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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2024) 600 final} - {SWD(2024) 615 final}

Recommendation for a

COUNCIL RECOMMENDATION

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

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of

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1 OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

renewables, energy storage capacities and energy efficiency. Lithuania added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it did not identify Lithuania as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission adopted an opinion on the 2024 draft budgetary plan of Lithuania. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment

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4 COM(2023) 168 final.

5 COM(2024) 77 final.

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 14 May 2021, Lithuania submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 28 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Lithuania[9], which was amended on 9 November 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. The release of instalments is conditional on a decision by the Commission,

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8 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

9 Council Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania (10477/2021).

10 Council Implementing Decision of 23 November 2023 amending the Implementing Decision of 28 July 2021 on the approval of the assessment of the recovery and resilience plan for Lithuania (14637/2023).

taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Lithuania has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) The Commission published the 2024 country report for Lithuania[11] on 19 June 2024. It assessed Lithuania's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Lithuania's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Lithuania's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(9) Based on data validated by Eurostat[12], Lithuania's general government deficit increased from 0.6% of GDP in 2022 to 0.8% in 2023, while the general government debt rose from 38.1% of GDP at the end of 2022 to 38.3% at the end of 2023.

(10) On 12 July 2022, the Council recommended[13] that Lithuania take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[14], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Lithuania was recommended to stand ready to adjust current spending to the evolving situation. Lithuania was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[15] was expansionary, by 0.6% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a broadly neutral contribution to the fiscal stance of -0.2% of GDP. This includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. The broadly neutral contribution of nationally financed primary current expenditure was due to the reduced costs of the support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 0.9 percentage points of GDP). Public sector wages, social benefits and pensions were

11 SWD(2024) 615 final.

12 Eurostat-Euro Indicators, 22.4.2024.

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

14 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Lithuania in 2023, which is used to measure the fiscal stance, is estimated at 10.5% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

15 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

among the main drivers of growth in nationally financed primary current expenditure (net of discretionary revenue measures). Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.2% of GDP in 2023. Nationally financed investment amounted to 3.5% of GDP in 2023, representing an increase of 0.9 percentage points as compared to 2022. Lithuania financed additional investment through the Recovery and Resilience Facility and other EU funds. Lithuania financed public investment for the green and digital transitions, and for energy security, such as the installation of four energy storage facilities to ensure the security and stability of the Lithuanian electricity system, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(11) The Commission Spring 2024 Forecast projects real GDP to grow by 2.0% in 2024 and 2.9% in 2025, and HICP inflation to stand at 1.9% in 2024 and 1.8% in 2025.

(12) The Commission Spring 2024 Forecast projects a government deficit of 1.8% of GDP in 2024, while the general-government-debt-to-GDP ratio is set to increase to 38.9% by the end of 2024. The increase of the deficit in 2024 reflects increases in spending that are not fully matched by increasing revenues. Spending is rising due to indexation of pensions and social benefits, increasing public wages, current transfers paid by the government and interest expenditure. Public wages are projected to increase at a similarly high pace as private sector wages to preserve the competitiveness of the public sector as an employer. Based on the Commission's estimates, the fiscal stance is projected to be expansionary at -1.6% of GDP in 2024.

(13) Expenditure amounting to 0.8% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.3% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Lithuania. Expenditure amounting to 0.5% of GDP is expected to be backed by loans from the Recovery and Resilience Facility in 2024, compared to 0.0% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(14) On 14 July 2023, the Council recommended[16] that Lithuania maintain a sound fiscal position in 2024. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Lithuania's structural balance is projected at -0.8% of GDP in 2024, from 0.1% in 2023, thereby remaining close to the country's medium-term budgetary objective (MTO) of a structural balance of -1.0% of GDP. This is in line with what was recommended by the Council.

(15) Moreover, the Council recommended that Lithuania take action to wind down the emergency energy support measures in force as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Lithuania should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the

[16] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Lithuania and delivering a Council opinion on the 2023 Stability Programme of Lithuania, OJ C 312, 1.9.2023, p. 135.

net budgetary cost[17] of emergency energy support measures is estimated at 0.3% of GDP in 2023 and projected at less than 0.1% in 2024 and 0.0% in 2025. In particular, the compensation of VAT calculated on heat energy and hot water for household consumers will remain in force in 2024. The emergency energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council.

(16) In addition, the Council also recommended that Lithuania preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 3.3% of GDP in 2024 from 3.5% of GDP in 2023. This is due to exceptionally high investment in 2023 for infrastructure, including for defence and security. In comparison, nationally financed public investment was 2.8% of GDP on average over the 2019-2022 period. Taking into account these additional factors, public investment in 2024 is assessed as respecting the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.8% of GDP in 2024 (from 1.2% of GDP in 2023).

