint Research Centre, based on the EUROMOD model, J2.0+.

Regional differences in poverty and social exclusion rates are significant and widening. In the capital region the AROPE rate in 2025 was 16.4%, considerably lower than 30.7% in the rest of Lithuania. The share of households with very low work intensity outside the capital is almost three times higher than in the capital (14.4% vs 5.1%). Similarly, at 26.2% in 2025, the AROP rate outside the capital was almost double the rate of 14.4% in the capital. The AROP rate in rural areas was particularly high (29.8% in 2025 vs 17.2% in the EU). Certain counties bordering Belarus and Russian Kaliningrad remain severely affected, with AROP rates very high in Tauragė, Alytus, Marijampolė and Utena counties ([228]). The percentage of people experiencing severe material and social deprivation was more than twice as high outside the capital region (6.7%) as it was in the capital (2.7%). These disparities are caused by structural weaknesses, notably a lower level of economic activity, higher unemployment (see Annex 11) and less access to quality public services in the regions outside the capital and close to the border with Russia and Belarus (see Annex 18).

The social situation of persons with disabilities continues to deteriorate. Their AROPE rate has remained persistently high over the years and increased further in 2025 to 50.5%, the highest in the EU (EU: 28.8%). All the AROPE components rose, with the biggest increase in the share of persons with disabilities living in households with very low work intensity (39.7% vs 18.9% in the EU). For persons with disabilities, the rate of severe material and social deprivation and the AROP rate increased to 13.1% (EU: 10.5%) and 43.5% (EU: 20.9%) respectively. They are both closely linked to the low employment rates affecting this group (see Annex 11) and the low impact of social benefits (including pensions) on reducing poverty (37.1% in 2025 vs 47.3% in the EU). The recent one-stop-shop and disability assessment reform has not yet brought about the desired results, as the number of individual support plans in place, although increasing, remains very low and there are gaps in the data exchange between the relevant institutions. It is too early to assess the impact of the 2024 reform on improving the incentives for persons with disabilities to find jobs by allowing them to work and still receive their disability pensions and by expanding the eligibility criteria for disability pensions. The government plans to expand social housing with specific attention to persons with disabilities, and to ensure sufficient integrated assistance for this group. Overall, Lithuania would benefit from a more holistic approach to persons with disabilities, encompassing coordinated education, labour market, social inclusion, housing and other relevant policies to improve their situation.

Older people face higher poverty risks, exacerbated by low pension adequacy and limited availability of care services. More than a third of the population above 65 years of age (40.5%) were at risk of poverty or social exclusion (EU: 18.8%), with monetary poverty being the main driver. The AROP rate of this population group stood at 39.2% in 2025 (EU: 16.3%), with the percentage of women at risk of poverty (44.1%) substantially higher than that of men (30.4%) (see 2025 country report). The low adequacy of pensions is a significant determinant of old-age poverty: although the old-age social insurance pension increased to EUR 605 in 2024, it remained below the poverty threshold of EUR 699. The aggregate pension replacement ratio in 2025 continued to be among the lowest in the EU (0.37 vs 0.6). The median income of people aged over 65 stood at 62% of the income of those under 65 (EU: 91%). Rapid population ageing, limited access to long-term care (LTC) and the highest rate (31.43% in 2024) of out-of-pocket expenditure for healthcare in the EU exacerbate these challenges (see Annex 15). Public spending on LTC is relatively low (1% of GDP in 2022 vs 1.7% in the EU) and high out-of-pocket payments limit access to LTC. The financing of LTC services remains fragmented and fails to meet rising demand in a rapidly ageing society (see 2025 country report). To address the 2025 recommendation on increasing the adequacy of old-age pensions, the government announced its intention to improve the indexation of pensions and to implement silver economy measures to further boost the number of older people in the labour force. At the same time, the government recently reformed the second pillar pension accumulation scheme by abolishing the automatic enrolment of citizens and allowing contributors to withdraw their accumulated funds as of 2026 (see also Annex 6). Commission and other organizations raised concerns that the reform might erode saving discipline, reduce the level of savings and reverse progress on pension adequacy in the longer term.

([228]) State data agency.

Energy poverty remains high. The housing stock overall is of poor energy efficiency, as around 80% of residential buildings were built before 1993 and have been poorly maintained (see Annex 16). The share of the population unable to keep their homes adequately warm, albeit declining, was almost double the EU average in 2025 (16.7% vs 8.8%), and stood at 31.6% for people at risk of poverty (EU: 19.6%). Although energy prices decreased in 2024 and 2025 compared with the 2022-2023 period, the increase in VAT for heating and hot water from 9% to 21% as of 2026 together with the record cold winter months resulted in a steep rise in heating costs. The recent conflict in Iran could further increase energy prices. The existing allowance scheme for low-income households will provide partial mitigation against the increase in their heating and hot water bills (see Annex 16).

Transport poverty is also high and constitutes a significant problem in Lithuania. Due to low population density, Lithuania's public transport network does not enable users to reach essential services within an acceptable time in many rural areas. This has resulted in the EU's highest reliance on passenger cars for land transport (92.1% for passenger-kms vs 8.2% in the EU([229])), with a very low propensity for taking the train (1% for passenger-kms vs 8.4% in the EU) or for using buses and coaches (6.8% vs 8.2% the EU average) (see also Annex 8 and Annex 18).

([229]) Eurostat 2023.

Skills development in Lithuania is hindered by gaps in basic skills, limited attractiveness and labour-market relevance of vocational education and training (VET), declining enrolment in higher education, skills mismatches and shortages, and low adult learning participation. Participation in early childhood education and care (ECEC) and tertiary educational attainment are high by EU standards; however, significant challenges remain across the educational cycle in education quality, equity gaps, efficiency and teacher shortages – particularly in science, technology, engineering and mathematics (STEM) subjects and in rural areas. While labour and skills shortages persist, the attractiveness of VET remains low, as does the share of adults engaged in learning activities. Higher education faces persistent challenges, in particular relatively modest STEM enrolment rates. These and other weaknesses in skills development and human capital formation, lack of data-based decision making, together with a projected decline in the working-age population (see Annex 11), limit Lithuania's potential for innovation capacity, productivity growth and competitiveness. The 2025 country-specific recommendations (CSRs) for Lithuania highlighted the need to: (i) incentivise enrolment in post-secondary education in STEM fields; (ii) improve the quality, equity and efficiency of the general education system; (iii) increase the attractiveness of the teaching profession; and (iv) address the skills mismatch through increased labour-market relevance of higher education, the promotion of green skills and improved adult learning for vulnerable groups.

Access to ECEC continues to expand, supported by broader legal entitlements, but the rural-urban gap persists. Participation of children under three in formal childcare or education reached 36.9% in 2024 (EU average: 39.3%) and 43.8% in 2025 (EU average: 40.5%), while national administrative data indicate a higher rate of 44.4% in 2025. Despite this progress, enrolment remains significantly lower in rural areas, particularly for vulnerable children. Since September 2024, all three-year-olds are guaranteed a place in ECEC, and from September 2025, this legal entitlement was extended to cover all two-year-olds. Additional national funding was allocated in early 2025 to support access for vulnerable children, alongside plans to create at least 2 000 new preschool places for children with vulnerabilities. By 2027, national targets aim for 70% participation in ECEC among 2-5-year-olds in rural areas ([230]) (46.3% in 2020). Rapid expansion is intensifying infrastructure and staffing challenges, as ECEC staff shortages persist despite recent measures to improve pay and working conditions.

Equity challenges and pronounced urban-rural disparities are among the most persistent weaknesses of the education system. According to PISA 2022, the EU equity indicator shows lower rates of good performance across basic skills among socio-economically disadvantaged students (13.9%) than in the EU on average (16.3%). The city-rural score gap in 2022 was drastically higher than the EU average; with 71 points in mathematics (EU average: 46); 70 in reading (EU average: 52) and 69 in science (EU average: 46). Rural areas are characterised by a high number of small schools with higher teacher shortages. Lithuania has sought to rationalise its school network with support from the Recovery and Resilience Facility (RRF), including through the Millennium Schools Programme, which has allocated funding for school infrastructure, learning environments, STEAM([231]) labs and digital equipment, launched large-scale professional development for school leaders and teachers, and established competence centres and inter-school collaboration models. Early evidence indicates that schools participating in the Millennium Schools Programme have performed, on average, better than non-participating schools.

The dynamics of the share of early leavers from education and training (ELET) is an emerging challenge for competitiveness. In just two years, the ELET rate (among 18-24-year-olds) increased from 4.8% (2022) to 8.4% (2024) before decreasing in 2025 to 5.9% (EU average: 9.1%)([232]). Approximately 8 out of 10 early school leavers were not employed and 6 out of 10 were inactive in 2025 ([233]). The gender gap is smaller than the EU average; in 2025, the ELET rate was at 6.6% for males (EU average: 10.6%), compared

([230]) Agreement on National Education Policy (2021-2030) - Švietimo, mokslo ir sporto ministerija.

([231]) STEAM: science, technology, engineering, arts, and mathematics.

([232]) https://osp.stat.gov.lt/lt/statistiniu-rodikliu-analize?hash=7a505de2-ca2e-4038-b884-2ecd66f43d4aEurostat, [edat_lfse_14]

([233]) Early leavers from education and training by labour status.

to 5.2% for females (EU average: 7.5%). Early school leaving is prevalent in rural areas, where it stood at 7.3% in 2025 (EU: 9.6%), up from 6.7% in 2022. The share is also markedly high among persons with disabilities in 2023 (25.3%; EU average: 19.1%, see Annex 11). Lithuania is closely analysing the reasons behind this variation in the share of early school leavers, which likely include equity and urban-rural fragmentation challenges (see above). The rise in early school leaving has a negative knock-on effect, as it also increases the share of young people not in employment, education or training (NEET) (see Annex 11) and young people at risk of poverty or social exclusion (see Annex 12). While early school leaving is not addressed as a standalone priority in the Agreement on National Education Policy (2021-2030) ([234]), emphasis on long-term state investment and commitment to improve education quality and equity as well as inclusive, accessible education for all learners may indirectly support efforts to reduce it.

Lithuania has taken steps to address key education challenges, but the effectiveness of measures is yet to be seen. Since September 2023, all schools have been implementing a new competence-based curriculum, yet its outcomes are still to be assessed. Funded by the RRF, around 4 000 teachers are expected to complete practice-oriented training by mid-2026. In addition, minimum class-size requirements for upper-secondary grades in small schools have been relaxed ([235]), and the funding for maintaining smaller classes is now shared between the state and municipalities. This measure aims to increase the accessibility of education but may also impact education quality.

Teachers are central to developing the skills of the future workforce, yet the teaching workforce is ageing rapidly and faces persistent shortages. According to TALIS 2024, in 2023, 58.5% of lower-secondary teachers were aged 50 or older, compared to an EU average of 39.9%. Teachers report high workload levels, with lower-secondary teachers working on average 45.9 hours per week, well above the EU average of 39 hours. Salary satisfaction has improved, rising from 11.1% in 2018 to 28.4% in 2024, although it remains below the EU average of 37.3%. Perceptions of societal recognition remain limited yet exceed the EU average (15.4%), with 20.5% of teachers reporting that they feel valued by society. To improve attractiveness of the profession, as recommended in 2025, Lithuania is expanding alternative and simplified entry routes into teaching for second-career entrants, including paid traineeships, strengthened mentoring during practice as well as a two-year professional pedagogical programme worth 120 ECTS([236]) for higher education students, alongside continued real wage increases.