(17) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 2.2% of GDP in 2025. The increase of the deficit in 2025 mainly reflects increasing social spending due to the indexation of pensions and social benefits, while revenues are projected to remain stable as a percentage of GDP: the projected increase in revenues from social contributions and indirect taxes will be counter-balanced by decreasing revenues from corporate income taxes due to the phasing-out of the "temporary solidarity contribution" currently levied on banks, as well as the projected decrease in interest income as the government plans to reduce its cash deposits at the central bank. The general government debt-to-GDP ratio is set to increase to 41.6% by the end of 2025, being pushed up by the increasing deficit.

(18) Lithuania's tax revenue as a share of GDP increased in 2023 but is significantly below the EU's average. This limits the funding available for public spending on healthcare, social protection and general public services. In 2022, revenues from property taxes, which are among the taxes least detrimental to growth, amounted to only 0.3% of GDP, around seven times lower than the EU average. Lithuania collected less than half of the EU average from capital taxes (as a share of GDP), has some of the lowest transport taxes in the EU and is one of the few Member States without an annual car tax. Public spending on social protection increased in 2023, but is still significantly below the EU average. This translates into relatively low levels of social benefits and limited coverage, with old-age pensions among the lowest in the EU relative to employment incomes. Spending on general public services is particularly low, receiving less than half the funding (as a percentage of GDP) of the EU average. Inadequate financial resources for healthcare result in high levels of unmet needs for patients and in particular for low-income groups, a strong reliance on out-of-pocket payments and the inability to offer competitive salaries and conditions to healthcare professionals.

[17] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

(19) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Lithuania's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Lithuania to continue the implementation of reforms and investments by addressing emerging delays, including most notably the tax reform. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(20) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation 2021/1060, Lithuania is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. While Lithuania has made progress in implementing cohesion policy and the European Pillar of Social Rights, challenges remain, and significant regional disparities persist between the capital region and the rest of Lithuania in terms of economic activity, investments and social indicators. Accelerating the implementation of the cohesion policy programmes is crucial. The priorities agreed in the programmes remain relevant. It is important to continue to address regional disparities while focusing on counties that are lagging behind. Improving the quality and access to education (including by implementing the European Child Guarantee), social and health services, remains relevant. Lithuania could also make use of the Strategic Technologies for Europe Platform initiative to support the transformation of industry through the development and manufacturing of high value-added digital and deep-tech innovation as well as clean and resource-efficient technologies and biotechnologies, including in the area of defence and dual use.

(21) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Lithuania faces several additional challenges related to health and pension systems, competitiveness, public services, as well as environment and resource management.

(22) The range of preventive, early diagnostic and primary level care services is limited in Lithuania, and there is a lack of appropriate competencies within primary care teams. As a result, the level of preventable and treatable mortality remains high. This is influenced by weaknesses in prevention interventions, healthcare screening and treatment delivery, but also behavioural risk factors. Health spending continues to be among the lowest in the EU (only 68.6% of it was publicly funded in 2021). Lithuania is beginning to take legislative action and deploy investments to strengthen primary and preventive care, but the results have not yet materialised.

(23) Even though the social benefits and old-age pensions have been increasing on average in recent years, the capability of the tax-benefit system to alleviate poverty (20.9% vs EU 16.5%) and income inequality (S80/S20 ratio 6.39 vs EU 4.74) in Lithuania remains insufficient. Old-age pension adequacy in relation to pre-retirement income has deteriorated and remains critically low. In 2022 (the latest available data), the

median disposable income of older people (65 years or older) constituted 65% of the pre-retirement median[18], 15 percentage points lower than the EU average. The latter gap between the pre-retirement and post-retirement income has been widening since 2014. The aggregate replacement rate for old-age pensions[19], which measures the size of pensions as a share of pre-retirement salaries before taxes, was the lowest in the EU in 2022. Although the average pension paid from the state social insurance fund has increased significantly (from EUR 277 in 2017 to EUR 539 in 2023), it still remains below the poverty threshold (EUR 564 in 2023). The low overall adequacy of pensions is driving up old-age poverty. In 2022, the at-risk-of-poverty rate of older people was one of the highest in the EU (Lithuania 39.5% vs EU 17.3%). Despite progress in recent years, energy poverty remains among the highest in the EU. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis based on the features of the Social Convergence Framework[20].