The labour market relevance of VET has improved, but its' attractiveness remains low. Following the extensive measures taken under the RRP (see 2025 Country Report), the employment rate of people who have recently completed VET (20-34) has surpassed the EU average in 2025 (81.7% vs 80.2%). Participation in work-based learning is steadily rising, also as a result of implemented RRP measures, closing in on the EU average (61.1% vs 66% in the EU in 2025). However, Lithuania is struggling to make its VET system more attractive, as the share of pupils in medium-level (ISCED 3-4) VET has hovered around 36% since 2020, reaching 37% in 2024 (EU: 52.9%). Career guidance in schools was introduced in 2023 and, from 2020, pupils in the last four years of general secondary education (grades 9 to 12) can enrol in experimental VET programmes. These RRF measures have increased the attractiveness of upper-secondary (ISCED 3) level VET, leading to enrolment levels that have surpassed pre-pandemic figures (16 722 pupils enrolled in 2024 vs 16 583 in 2019). However, these gains have been more than offset by a marked decrease in the number of learners enrolled in post-secondary non-tertiary (ISCED 4) level VET (8 866 learners enrolled in 2024 vs 12 594 in 2019). Although demand for medium-level skills is projected to remain relatively stable up to 2035, supply is expected to fall short of projected needs ([237]). To address this, Lithuania continues to implement measures under its recovery and resilience plan (RRP) (see 2025 Country Report) and to invest in VET infrastructure in sectors where VET programmes and

([234]) Agreement on National Education Policy (2021-2030) - Švietimo, mokslo ir sporto ministerija.

([235]) Amendments to the Rules on the Establishment of the School Network.

([236]) ECTS: European credit transfer and accumulation system

([237]) Cedefop (2025 Skills Forecast). See also national forecasts by STRATA.

investments are estimated to have the greatest practical and strategic impact in support of the digital and green transformations.

While Lithuania records one of the highest tertiary educational attainment rates in the EU, enrolment in higher education has declined. In 2025, 60.8% of 25-34-year-olds held a tertiary qualification (EU average: 44.8%). Women continue to significantly outperform men, contributing to one of the largest gender gaps in tertiary attainment in the EU (17.1p.p.; EU average: 11.3p.p.). The employment rate of recent tertiary graduates is high. Lithuania had one of the highest shares of people aged 15-34 with a medium or high level of education reporting a very high or high match between their field of education and their current or last main job requirements (76.1%) ([238]). At the same time, enrolment in higher education (ISCED 6–7) has declined, from 25.8% in 2015 to 23.7% in 2023, reflecting demographic trends including decreasing birth rates and an ageing population. This contributes to broader skills imbalances, with the macroeconomic skills mismatch ([239]) remaining above the EU average (21% vs 19.2% in 2024). Lithuania has received support from the Technical Support Instrument to strengthen the system of evaluation and quality assurance of higher education and VET, with a view to improve the quality and labour-market relevance of both sectors and enhance system-level collaboration ([240]).

To address declining enrolment and improve labour-market relevance, reforms supported by the RRF are reshaping the higher education landscape. Five college mergers were completed between July and October 2024, integrating several colleges into universities, with new quality-based criteria for institutional performance, including labour market alignment and student numbers, planned from 2028. Access for disadvantaged students was eased in 2024 through a dedicated admission track reserving up to 1 300 state-funded places annually. Additionally, by the end of 2025, around 13 000 students were expected to receive state funding for first-cycle places and study scholarships. Internationalisation continues to expand, with 77.6 graduates who pursued their degree abroad from non-EU countries per 1 000 graduates in 2023, well above the EU average of 57.2, while outward degree mobility reached 10.1% (EU average: 11%) and credit mobility 5.5% (EU average: 6.6%). According to an independent DAAD forecast, 11 500 foreign students were enrolled in the 2024/2025 academic year([241]). The effectiveness of these measures in reducing skills mismatches remains to be seen.

Shortages of STEM professionals reflect persistent mismatches between education outcomes and labour market demand. At tertiary level, the share of students enrolled in STEM fields remained broadly stable at around 25% in 2023 (EU average: 26.9%) and well below the proposed EU target of 32% by 2030, although provisional national data for 2024 indicate a rebound to 28.4% ([242]). Gender disparities remain pronounced, with women accounting for only 27.3% of tertiary STEM students in 2023, below the EU average (EU target: 40%), and the share of female information and communications technology (ICT) doctoral students declining to 26.9%, down from 29.5% in 2021, resulting in an overall supply of ICT graduates below labour market demand ([243]). Furthermore, Lithuania reports high dropout rates and weak labour market absorption, with only about half of ICT students completing their studies and only 52% of graduates working in ICT one year later. In medium-level VET, enrolments in STEM fields (49.7% of all medium-level VET pupils) exceeded the EU average of 36.6% in 2024, but the gender gap remains large, with just 9.9% females enrolled in STEM VET in 2024, (EU average: 15.9%). Given the decreasing enrolment numbers in both tertiary education and VET, as well as the demographic challenges, it is likely that the levels of new STEM graduates will not meet labour market demand (see 2025 Country Report), which is expected to grow further, especially in ICT ([244]). To address this and the 2025 CSR on incentivising enrolments in

([238]) lfso_24match06.

([239]) The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups (proxied by qualification levels, with ISCED 0-2 low; 3-4 medium and 5-7 high). Source: Commission's own calculations.

([240]) Ensuring Quality Vocational and Higher Education in Lithuania | OECD.

([241]) Deutscher Akademischer Austauschdienst.

([242]) LAMA BPO (2024).

([243]) Job Creation and Local Economic Development 2024 - Country Notes: Lithuania | OECD.

([244]) Cedefop (2025 Skills Forecast).

post-secondary STEM programmes, national initiatives, including scholarship initiatives, unlimited state-financed places for females in STEM, the STEAM education plan and the Millennium Schools Programme, aim to strengthen STEM provision and reduce regional disparities, although progress remains uneven.

The alignment between skills forecasting and skills development remains fragmented. 72% of small to medium-sized enterprises face skills shortages for at least one job role ([245]). With the working-age population projected to decline and persistent skills shortages, there is a growing need for a close link between skills forecasting and skills development, yet this link remains fragmented across multiple institutions and levels (see 2025 Country Report). The level of engagement of various stakeholders and social partners in public consultations on the planning of state-funded VET places varies from region to region.

The acquisition of green and digital skills is improving, but the progress is uneven. Lithuania has placed an emphasis on developing and improving its population's digital skills, by funding digital education infrastructure in schools and prioritising digital skills acquisition on the individual learning accounts (ILA) platform. However, the progress in digital skills is slow, with 53.8% of the population having at least basic digital skills (EU average: 60.4%) in 2025, up from 52.9% in 2023 (EU average: 55.56% in 2023). Performance among young people is significantly stronger, reaching 80.7% among those aged 16-24 (EU average: 74.5%). This suggests that improvements are likely to continue over time as younger cohorts enter the workforce. However, the digital proficiency among the older population (55-74) was only 23.94% (EU average 40.6%). In 2025, Lithuania received a CSR on addressing the skills mismatch by promoting the acquisition of green skills. To address this, green skills are increasingly embedded in the general education competence-based curricula and promoted through the continued implementation of the RRP measure on the creation and update of VET programmes (see 2025 Country Report), as well as through the adult learning platform kursuok.lt.

Adult participation in education and training remains low. According to the adult education survey, participation in adult learning stood at 27.4% in 2022, well below the EU average of 39.5% and Lithuania's 2030 national target of 53.7%, reflecting an increase of just 2.4 percentage points since 2016. The level of adult learning is particularly low among adults working in energy-intensive industries (8.3%; EU average: 11.7%). More recent data, from the labour force survey, suggest a possible increase in participation rates between 2022 and 2024. The need to improve adult participation in learning is further underscored by the 2023 PIAAC results, which show low scores and significant decreases in both literacy and numeracy for adults ([246]). The ILA platform introduced in 2024 (see 2025 Country Report) has quickly gained attraction, with more than 18 000 individuals having completed courses via the platform by mid-February 2026, but these results are not yet reflected in the official statistics.

Lithuania is taking steps to further boost adult learning, but areas for improvement remain. In 2025, Lithuania received a CSR on addressing the skills mismatch by improving adult learning, including for vulnerable groups. To address this, certain novelties have been recently introduced to the ILA platform, including prioritised access for vulnerable groups ([247]) and integration with the public employment service's information system. The government also plans to develop a micro-credential system and integrate it with the ILA system, to further enhance lifelong learning. As part of its medium-term fiscal-structural plan, Lithuania aims to enable at least 15 000 people per year to acquire new competences by combining state and municipal adult education funding measures within the ILA system and introducing a sustainable, budget-based funding model. At the same time, the labour-market relevance of the training offers in ILA system could be further improved.

([245]) Eurobarometer survey 2023.

([246]) Do Adults Have the Skills They Need to Thrive in a Changing World? | OECD.

([247]) Such as persons with disabilities, those living outside cities, individuals who acquired their qualifications more than 10 years ago, low-skilled people and older people (50-65). More info here: https://kursuok.lt/naujienos/atnaujinamas-kursuok-lt-finansavimas-gyventojai-registruotis-mokymams-gales-jau-lapkriti.

Table A14.1: **Social Scoreboard for Lithuania**

Equal opportunities and access to the labour market	Adult participation in learning (during the last 12 months, excl. guided on the job training, % of the population aged 25-64, 2022)	27.4
	Early leavers from education and training (% of the population aged 18-24, 2025)	5.9
	Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2025)	53.8
	Young people not in employment, education or training (% of the population aged 15-29, 2025)	12.4
	Gender employment gap (percentage points, population aged 20-64, 2025)	-0.6
	Income quintile ratio (S80/S20, 2025)	6.54
Dynamic labour markets and fair working conditions	Employment rate (% of the population aged 20-64, 2025)	80.0
	Unemployment rate (% of the active population aged 15-74, 2025)	6.9
	Long term unemployment (% of the active population aged 15-74, 2025)	2.5
	Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2024)	144.1
Social protection and inclusion	At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2025)	26.3
	At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2025)	19.9
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2025)	27.3
	Disability employment gap (percentage points, population aged 20-64, 2025)	42.8
	Housing cost overburden (% of the total population, 2025)	5.7
	Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2025)	43.8
	Self-reported unmet need for medical care (% of the population aged 16+, 2025)	3.3

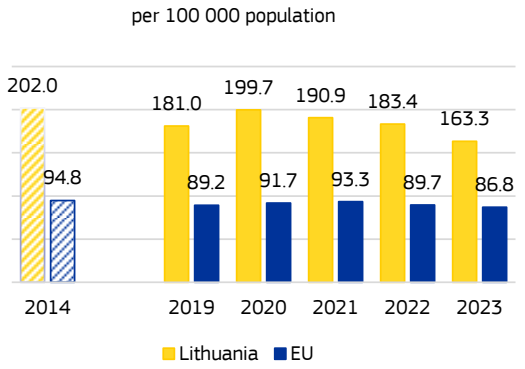
Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Update of 4 May 2026. Members States are categorised based on the Social Scoreboard according to a methodology agreed with the EMCO and SPC Committees. Please consult the Annex of the Joint Employment Report 2026 for details on the methodology (https://employment-social-affairs.ec.europa.eu/joint-employment-report-2026_en).

Source: Eurostat

Lithuania's health system faces challenges that need to be addressed to improve the health of its population, social fairness and productivity, while boosting the competitiveness of its economy. These challenges include: (i) limited access to healthcare with high unmet needs and high out-of-pocket (OOP) spending; and (ii) suboptimal funding and cost-effectiveness of the health system. The need to provide adequate financing for healthcare, to make the health system more resilient, to improve accessibility of primary and preventive care and to increase the availability of health workers were raised in the 2025 country-specific recommendations (CSRs).

Graph A15.1: **Treatable mortality**



Age-standardised death rate - mortality that could be avoided through optimal quality healthcare.
Source: Eurostat (indicator: hlth_cd_apr)

Life expectancy at birth in Lithuania was still among the lowest in the EU in 2024, and 2023 avoidable mortality – preventable or treatable – was among the highest. Lithuania recorded the highest increase in life expectancy in the EU between 2019 and 2024. Life expectancy for women was 8.6 years higher than for men in 2024. Unlike in other EU countries, women can also expect to live considerably longer in good health (around four years longer than men). In 2023, treatable mortality was among the highest in the EU, suggesting shortcomings in the effectiveness of the health system. Diseases of the circulatory system – cardiovascular diseases (CVDs) – and cancer are the leading causes of death, with the former accounting for more than half of all deaths in Lithuania in 2023, the latter 21%. The CVD death rate was particularly high in Lithuania (more than twice the EU average). Potentially avoidable hospital admissions are one of the highest in the EU for congestive heart failure and diabetes ([248]). Lithuania is implementing disease cluster models to improve coordination and quality of care. The country participates in the joint action EUnetCCC funded by EU4Health, aimed at strengthening cancer care ([249]). Lithuania also benefits from EU4Health grants to set up networks for cancer infrastructure and expertise.

Suicide rates remain high. Even though the suicide rate decreased by almost half between 2013 and 2022, it remains one of the highest in the EU. Since mid-2025, several new services have been introduced in mental health centres providing outpatient mental healthcare services. Access to mental healthcare services, including for children and adolescents, has been expanded and additional funding has been allocated. Lithuania is also implementing an action plan for the development of mental health promotion, psychosocial support and suicide prevention interventions for 2025–2027. Community-based treatment teams are also being set up with EU structural funds.

Preventable mortality remains very high. Lithuania has increased investment in disease prevention over the last 10 years, from a 1.8% share of spending in 2014 to 2.8% in 2023, but this share remains well below the EU average of 3.7%. Despite a 23% decrease over 2014-2023, preventable mortality rates remain one of the highest in the EU.

Preventable mortality in Lithuania is closely linked to behavioural risk factors ([250]). Smoking and alcohol consumption rates among Lithuanian adults remain higher than the EU averages. E-cigarettes have become widespread particularly among Lithuanian adolescents, despite a ban on sales, possession and use among minors ([251]). Lithuanian adults also have one of the lowest consumption levels of fruit and vegetables in the

([248])OECD (2025), *Health at a Glance 2025: OECD Indicators*.

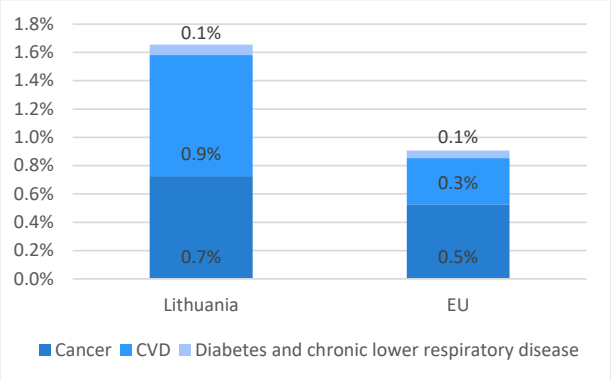
([249])EUnetCCC JA - The European Comprehensive Cancer Centre Network.

([250])OECD/European Observatory on Health Systems and Policies (2025), *Country Health Profile 2025: Lithuania*. State of Health in the EU.

([251])ESPAD Group (2025), Key findings from the 2024 European School Survey Project on Alcohol and Other Drugs (ESPAD), Lisbon: European Union Drugs Agency.

EU. Lithuanians also have among the lowest levels of physical activity outside working time in the EU. More than half of adults have less than one physical activity outside working time in a typical week. Poor dietary habits translate into high rates of obesity: 20% of the population was obese in 2022. The high prevalence of risk factors and the over 40% increase in cancer prevalence between 2010 and 2020 underscore the need to strengthen prevention efforts ([252]). Lithuania has launched several EU-funded projects to address risk factors. For example, the health literacy project strengthens healthy nutrition and oral hygiene skills and promotes vaccination and first-aid training. The Institute of Hygiene is also organising health promotion programmes for parents entitled 'The Incredible Years' and 'Growing Through Play'.

Graph A15.2: **Potential gains in working-life years from prevention, between 2022 and 2040**



Source: EC/OECD, State of Health in the EU: 2025 Synthesis Report

Poor health outcomes negatively affect Lithuania's workforce and hence productivity and competitiveness. In Lithuania, mortality at working age as a proportion of total mortality is among the highest in the EU (21% vs 14% EU), exacerbating the effects of population ageing on a shrinking labour force (see Annex 11). Gains in health status from further prevention investment could alleviate this impact. As regards non-communicable diseases (NCDs), it is estimated that up to 80% of CVDs and type 2 diabetes in the world, up to half of cancer cases, and most chronic lung diseases can be prevented ([253]). For example, preventing all deaths from NCDs in Lithuania – in particular CVDs – would result in a 1.7% gain in working-life years from 2022 to 2040 (vs 0.9% for the EU, see Graph A15.2). This is one of the highest potential increases across Member States and would save about 438 000 life years in Lithuania over 2022-2040. This increase would mitigate an otherwise expected 12% reduction of the workforce due to demographic ageing of the 2022 population (7% for the EU) ([254]). Lithuania is implementing health centres in 52 municipalities, which aim to improve the quality and accessibility of healthcare services for patients with one or more chronic NCDs.

The functioning of the health system is hampered by relatively low public spending and reliance on OOP payments. While health spending per inhabitant in Lithuania (adjusted for differences in purchasing power) almost doubled over the preceding decade, it still remained below the EU average in 2023. The largest share of Lithuania's health spending is on outpatient care (close to a third of total health expenditure), while more than a quarter of it goes on hospital services. Medical goods (retail pharmaceuticals and therapeutic appliances) accounted for the same amount of health spending as hospital services. Public spending as a proportion of total health expenditure was below the EU average in 2023 (67.3% vs 80.6% in the EU on average). This translates into the highest proportion of households' OOP payments for healthcare in the EU (31% in 2023, more than double the EU average – see Annex 12). Pharmaceuticals and dental care each account for approximately a third of OOP payments. Private spending on outpatient medical care accounts for 13% ([255]). In 2025, in an effort to reduce OOP payments, the government initiated legislative amendments introducing a ban on charging co-payments for services financed by the compulsory health insurance fund.

Lithuania's pharmaceutical sector is of comparatively modest economic significance. The number of clinical trials is low and has been steadily decreasing since 2015 ([256]). Lithuania has only granted few patents for pharmaceuticals in recent years, and its industry has a consistently low share of extra-EU exports (3.7% in 2025 vs 13.9% for the EU average).

([252])*Country Health Profile 2025: Lithuania* - see earlier footnote.

([253])NCD Alliance, 2025: Noncommunicable Diseases (NCDs) overview | NCD Alliance.

([254])EC/OECD, *State of Health in the EU: 2025 Synthesis Report*.

([255])*Country Health Profile 2025: Lithuania* - see earlier footnote.

([256])US National Library of Medicine, https://clinicaltrials.gov.

Table A15.1: **Key health indicators**

	2020	2021	2022	2023	2024	10-year change**	EU average* (latest year)
Cancer mortality per 100 000 population	276.5	259.4	261.5	255.1	n.a.	0.92	233.1 (2023)
Mortality due to circulatory diseases per 100 000 population	793.5	800.7	784.5	658.5	n.a.	0.78	313.0 (2023)
Current expenditure on health, purchasing power standards, per capita	2 011	2 310	2 316	2 415	2 635	1.88	3834.9 (2023)
Public share of health expenditure, % of current health expenditure	70.2	68.8	66.5	67.3	66.9	1.00	80.6 (2023)
Spending on prevention, % of current health expenditure	3.9	5.6	4.7	2.8	n.a.	1.53	3.7 (2023)
Available hospital beds per 100 000 population***	512	517	485	472	n.a.	0.73	440 (2023)
Doctors per 1 000 population*	4.5	4.5	4.4	4.6	n.a.	1.03	4.3 (2023)*
Nurses per 1 000 population*	7.8	7.9	7.5	7.5	n.a.	0.94	7.6 (2023)*
Mortality at working age (20-64 years), % of total mortality	22.4	21.9	21.2	22.2	21.9	0.89	14.3 (2023)
Consumption of antibiotics in the community and hospital sectors, defined daily doses per 1 000 inhabitants	14.2	14.1	18.5	18.7	19.7	1.28	20.3 (2024)

*The EU average is weighted for all indicators except for doctors and nurses per 1 000 population, for which the EU simple average is used based on 2023 data (or latest available). Doctors' density data refer to practising doctors in all countries except Greece, Portugal (licensed to practise) and Slovakia (professionally active). Density of nurses: data refer to practising nurses (EU recognised qualification) in most countries except Portugal (licensed to practice) and Slovakia (professionally active). Latest data update on nurses for Belgium and Sweden: 2022; for France: 2021; for Luxembourg: 2017.
** latest available 10-year trend: ratio 2023/2014 or 2024/2013; a factor of 2.00 means that it has doubled in 10 years.
***'Available hospital beds' covers somatic care, not psychiatric care.
Source: Eurostat

Relative to population size, the number of hospital beds in Lithuania was high in 2023. Meanwhile, the occupancy rate in 2023 was relatively low (61%). Diabetes hospital admission rates were high. Lithuania has consistently underinvested in the health sector, recording some of the lowest levels of health infrastructure investment per capita in the EU since at least 2015. This is reflected in the low availability of key diagnostic technology: Lithuania has one of the lowest rates of gamma cameras and positron emission tomography (PET) scanners per capita in the EU. Lithuania spends a fifth of its 2023 share of health expenditure on primary care. The country's estimated domestic spending per capita on prevention, preparedness and response is one of the lowest in the EU ([257]). The 2025 CSR highlighted the need to *make the health system more resilient*. Lithuania is currently investing in modernising the infrastructure of two hospitals to ensure continuity of operations in emergency situations. Other measures are also focusing on strengthening resilience to emergencies, crises and military threats. The recovery and resilience plan (RRP) is funding the ongoing construction of advanced therapy centres, infectious disease cluster centres and modernised healthcare facilities in hospital emergency, resuscitation and intensive care units.

Significant challenges hamper optimal access to healthcare, in particular in remote areas. In 2024, the proportion of the Lithuanian population reporting unmet needs for medical care was high (4.3% vs 2.5% EU, see Annex 17). This also varies significantly by region (see Annex 18). The primary reasons reported are long waiting times. Lithuania has among the highest shares of people with medical needs reporting foregone care in the EU. Unmet needs for primary care are double the EU average, which, combined with the high number of hospital beds, points to inefficiencies in the healthcare system. Lithuania is enhancing the qualifications of primary healthcare and specialised healthcare professionals to address the need – as identified in the 2025 CSR – to improve the quality and accessibility of healthcare services. Moreover, new specialist remote consultation services are being developed and introduced to strengthen primary healthcare capacities and improve patient referral processes. Lithuania also aims to reduce waiting times and address unmet medical needs by implementing several strategic initiatives focused on strengthening the role and autonomy of nurses within the health system. The second reason limiting access to care is financial, given households' high OOP payments for healthcare.