(24) Regional disparities persist in Lithuania, exacerbated by negative demographic developments. Lithuania is experiencing a significantly larger urban-rural gap for the risk of poverty or social exclusion compared to the EU average (10.7 percentage points vs 0.4 percentage points in 2022, computed as the difference in the share of the population). For smaller and more remote municipalities, it is becoming increasingly difficult to provide access to quality healthcare, education, social services, transport, energy, water supplies and other public services in an efficient manner, and to speed up economic development. The municipalities lack cooperation to pool expertise and investments in order to scale up and improve efficiency and effectiveness in the provision of public services. A fragmented and unevenly developed public transport system, the lack of internal connectivity and intermodality[21], trip planning and other basic passenger services hinder access to jobs and public services, especially in remote and rural areas, contributing to regional disparities. Lithuania has the least developed and least used public transport network in the EU, with only 5.3% of passenger travel being carried out on public transport, including 0.9% by train. Lithuania has significant scope to improve the coordination of its public transport system both at regional and central level.

(25) Lithuania has been experiencing limited productivity growth partly due to skills mismatches. Although the country has one of the highest tertiary attainment rates, the scarcity of skilled staff is a major obstacle to long-term investment for 72% of Lithuanian firms, while only 47% of college graduates find jobs that match their level of education. The involvement of social partners in developing study programmes and the quality control of higher education study programmes remain weak. The network of higher education institutions has not been adapted to the dwindling number of students and will face further pressures once a new student admission system comes into force this year. While Lithuania has planned several college reorganisation projects, further efforts are needed to increase the efficiency of the higher education network and consolidate the fragmented research system.

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18 Disposable median income of the 55-64 age category.

19 The indicator is defined as the ratio of the median individual gross pension of the 65-74 age category relative to the median individual gross earnings of the 50-59 age category, excluding other social benefits.

20 SWD(2024)132 final.

21 A characteristic of a transport system whereby at least two different modes are used in an integrated manner in order to complete a door-to-door transport sequence.

(26) Lithuania lags behind the EU average on different innovation indicators such as research and innovation (R&I) intensity, public-private partnerships and private investment in R&I. Public R&I expenditure amounted to 0.53% of GDP in 2022, its lowest level since 2007. Complex rules limit access to public R&I support measures for academia and business. Private investment in R&I has stagnated in recent years and is three times lower than the EU average. This is aggravated by restricted access to finance hindering the growth of innovative firms, in particular small and medium-sized enterprises, which face limited availability of alternative funding sources.

(27) Lithuania's economy, and particularly its industry, is considerably less efficient at using materials to produce wealth than the EU average. Resource productivity has remained consistently below the EU average since 2018, marked by a higher material footprint. Lithuania's circular material use rate was three times below the EU average in 2022 (4.1% compared to 11.5%) and has shown no signs of improvement since 2018. This means that approximately 96% of all materials are not reused in Lithuania, indicating considerable scope to improve the fragmented waste sorting and recycling system and promote the use of secondary materials for value creation. Moreover, three-quarters of the surface area of Lithuania's building stock was built before 1992, resulting in poor energy efficiency and higher energy consumption (and energy poverty). Improving resource productivity can reduce dependency on volatile raw material markets, lower production costs and therefore boost competitiveness through efficiency gains, while also helping to minimise the negative impacts on the environment. At the same time, two-thirds of the habitats protected under EU legislation are in an unfavourable conservation status, while only half of all surface water bodies achieve good ecological status. Lithuania has experienced a significant loss of biodiversity in agricultural landscapes. This is exemplified by a decline by almost half of the farmland bird population over 2000-2020. Moreover, the agricultural sector is the second largest emitter of greenhouse gases in Lithuania and has seen its emissions grow since 2005. Overall, the environmental investment gap was estimated at 2.2% of GDP in Lithuania over 2014-2020, well above the EU average of 0.8%. As such, there is still scope to further align agricultural practices with environmental objectives.

(28) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Lithuania, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth euro area recommendations.

HEREBY RECOMMENDS that Lithuania take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general

[22] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

government debt at a prudent level over the medium term. Provide adequate financing for healthcare, social protection and general public services.

2. Address emerging delays to allow for continued swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Improve health outcomes and the resilience of the health system by strengthening primary care and expanding preventive care. Increase the adequacy of old-age pensions, while maintaining the sustainability of the pension system. Address regional disparities by promoting cooperation among municipalities in improving access to public services, including public transport.

4. Address skills mismatches by improving the labour market relevance of higher education. Facilitate private investment in research and innovation. Step up resource productivity to progress towards a circular economy.

Done at Brussels,

For the Council
The President