Workforce ageing and regional imbalances of health professionals add to concerns about the availability of healthcare. The density of doctors and nurses in Lithuania is close to the EU average (see Table A15.1). However, workforce renewal is a major concern for nurses. More than half of nurses were over 55 years of age in 2022. Moreover, fewer than 20% were under 44 years of

([257])OECD Health Statistics 2025.

age. Regarding doctors, uneven geographical distribution limits access to care, with higher concentrations of doctors in the Vilnius and Kaunas districts (see Annex 18). The remuneration of general practitioners is also relatively low. These factors combined pose a significant challenge to the long-term accessibility of health services, as well as the level of capacity required to meet the demand for healthcare. Lithuania has invested in addressing these imbalances between health professionals, with the number of nursing graduates doubling between 2014 and 2023. However, the numbers of nursing graduates still lag far behind the EU average. The nurse-to-doctor ratio target of 2:1 under the national health strategy is unlikely to be met due to ongoing recruitment and retention challenges ([258]). In October 2025, a sectoral collective agreement committed to increase the remuneration of healthcare professionals, with priority given to nurses' wages. The EU-funded Training and Attraction of Health Professionals project launched in Q1-2025 is being carried out in 53 municipalities. It is planned to attract more than 1 600 specialists to healthcare institutions. Lithuania is also in the process of creating additional state-funded residency study places in regional healthcare institutions and increasing their remuneration. These measures may help address the 2025 CSR to increase the availability of health workers. Lithuania participates in the EU4Health-funded HEROES joint action, through which EU countries share expertise on health workforce planning ([259]).

Lithuania's health system is a top runner in digitalisation but suffers from a digital divide in the population. The shares of people accessing their personal health records online and using online health services (excluding phone) instead of in-person consultations are well above the EU average and more than doubled between 2020 and 2024 (see Annex 7). However, Lithuania has among the widest digital divides in the EU: significant differences were observed in patient use according to people's socio-economic background. This concerns both accessing health services online and using electronic health records. Digital literacy – meaning people's basic digital skills – in Lithuania is below the EU average. Investments to boost the digital transformation of Lithuania's health sector, potentially improving the effectiveness of and access to healthcare, are planned under the 2021-2027 cohesion policy or as part of the RRP. The RRP, for example, funds additional modules for the emergency management information system and modernisation of the state information system on infectious diseases to be achieved by April 2026. Also, under EU4Health Lithuania receives direct grants to expand its digital infrastructure.

([258]) *Country Health Profile 2025: Lithuania* - see earlier footnote.

([259]) JA HEROES | Health Workforce Planning Project.

The 2025 country-specific recommendation highlighted the need to 'make buildings more energy efficient to reduce energy poverty'. Despite improvements, and the targeting of EU funds towards the energy efficiency of housing, many homes still lack basic amenities and energy performance is very low. Russia's war of aggression against Ukraine and the 2022-2023 energy crisis that followed mean households are under additional strain and affordability for vulnerable households has worsened. Even though energy prices fell in 2024 and the first half of 2025, the recent VAT rate increase on heating and hot water costs, as well as the ongoing increase in gas prices due to the Iran conflict, could reverse these trends in 2026.

The 2025 country-specific recommendation emphasised the need to 'improve the access and quality of social housing'. The social housing sector remains limited, and waiting lists long and growing, such that low-income and vulnerable groups have great difficulties accessing social housing. The private rental market remains largely informal despite efforts to expand the formal market. Recent efforts and EU funding for social housing should improve the situation.

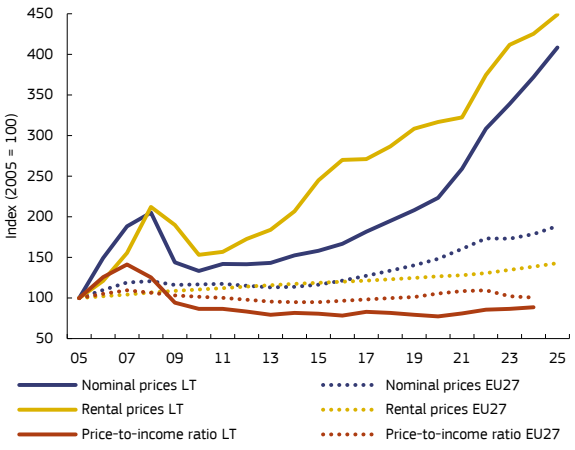
In this context, low average household expenditure on housing hides an emerging affordability crisis in Lithuania. The high rate of homeownership without a mortgage keeps average housing expenditure at low levels, but many homeowners are poor and cannot afford the necessary upgrades of their dwelling. Rising construction costs make new and quality accommodation less and less affordable for households entering the housing market through rental or purchase, or wishing to move to a higher quality home.

Housing market developments

House prices have continued to rise significantly over the past decade, supported by rising incomes and favourable financing conditions (see Graph A7.1). Nominal house price growth peaked at 19.0% year-on-year in 2022, before decelerating to 9.8% in 2023 and 9.7% in 2024, driven by a slowdown in demand due to higher interest rates. Since then, mortgage interest rates have declined, and lending volumes have expanded even though they remain below the Euro Area average. In 2025, nominal house prices grew steadily by 9.8% year-on-year, and they show signs of overvaluation of around 18% (based on the standard European Commission methodology). House prices tracked household income developments in 2009–2024, causing the price-to-income ratio to remain broadly stable with mild increase above its long-term average recorded in recent years.

Regional disparities in house price levels remain pronounced. Prices are highest in Vilnius and, despite higher-than-average incomes, the size of the dwelling that can be purchased with one third of disposable income is half of what can be bought in other regions.

Graph A16.1: **House prices, rents and price-to-income evolution in LT and EU27 since 2005**



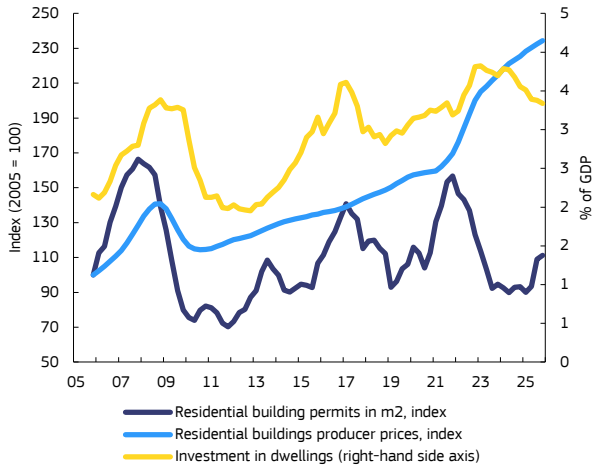
Source: Eurostat

The rental market remains thin and concentrated in Vilnius, where rising demand has pushed up rent prices. With tenants representing a mere 12.6% of the population in 2024, and only 2.9% of them paying rent at market conditions, the rental market in Lithuania is limited, particularly outside the capital region. Informal leases continue to be pervasive, especially outside the big cities. Due to limited supply, in 2010–2025, Lithuania recorded a nominal rent increase of about 191.1% (including standing and new rental contracts). The year-on-year rental price increase was especially high in 2022, reaching 16.1%, as a large inflow of Ukrainian refugees in Lithuania drove up rental demand. Overall, even though rental prices increased sharply, the increase broadly matched disposable income growth, and the rent-to-income ratio remained fairly stable.

Following a period in which the construction of new dwellings increased in response to rising house prices, it has recently declined. After falling steeply in 2009-2012, investment in dwellings grew sharply until Q12023 (Graph A7.2) in response to fast price growth, as profitability rose. The issuance of residential building permits also increased, especially in 2019-2021. However, since then, completions have been constrained by labour shortages, increased construction costs, more stringent financing conditions for developers, (see Annex 5). As a result, the investments in new dwellings and the issuance of building permits have been declining over the last few years. In the medium run, decreases in population will result in limited construction needs outside the main cities. Vacant housing, today lower than the EU average, can be expected to rise in that context.

Despite a low job vacancy rate, Lithuania faces shortages in certain skilled occupations within the construction industry. While the job vacancy rate in the construction sector was significantly lower than the EU average in 2025 (1.5% vs 2.8%), Lithuania has a shortage of workers in some occupations related to the construction sector. For example, labour shortages are reported for bricklayers, building electricians, concrete placers and finishers, crane and related plant operators ([260]).

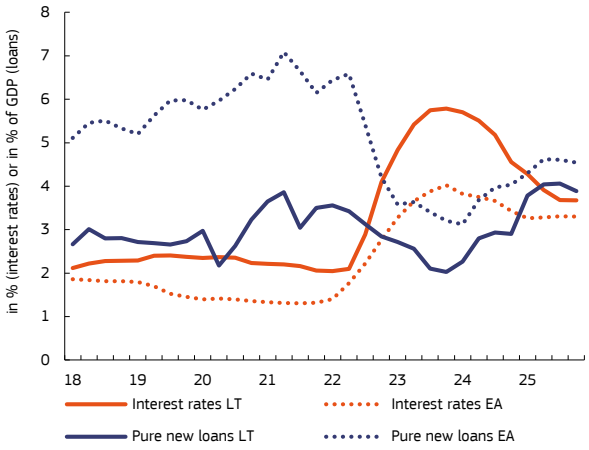
Graph A16.2: **House supply indicators in LT since 2005**



Source: Eurostat

Mortgage interest rates have remained relatively high over the past decade ([261]). In 2019–2021, mortgage interest rates fluctuated between 2.1% and 2.4%, significantly above the euro area average. Following the monetary policy tightening cycle and given the high prevalence of variable-rate loans, mortgage rates increased sharply, reaching 5.8% in 2023. The housing cost overburden rate almost doubled for owners with a mortgage, from 2% in 2022 to 3.8% in 2025, vs 5% in the EU. As a result, demand for mortgage lending in Lithuania remains subdued.

Graph A16.3: **Borrowing costs and housing loans, in LT and EA since 2018**



Source: Eurostat and ECB

Structural policies

Changes in governance and the upcoming strategy for housing could make for more ambitious housing policies and more effective implementation. In response to the fragmentation of governance pointed out in the 2023 OECD report *Policy Actions for Affordable Housing in Lithuania*, the Ministry of Environment has been assigned the role of coordinating housing policies across government. A housing affordability assessment is being carried out to provide the basis for a national housing affordability strategy which should be adopted by the end of 2026. This will replace the national housing strategy adopted in 2004 and not updated since. A law on support for housing acquisition or rental is also planned for

([260])EURES-Report on labour shortages and surpluses 2024.

([261])European Commission 2025. Taxing Bank Windfall Profits: Lessons from the Baltics - Economy and Finance.

2026 covering, among other things, purchase and rental support, quality requirements for social housing and the protection of older tenants and tenants with disabilities. In the meantime, the state budget for housing remains small compared with other EU countries. Responsibility for the implementation of housing policies has been transferred to municipalities, but their technical and financial constraints affect the scale and speed of affordable and social housing provision.

The administrative and regulatory environment is favourable to construction. The quality of the land administration was ranked one of the highest in the EU, and construction procedures are among the fastest in Europe ([262]). The 2023 Construction Law simplified and digitalised permitting by reducing the project-design stages and cases where a formal permit is required and extending the use of electronic systems. State-owned land is being transferred to municipalities to support affordable housing development, with more than 900 000 ha being transferred in 2024 and 2025.

Social housing in Lithuania remains very limited, despite recent measures to address the 2025 country-specific recommendation *to improve access to and quality of social housing*. The approximately 13 000 social housing units owned and operated by municipalities represent 0.8% of the country's housing stock. The upcoming law on support for housing acquisition or rental will set basic quality and safety requirements for social housing that do not yet exist. This step has been praised by NGOs which constantly report on the overall low quality of social housing, of which 2.5% is in emergency condition. The development of social housing stock in 2021-2027 is financed by European funds, with an initial allocation of ca EUR 85 million (including the national contribution), with a target of ca 2060 users, mainly persons with disabilities and large families. Following the mid-term review, an additional EUR 53 million from European funds were allocated (EUR 69 million together with the national contribution) for the development of the additional social housing stock for ca 1 790 users, making it ca 3850 users and ca EUR 155 million (with national contribution) in total for the development of social housing. Furthermore, additional EUR 35 million is allocated from the Social Climate Plan for the construction or purchase of 278 social housing units by Q3 2032. According to Lithuania's estimates approximately EUR 1 billion would be needed to meet the entire current demand for social housing.

With policies encouraging homeownership, the private rental market is thin and suffers from a high level of informal contracts. In 2024, 87.4% of the population lived in a home they owned. This is due to both historical reasons and policies that have traditionally favoured homeownership (see Annex 3). Several support schemes exist to encourage homeownership for: (i) low-income young families buying their main residence; and (ii) young families in rural areas. These policies could in some instances lead to an increase in housing prices by fuelling demand. The informal rental market is estimated to represent between 20% and 80% of the private rental market ([263]). This reduces tax revenues for the state but also limits tenant protection. A system of business certificates was expanded to encompass the activity of renting out housing to encourage landlords to formalise their rental contracts in exchange for reduced income taxes. Its take-up rate doubled between 2020 and 2024, and accordingly tax declarations of rental income are on the rise.

Upgrading the private housing stock is one of the major challenges facing the housing sector. 80% of the housing stock was built before 1993, when standards and quality were lower. The lack of a legal framework for managing multi-apartment buildings after their privatisation also led to significant maintenance gaps. Around three quarters of multi-apartment buildings, and 60% of single-family homes have a very low energy efficiency rating ([264]). While there have been great improvements in the last 10 years, in 2023, 5% of dwellings still did not have a flush toilet and 5.5% lacked a bath or shower; well above the EU averages of respectively 1.8% and 1.7%.

Support programmes for housing renovation and retrofitting exist but have not yet managed to fully address the 2025 country-

([262]) Housing in the European Union: Market Developments, Underlying Drivers, and Policies - Economy and Finance

([263]) OECD 2023. Full Report: Policy Actions for Affordable Housing in Lithuania | OECD

([264]) *Ibid.*

specific recommendation *make buildings more energy efficient to reduce energy poverty.* The flagship programme provides homeowners in multi-apartment buildings with grants, interest compensation, concessional loans and technical assistance for renovation (see Annex 9). These programmes are supported by cohesion policy funds and Recovery and Resilience Facility funds. Two European Regional Development Fund and Cohesion fund financial instruments of more than EUR 330 million provide loans for renovating multi-apartment buildings, supplemented by Recovery and Resilience Facility grants which cover around 30% of renovation costs and 100% of technical preparations. There have been several iterations of this programme, which started in 2005. However, despite efforts, as of 2020, only 8% of the 37 136 multi-apartment buildings built before 1993 had been renovated ([265]). Approximately 300 buildings are renovated each year, leaving many buildings waiting for improvements. Additional EUR 269 million from the Social Climate Fund is allocated for the 50-80% reimbursement of the loan for full renovation or 75-85% reimbursement of the loan for partial renovation of multi-apartment buildings. Ca EUR 100 million is also allocated for full and partial renovation of single and double-dwelling houses.

Vulnerable groups

Vulnerable groups continue to be heavily affected by the increasing housing costs, and their situation is aggravated by the poor housing quality. A sharp increase in energy prices in 2022 and 2023, when electricity and gas prices doubled, resulted in a steep rise in the housing cost overburden rate in 2023 and 2024 ([266]), despite the state's efforts to cap the energy prices and apply a zero VAT rate for gas and heating. A drop in energy prices in 2024 and the first half of 2025 provided some relief to the population at risk of poverty, resulting in the drop of housing cost overburden rate from 22.5% in 2024 to 20.2% in 2025 (29.1% in the EU), still up from the pre-pandemic level of 19.8% in 2019 and 14.2% in 2022. However, the housing cost overburden for tenants renting at market price increased in 2025 to 27.4%. The housing cost overburden rate is higher outside the capital region than in it (6.1% vs 4.8%) and in towns and rural areas (8.1% and 6.4% vs 4.3% in the cities), where income levels are generally lower and poverty levels higher. While housing quality is poor overall, it is worse for people at risk of poverty, with 31.6% of the population at risk of poverty unable to keep their home adequately warm in 2025 (EU average 19.6%). The drop in energy prices in the first half of 2025 is likely to provide some relief to the housing cost overburden rate for 2026. However, the future situation is less clear, as the increase in VAT for heating and hot water from 9% to 21% as of 2026 (see Annexes 3 and 12), together with the record cold winter months, has pushed up energy costs. The recent conflict in Iran could further exacerbate the issue. While the existing allowance scheme for low-income households will alleviate the increase in their heating and hot water bills to some extent, the situation will still differ across low-income households depending on their energy consumption, household size and income level.

The growing demand for social housing highlights the significant challenges faced in addressing the needs of vulnerable groups. The number of households waiting for social housing has been steadily rising. In 2025, 10 750 families were waiting for social housing, an increase from 10 378 families in 2024 and 9 975 families in 2023. The average waiting time varied from 2 to 13 years across municipalities in 2024, with the average of 5.63 years (down slightly from 5.74 in 2023). Furthermore, in many municipalities, social housing is not adapted to the needs of people with disabilities, nor is it suitable for families with three or more children. The possibility to rent housing on the private market and get rent compensation from the municipality is used relatively rarely, with only about 3 000 individuals benefiting from it in 2025, mostly in big cities. In the context of a large informal rental market, the requirement of having a formal lease contract could limit the uptake of these housing allowances, especially in rural areas where the rental market is particularly thin.

([265]) *Ibid.*

([266]) The income reference years for the 2023 and 2024 housing cost overburden rate are 2022 and 2023 respectively, precisely the years when the energy crisis took place.

Graph A16.4: **Housing affordability selected indicators**

		EU27				LT							
	unit	2000-25 avg.	2023	2024	2025	2000-25 avg.	2023	2024	2025	unit	2023	2024	2025
House price to income ratio	*2000-25 avg = 100*	100.0	102.0	100.2		100.0	91.9	94.0		YoY%	1.2	2.3	
Rent to income ratio	*2000-25 avg = 100*	100.0	85.1	83.5	84.5	100.0	95.0	91.5	89.5	YoY%	1.3	-3.7	-2.1
Overburden rate, total	%	9.9	8.8	8.2		6.6	5.2	6.2		PPS/y	1.7	1.0	
Overburden rate, tenant with market rent	%	23.8	20.3	19.2		31.2	27.4	21.8		PPS/y	1.4	-5.6	
Overvaluation gap	%					2.1	11.0	14.8	17.6				
Deflated construction production price	*2010 = 100*	102.2	112.2	111.8	110.5	110.7	115.8	120.6	121.2	YoY%	-1.6	4.7	0.6
Building permits	*m^2 per ths persons*	483.5	376.9	362.9	379.9	504.7	452.7	450.1	519.3	YoY%	-24.6	-0.6	15.4
Residential construction investment	*% GDP*	5.5	5.8	5.1	5.0	2.7	3.7	3.6	3.3	YoY%	-2.6	-2.7	-8.3
Share of ownership	%	70.0	69.1	68.4		90.3	88.8	87.4		PPS/y	0.2	-1.6	
Share of people living in overcrowded homes	%	17.7	16.8	16.9		31.8	26.0	26.3		PPS/y	1.4	0.3	

Source: Eurostat and European Commission calculations

Homelessness is increasing, in the absence of a national strategy addressing homelessness and housing exclusion. In 2023, more than 6 000 people stayed in a shelter or temporary housing managed by social service providers (), which was more than in 2022 ([267]). Shelter and temporary housing are provided by NGOs and municipalities, but no national strategy exists to address homelessness.

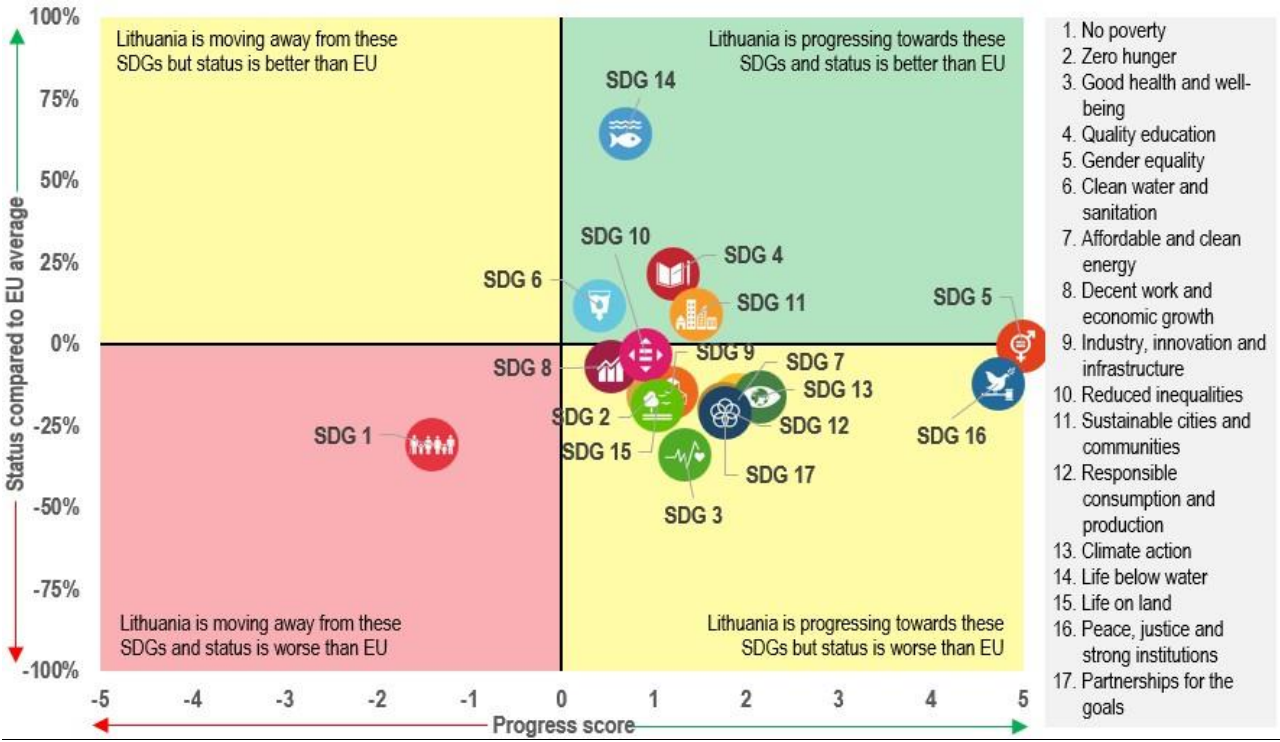
([267])OECD 2023. Full Report: Policy Actions for Affordable Housing in Lithuania | OECD

This annex assesses Lithuania's progress on the sustainable development goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change and the environmental crisis, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph below is based on the EU SDG indicator set developed to monitor progress on the SDGs in the EU.

Lithuania performs well on SDG 4 but still needs to improve on SDGs 8 and 9 related to *competitiveness*. The percentage of young people neither in employment nor in education and training (SDG 8) increased from 10.9% in 2019 to 12.4% in 2025, above the EU average of 11%. Lithuania has slightly increased its gross domestic expenditure on R&D (SDG 9), which rose from 0.99% of GDP in 2019 to 1.04% of GDP in 2025, but it remains below the EU average of 2.24%. The country is also still lagging behind on patent applications to the European Patent Office (SDG 9), with 32 applications per million inhabitants in 2025 (EU average: 156). Several reforms and investments in the recovery and resilience plan (RRP) focus on further developing digital infrastructure and equipment and improving the quality of education and digital skills at all levels.

On sustainability, Lithuania is performing well on SDGs 6 and 11. Pesticides in rivers exceeding the threshold fell from 10% in 2018 to 0% in 2023, well below the EU average (23.3%) in 2023 (SDG 6). Lithuania's percentage of renewable energy in total energy consumption (SDG 7) was up from 25.5% in 2019 to 35.4% in

Graph A17.1: **Progress towards the SDGs in Lithuania**



For a detailed progress assessment towards the various SDGs, see the annual Eurostat report 'Sustainable development in the European Union'; for extensive data on the short-term SDG progress of EU countries, see Key findings – Sustainable development indicators; for an interactive visualization of SDG progress of EU countries, see SDG country overview. A high status does not mean that a country is close to reaching a specific SDG, but signals that it is doing better than the EU on average. The progress score is an absolute measure based on the indicator trends over the past five or six years. The calculation does not take into account any target values, as most EU policy targets are only valid for the aggregate EU level. Depending on data availability for each goal, not all 17 SDGs are shown for each country.

Source: Eurostat, latest update of 29 April 2026. Data refer mainly to the period 2019-2024 or 2019-2025. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

2024, well above the EU average of 25.2% in 2024. On SDG 11, the population under severe housing deprivation fell from 6.9% in 2018 to 4% in 2023 and now equals the EU average.

However, it needs to catch up with the EU average on SDGs 7, 13, 14 and 15. On SDG 13, net greenhouse gas emissions fell to 3.6% in 2024, remaining significantly below the EU average of 6.5% (SDG 13), but the average CO_2 emissions per km from new passenger cars were at 128.2 g in 2024, well above the EU average of 107.9 g. On SDG 15, Lithuania has made significant efforts to catch up to the EU average (3.7% in 2024) for the percentage of total area of the country affected by drought, going from 48% in 2019 to 4.2% in 2024. It has also increased the percentage of terrestrial protected areas from 17.1% in 2018 to 17.9% in 2023, though this is still below the EU average of 26.4%. Regarding SDG 15, phosphate in rivers increased from 0.077 mg PO_4 per litre in 2018 to 0.165 mg in 2023 (EU average: 0.081 mg in 2023).

Lithuania is performing well on one SDG related to *social fairness* (SDG 4). Regarding Lithuania's performance on SDG 4, the percentage of the population aged 25 to 34 that attained tertiary education increased from 55.2% in 2019 to 60.8% in 2025 (EU average: 44.8% in 2025), although further efforts are needed to reach the EU average on adult learning, up from 7.0% in 2019 to 10.4% in 2025 (EU average: 13.7% in 2025).

It still needs to catch up on several others (SDGs 3, 5, 7, 10). For SDG 3, healthy life expectancy at birth based on self-perceived health increased from 67.8 years in 2018 to 70.4 years in 2023 (EU average: 75.3 years) and the percentage of people who perceived their health as good or very good rose from 46.2% in 2019 to 48.9% in 2024, against the EU average of 68.5%. Conversely, the percentage of people reporting unmet need for medical care increased from 1.4% in 2019 to 4.3% in 2024 (EU average: 2.5%).

It is moving away from the target for SDG 1. The percentage of people in-work at-risk-of-poverty (SDG 1) increased from 7.9% in 2019 to 8.3% in 2024 (EU average: 8.2%) and the percentage of the population overburdened by housing costs increased from 4.8% in 2019 to 6.2% in 2024 (EU average 8.2%). The risk of poverty or social exclusion increased slightly from 25.5% in 2019 to 25.8 in 2024 (EU average 21.0%). The Lithuanian RRP includes measures to reform the minimum income scheme and improve the social safety net, as well as measures to improve the resilience, accessibility and quality of health services and increase the quality, affordability and efficiency of the healthcare system.

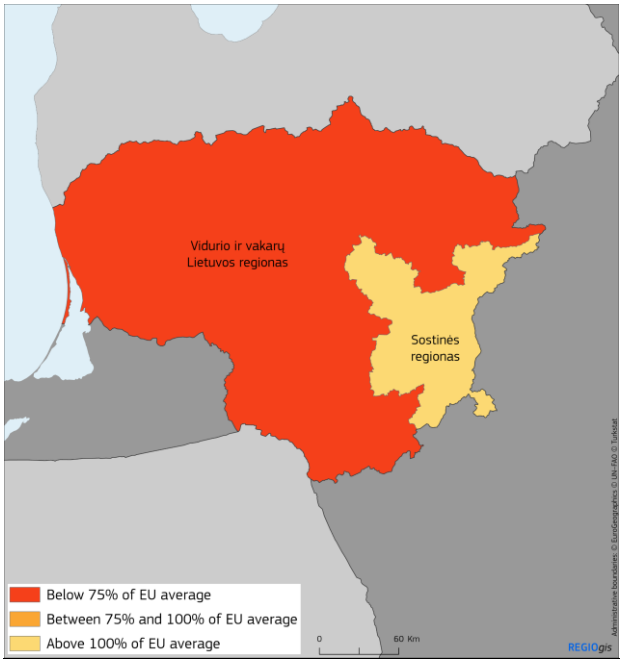
On *macroeconomic stability*, Lithuania is improving on SDG 16 but stagnating on SDG 8. The employment rate (SDG 8) is better than the EU average (80%, vs 76.1% for the EU in 2025). Conversely, the long-term unemployment rate has deteriorated (climbing from 1.9% in 2019 to 2.5% in 2025 vs EU average of 1.9%). On SDG 16, the percentage of population that perceives the independence of the justice system as good or very good rose from 49% in 2019 to 60% in 2025, exceeding the EU average of 54%. The country's Corruption Perception Index score also improved, from 60% in 2019 to 65% in 2025 (EU average: 62%).

As the SDGs form an overarching framework, any links to relevant SDGs are either explained or depicted with icons in the other annexes.

Regional development trends

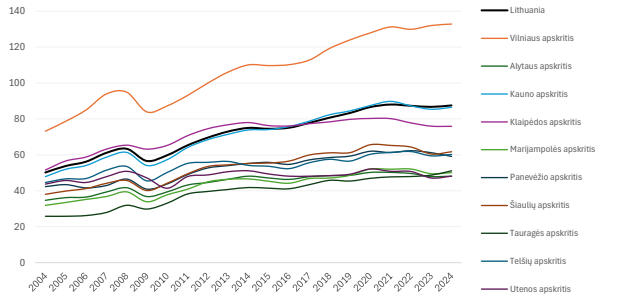
The strong convergence of Lithuania towards the EU average since joining the EU co-exists with greater regional disparities. GDP per head (in purchasing power standard, PPS), increased from 50% in 2004 to 88% in 2024. This catch-up was particularly rapid immediately before and after joining the EU. It then slowed during the economic and financial crisis and then resumed, enabling Lithuania to close most of the initial gap with the EU. The capital region (Vilnius county) has consistently outperformed the rest of the country, driving national convergence. It moved from 73% of the EU average in 2004 to reach the EU level by the early 2010s and stood at 133% in 2024. Other regions also improved substantially but remained below the EU average: the strongest performer outside the capital was Kaunas county, reaching 87% in 2024. At the lower end, Utena and Alytus counties have gained 4 and 13 percentage points (pps) since 2004, respectively, both reaching 48% of the EU average. Marijampolė and Tauragė counties, previously the poorest, increased by 18 and 25 pps respectively, to reach 50% and 51% in 2024 (Graph A18.1).

Map A18.1: **GDP per head compared with the EU average, NUTS 2**



2021-2023 average GDP per head in purchasing power standard compared with the EU average.
Source: Commission calculations based on Eurostat 16 July 2025 data

Graph A18.1: **GDP per head (PPS, EU=100) growth, NUTS 3, 2004-2024**



Source: DG REGIO based on Eurostat

Graph A18.2: **Productivity per hour worked: average annual growth and level, NUTS 3**



Source: Calculations by DG REGIO and the Joint Research Centre (JRC) based on Eurostat data

Regional differences in GDP per head are largely driven by disparities in productivity. In 2024, productivity (GDP per hour worked in PPS) averaged 82% of the EU average. Vilnius county (110%) is already above the EU average. It is followed by Kaunas (78%) and Klaipėda (73%) counties, while Marijampolė, Utena, Alytus and Tauragė counties lagged behind at 60%, which places them among the poorest 20% of all EU regions (Graph A18.2). Productivity in Vilnius, Kaunas and Tauragė counties has been growing faster than in the rest of the country. However, the country as a whole has been experiencing high productivity growth at a rate faster than the EU average.

Table A18.1: **Main developments, challenges and the allocation of resources**

	Main development trends
Less developed region - (population 2.02 million).	The Central and Western Lithuania Region, with GDP per capita at 67% of the EU average, significantly underperforms the EU average across a wide range of economic and social indicators. In particular, weaker private and foreign investment, limited innovation capacity and demographic decline create significant barriers to the region's convergence with the EU average. Innovation and industry activity are concentrated in Kaunas and Klaipėda, which have become important manufacturing and productivity leaders of the region. The regon's main challenge is to boost business competitivenss, promote a more even spread of innovation, increase labour productivity and maintain growth.
More developed region (population 0.87 million)	The Capital region, where GDP per capita reaches 132% of the EU average, vastly outpaces the rest of the country. This region has the highest concentration of R&D investment and high-tech industry activity. The region attracts the largest share of high-value investment, which results in the highest productivity gain. The region succeeds in maintaining modest population growth, while the rest of the country experienced a steep decline over recent decades. However, internal disparities exist between Vilnius municipality and the surrounding municipalities, which lag behind in access to public services and employment indicators. Urban sprawl of Vilnius city has led to greater car dependency, leading to higher greenhouse gas emissions and greater congestion.
Territorial aspects of Lithuania's location on the EU's eastern border	As a country on the eastern external border of the EU, Lithuania faces persistent and multidimensional challenges. Heightened security and hybrid threats, sustained pressure on national and regional economies, labour markets and social systems, declining investment attractiveness, social and psychological strain jointly undermine development prospects and hinder economic and social convergence. Increased defence, security and civil preparedness spending inevitably constrains investments in long-term economic, social, and territorial development, thereby affecting the competitiveness and growth potential.
National cohesion aspects in accordance with Article 177 TFEU (second indent)	Transport infrastructure in Lithuania is patchy – peripheral regions suffer from poor roads and limited rail connections, inadequate public transport services beyond the main urban corridor and a lack of coordinated inter-municipal transport plannin. All these issues hinder equal access to transport and opportunities across regions. Investments in sustainable public transport infrastructure, including rail connections and clean bus services, would improve mobility for residents of smaller towns and rural areas, helping them access jobs and services. Rail Baltica, supported primarily from the Connecting Europe Facility, remains a flagship national project in the TEN-T network.

Source: European Commission based on Eurostat data; categoriesof regions based on Map A18.1

Regional productivity differences and trends can be explained by the different regional economic structures. Vilnius, with 50% of employment in knowledge-intensive services and 10% in high-tech sectors ([268]), has established itself as the main innovation and technology hub. Kaunas is strengthening an innovation ecosystem that includes universities, research institutes and integrated science, study and business centres for the development of chemistry, bio-pharmacy, energy, mechatronics, IT, agriculture and food. Industry is the main economic driver in most of the remaining regions, particularly in Panevėžys and Telšiai. Klaipėda county's value added is mainly generated by logistics and manufacturing activities that rely on its seaport's connectivity, though the region has also started developing its innovation and start-up ecosystem. The county anchors Lithuania's blue economy, where established sectors directly employed 31 900 people and generated approximately EUR 1 billion in gross value added (GVA) in 2022 ([269]).

Coastal areas in Klaipėda county are increasingly affected by environmental degradation and climate change. This threatens the region's competitiveness and the resilience of fisheries operating in the Baltic Sea and the Curonian Lagoon ([270]). In addition, aquaculture in Vilnius and Kaunas counties faces several sustainability challenges ([271]).

([268])Eurostat data, 2024.

([269])https://blue-economy-observatory.ec.europa.eu.

([270])https://helcom.fi/wp-content/uploads/2023/06/HELCOM-Thematic-assessment-of-eutrophication-2016-2021.pdf.

([271])https://aquaculture.ec.europa.eu/country-information/lithuania.

Table A18.2: **Key regional indicators (at NUTS 3 level) for Lithuania**

	GDP per head (PPS, index)	Real GDP per head growth	Employment in financial and other service activities	Growth in natural population	Net migration	Change in working age population (20-64)	Access to primary schools - Rural areas	Access to primary schools - Intermediate	Access to healthcare - Total
	EU27=100	Average annual % change	% of total employment	Average annual change per 1000 residents	Average annual change per 1000 residents	Average annual % change	Children under 15 within 15-minute walk to primary school (%)	Children under 15 within 15-minute walk to primary school (%)	Population within 10 minutes by car from nearest hospital (%)
	2024	2014-2024	2024	2015-2024	2015-2024	2016-2025	2023	2023	2023
EU	100	1.4	16.3	-1.7	3.5	-2.6	34	53	68.9
Lithuania	87	3.4	12.5	-5.7	4.4	-3.3	42	60	66.2
Sostinės regionas	133	3.7	18.0	-2.1	11.3	7.7	35	59	77.9
Vidurio ir vakarų Lietuvos regionas	68	2.8	9.6	-7.1	1.6	-6.0	44	60	62.7
Vilniaus apskritis	133	3.7	18.0	-2.1	11.3	7.7	35	59	77.9
Alytaus apskritis	48	1.8	7.4	-9.9	-2.3	-14.1	37	27	65.1
Kauno apskritis	86	3.4	12.3	-5.3	5.8	0.0	43	67	72.1
Klaipėdos apskritis	76	1.5	10.5	-4.5	9.3	4.0	40	62	60.3
Marijampolės apskritis	50	2.5	6.6	-8.2	-5.7	-13.1	44	56	50.7
Panevėžio apskritis	59	2.5	6.5	-9.4	-4.4	-15.2	43		60.9
Šiaulių apskritis	62	2.9	7.9	-7.9	2.1	-4.1	43	54	64.7
Tauragės apskritis	51	3.8	5.7	-8.1	-6.5	-14.1	52	51	53.6
Telšių apskritis	60	2.8	11.6	-5.8	-5.4	-13.5	49	60	55.6
Utenos apskritis	48	1.2	6.9	-12.9	-1.8	-17.3	44	68	62.6

Dark green – the indicator is at least 120% of the EU average.
Light green – the indicator is at least 100% but less than 120% of the EU average.
Yellow – the indicator is at least 90% but less than 100% of the EU average.
Light red – the indicator is at least 75% but less than 90% of the EU coverage
Dark red – the indicator is less than 75% of the EU average.
This colour scale applies to 'positive' indicators where higher values are favourable.
For 'negative' indicators (where higher values are unfavourable), the colours are reversed
Source: Eurostat and JRC

Key challenges for regional competitiveness

Low regional convergence and existing structural challenges of the regions - weaker labour markets, demographic decline, lower connectivity, urban-rural divide – are strengthened by country's location on the EU's eastern border. Impact from Russia's war of aggression against Ukraine is observed in declining investment, weaker business confidence and the loss of trade flows and tourism markets in the whole country. Heightened security concerns and perceptions of proximity to the conflict further undermine their attractiveness for workers in the border zone. In 2024, employment rates in medium-sized cities and rural municipalities (15 km zone at the border with Russia and Belarus) were 4 to 6 percentage points lower than in other municipalities of the corresponding type that are distant from the border([272]). Therefore, Lithuanian regions face simultaneous challenge to strengthen security and resilience while sustaining economic activity, social cohesion and the viability of rural and border areas.

Innovation capacity is highly uneven across regions. The highest concentrations of R&D investment and high-tech industry activity are in hubs like Vilnius and Kaunas, whereas many other areas could be considered 'innovation deserts' ([273]). Key impediments to innovation include shortages of specialised R&D staff and limited public awareness of innovation schemes and scientific advancements ([274]). These challenges tend to be more acute outside the main cities, where there are few research institutions and innovative firms.

([272])Ministry of the Interior information

([273]) OECD (2022). *Regions and Cities at a Glance 2022 – Lithuania.* Paris: OECD Centre for Entrepreneurship, SMEs, Regions and Cities.

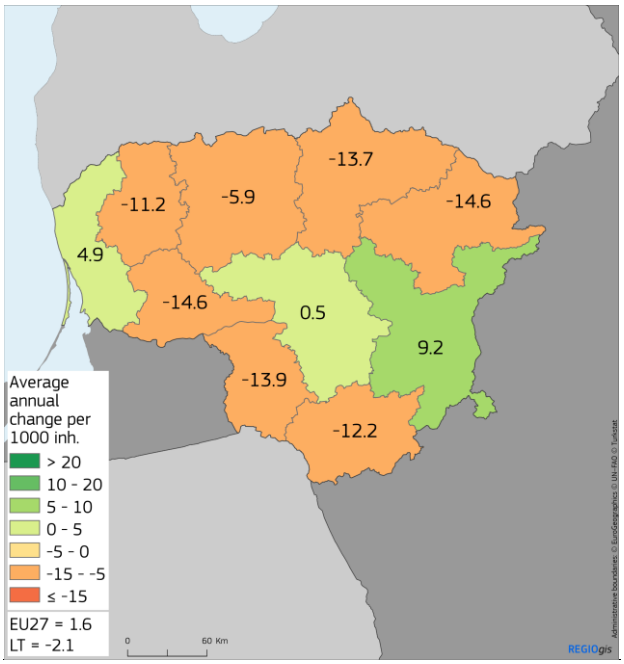
([274]) Innovation Agency Lithuania (2024). *Smart Specialisation Report 2024.* Vilnius: Innovation Agency Lithuania.

The country's less developed rural areas struggle to attract private investment. Most foreign direct investment is concentrated in Vilnius. Security-sensitive border areas, such as Šalčininkai, Švenčionys and Pagėgiai, face persistent challenges in attracting private investment, with investors cautious in the current geopolitical situation. Local businesses in rural areas face barriers to finance, including cautious lending by local banks. Although SME support schemes exist, their uptake is lower outside the major cities ([275]). However, government efforts promoting regional industrial parks and free economic zones have led to some success([276]). Nevertheless, remote areas still attract little private capital, showing that a smart specialisation strategy is not sufficiently tailored to the specific needs of these territories.

Poor business services in small municipalities are a bottleneck for economic development and employment opportunities. Major urban centres, such as Vilnius and Kaunas, benefit from investment promotion agencies, innovation hubs and incubators supported by substantial municipal budgets. National initiatives – such as the centralised business licensing e-system and the SME helpdesk – have helped reduce some disparities. However, businesses in smaller municipalities continue to face higher operational costs due to slower administrative response times and the absence of local advisory services.

Unemployment is higher in many non-metropolitan regions of Lithuania. Most new jobs and investments are concentrated in Vilnius and other major cities. Unemployment is several times higher in the rural areas, than in the capital: for instance, Utena county's unemployment rate stood at 14.4% in 2025, compared with just 5.1% in Vilnius county ([277]), which also contributes to the higher poverty rates in rural areas (see Annex 12). Although the coverage of active labour market policies has shrunk in the whole country, the number of new participants in active labour market policies has dropped especially steeply in certain counties([278]).

Map A18.2: **Population growth, 2015-2024, NUTS 3, annual average change per 1000 residents**



Source: Eurostat

Areas outside Vilnius and Kaunas are confronted with severe depopulation and ageing. Only Vilnius and Klaipėda counties recorded population growth between 2015-2024 (9.2 and 4.9 per 1000), thanks to positive net migration (11.3 and 9.3 per 1 000) that offset natural population decline. Kaunas county remained broadly stable, with natural population losses (5.3 per 1 000) almost balanced by net migration gains (5.8 per 1 000). The remaining seven regions have experienced population losses ranging from 5.9 to 14.6 per 1000 inhabitants a year. This has been due to a combination of outmigration, caused by limited access to public services and employment opportunities, and a steep natural decrease (Map A18.2). In addition, the share of older residents exceeds 23% in counties like Utena, Panevėžys and Alytus. The old-age dependency ratio (population aged 65 and over relative to working-age population) ranges from 41.1% in Utena county to just 28.4% in Vilnius ([279]). These gaps reflect years of

([275])OECD (2022). *Raising Local Public Investment in Lithuania.*

([276]) Statistics Lithuania (State Data Agency) (n.d.). *Official Statistics Portal – Statistical Indicator Analysis.*

([277]) Statistics Lithuania (State Data Agency) (n.d.). *Official Statistics Portal – Statistical Indicator Analysis*

([278]) https://osp.stat.gov.lt/lt/statistiniu-rodikliu-analize?hash=6d9fb4ca-9587-4586-a159-a62242670342

([279]) OECD (2022) *Regions and Cities at a Glance 2022 – Lithuania.*

outmigration of younger adults and low birth rates in non-metropolitan regions.

There is a very significant urban-rural divide in educational attainment, skills and training and adult learning opportunities. Lithuania's general education system is characterised by stark urban-rural inequalities in educational outcomes, reflecting socio-economic differences across regions. The gap in basic skills achievement and post-secondary education attainment between rural and urban areas is among the widest in the OECD; however, the post-secondary education attainment levels do not deviate much from those of the other Baltic countries in the EU. The share of early leavers from education and training (18-24) and young people neither in employment nor in education and training (15-29) is particularly high in rural areas (see Annexes 11 and 13). The Millennium Schools reform, complemented by practical urban-rural school partnerships (e.g. mentoring and teacher exchanges), is a good example how these issues could be tackled. The urban-rural divide is also reflected in access to vocational training and adult learning. Larger cities host the bulk of vocational institutions and lifelong learning centres, whereas adults in rural areas have far fewer local upskilling opportunities. The example of the Akmenė free economic zone's expansion of local technical training and apprenticeships is a model that other regions could adopt. The digital skills gap is also pronounced with the rural population lagging significantly behind urban residents in advanced digital competences ([280]).

Access to healthcare services is limited in most rural areas. Municipalities in urban areas benefit from a concentration of facilities and specialists. By contrast, rural and economically weaker municipalities (e.g. Kelmė, Skuodas, Šalčininkai) face shortages of general practitioners, long distances to secondary care, ageing healthcare infrastructure, poor access to preventative services and an uneven quality of long-term care across territories ([281]) (see Annexes 12 and 15). In addition, mobile health services, telemedicine and outpatient care options are very limited.

Digital connectivity is weak outside cities. Access to digital connectivity remains uneven across all settlement types, which has a significant impact on the willingness to live and work in the regions. Fixed network broadband speeds in Lithuania reach 190 Mb/s in cities (EU: 206 Mb/s), 126 Mb/s in towns and suburbs (EU: 156 Mb/s) and 126 Mb/s in rural areas (EU: 145 Mb/s) ([282]). This gap in digital infrastructure may hinder productivity, investment attractiveness and access to online services in regions lagging behind.

Sparsely populated rural areas face a wide gap in transport services, compared with cities. Public transport accounted for only 7.4% of inland passenger transportation ([283]). Urban centres tend to be well connected and integrated into transport networks, whereas rural areas and border zone face weaker transport links ([284]). Evidence suggests many municipalities still lack sufficient public transport services and rely heavily on private vehicles: public transport uptake in Lithuania is among the lowest in the EU, with 86% of journeys made by car ([285]). Lithuania has the lowest proportion in the OECD of people aged 65 and over living within walking distance of a bus stop ([286]). There are positive examples of joint solutions to transport connectivity and infrastructure issues across municipal boundaries. Klaipėda county, using cohesion policy funding, is integrating its public transport system by bringing in unified e-ticketing and coordinated services across the municipalities of Klaipėda, Kretinga, Skuodas, Šilutė districts and Neringa. This serves as a good example of an integrated inter-municipal transport system.

The 2025 country-specific recommendation for Lithuania underscores the importance of

([280]) Ministry of Education, Science and Sport of the Republic of Lithuania (2023). *European Commission: Changes Launched in Lithuania Can Help Narrow Gaps in Learning Achievements of Pupils from Urban and Rural Areas.*

([281]) OECD (2023) *Personalised Public Services for People in Vulnerable Situations in Lithuania.*

([282])JRC based on Ookla data (Rural Observatory).

([283])Eurostat, Modal split of inland passenger transport.

([284]) OECD (2023), *Promoting Active Ageing in Lithuania: Policy Challenges and Solutions*, Ageing and Employment Policies.

([285]) European Commission (2025). *2025 Country Report – Lithuania (SWD(2025) 215 final).*

([286]) OECD (2023), *Promoting Active Ageing in Lithuania: Policy Challenges and Solutions*, Ageing and Employment Policies.

strengthening inter-municipal cooperation in delivering public services, improving the required legal and institutional framework and improving the coordination of public transport routes and modes. However, the current models of inter-municipal cooperation in providing services are not closing the gaps in the legal framework, such as a lack of financial incentives and mechanisms for cost-sharing ([287]). The recent amendments to the Road Transport Code, introducing municipalities' right to provide public services for passenger transport by setting up inter-municipal routes, create the necessary preconditions for cross-municipal transport service provision. This does not, however, address the deficiencies in inter-municipal transport planning coordination (absence of harmonised timetables, integrating ticketing system and joint financing) and coordination between local, inter-city and railway passenger transport, which is needed to ensure optimal routes, coordinated timetables and transport modes.

The fiscal context for regional development in Lithuania is marked by a high degree of centralisation, limited local fiscal autonomy of municipalities and heavy reliance on financing from EU funds. Municipalities' own-source revenues are very limited: local governments rely on central transfers for around 90% of their finances, while own-source revenues (local taxes, fees, property income) only make up about 10% ([288]). In 2021, less than 15% of municipal revenues were raised autonomously, compared with the EU average of 32% ([289]). Personal income tax, their main revenue stream, is collected at national level and redistributed using an equalisation formula. While this mitigates extreme disparities, it may limit fiscal autonomy and constrain local development investments, especially in the more disadvantaged regions ([290]).

([287])Eurostat publication on transport

https://ec.europa.eu/eurostat/en/web/products-key-figures/w/ks-01-25-057.

([288])European Committee of the Regions (n.d.). Division of Powers: Lithuania – Fiscal Powers.

([289])OECD Fiscal Decentralisation Database. Paris: OECD.

([290])Ibid.

This Transport Annex presents the state of play and the challenges Lithuania faces with the implementation of the trans-European transport network (TEN-T) and the European railway traffic management system (ERTMS).

Two European Transport Corridors run through Lithuania, the North Sea – Baltic Corridor and the Baltic Sea – Black Sea – Adriatic Sea Corridor. Lithuania's railway network is primarily built on the Russian railway gauge (1 520mm). The TEN-T in Lithuania comprises 1 986 km of rail (866 km of which on the core network) and 2 059 km of road (609 of which on the core network), and 281 km of inland waterways. Lithuania has three airports (including one core airport), three ports (including two core ports) and five urban nodes ([291]).

The line between Vilnius and Kaunas is well developed but further sections need to be modernised, such as the electrification of the Kaunas-Klaipeda line.

Moreover, operational incidents - such as train derailments - underscore the urgent need for enhanced focus on rail safety and infrastructure maintenance.

Rail Baltica is by far largest railway project in Lithuania and the Baltic states. Once completed, this railway line will connect the Baltic states to the European railway network at the European standard gauge (1 435mm). It is also of importance to military mobility. Given the financial need of Rail Baltica, a combination of different funding sources will be needed. Besides connecting Poland and Latvia, Lithuania is committed to connecting its capital city of Vilnius to the main route.

The ERTMS is essential to digitalising the railways and to modernising and harmonising railway operations across Europe. The ERTMS ensures the safety of rail networks by providing a unified signalling system that significantly reduces the risk of accidents. It also provides interoperability between national rail systems, improving cross-border train movements. It is important to advance efforts towards a comprehensive multilateral agreement among the Baltic states, to strengthen coordination and support smooth cross-border railway operations.

Finally, the ERTMS enhances network capacity and operational efficiency, increasing the competitiveness of the rail sector. Only Rail Baltica will have to be ERTMS-equipped and these costs are included in the total project cost estimates.

The Rail Baltica design from Kaunas to the Polish border and the implementation of the mainline to connect Latvia and Poland have not yet been completed. A multi annual funding framework to ensure a smooth completion of Rail Baltica with sufficient and predictable financial resources is lacking.

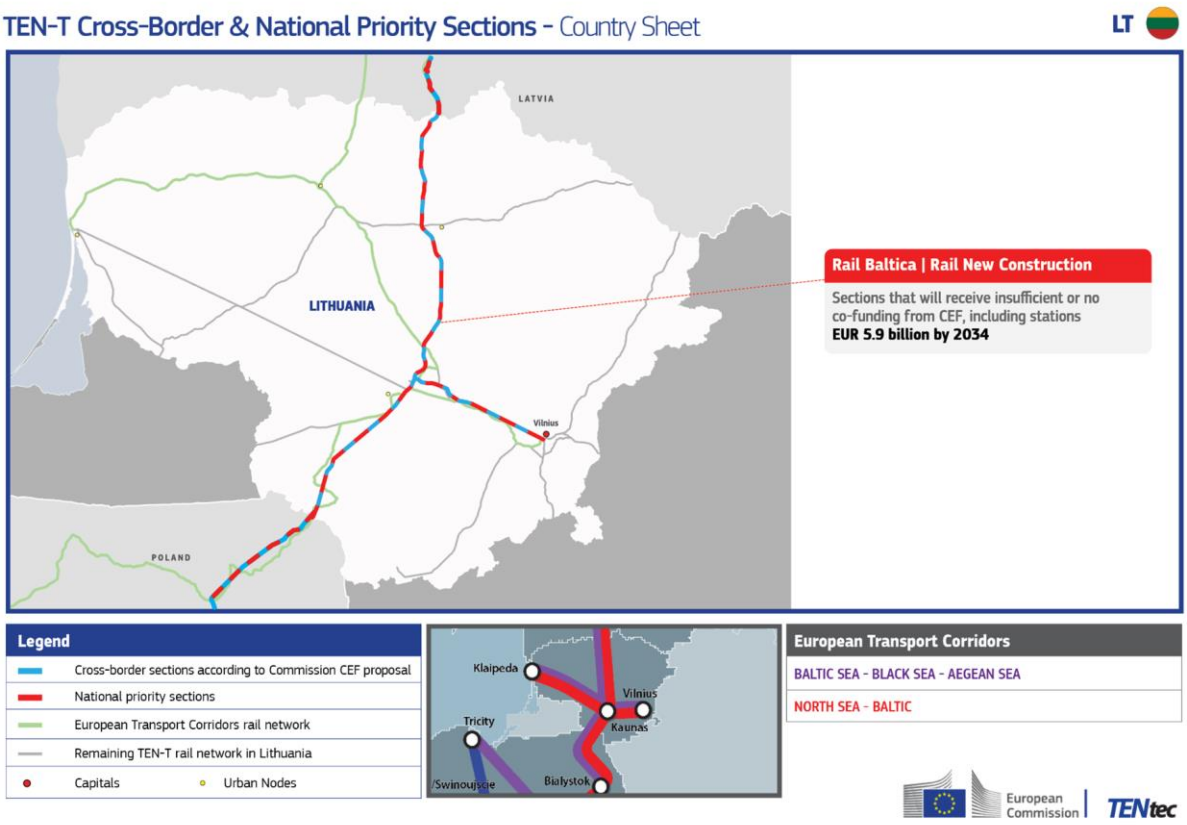
Lithuania has little experience with operating trains on the existing railway network to Latvia and Estonia. Together with Estonia and Latvia, Lithuania lacks a model to operate railway traffic on the Rail Baltica line as a seamless cross-border infrastructure, including traffic management, maintenance, and operations according to the rules of the single European railway area. Harmonising technical and operational rules with the minimisation of national rules in line with the EU directives on rail interoperability and safety remains critical to ensuring that a new landmark rail infrastructure such as Rail Baltica does not inherit legacy operational rules.

Moreover, the National Safety Authority requires the necessary powers and independence to fully operate. It still faces challenges related to resource constraints affecting staff retention, and difficulties in ensuring that key processes are carried out effectively.

In 2024, Lithuania was just below the EU average (45), with 42 fatalities per million inhabitants. In 2023, 490 people were seriously injured in road crashes, which is 59% higher than the respective figure in 2019. Based on the latest available data, Lithuania is well on track to meet the 2030 fatality target, with a 33% reduction since 2019. On the other hand, the upward trend in the number of serious injuries in Lithuania makes it

([291])TENtec Information System, according to Reg. 2024/1679.

Map A19.1: **TEN-T Cross-Border & National Priority Sections in Lithuania.**



necessary to take measures and explore any other relevant activities, with a focus on crashes inside urban areas and vulnerable road users.