



Lithuania within the Economic Governance cycle of the EU

Faculty of Economics
University of Vilnius, 16 October 2015

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Senior Lecturer

- **European Institute of Public Administration**
- **Leading European center of civil servants on EU integration**
- **President Guy Verhofstadt (former premier minister of Belgium)**
- **EIPA carries out trainings, research and consultancy**
- **Based in Maastricht around Unit 1 (EU presidency & decision making), Unit 2 (Public Administration reforms) and Unit 3 (EU Policies)**
- **But also offices in Brussels, Luxembourg and Barcelona**
- **Supported by Member States and strong links with European Commission**

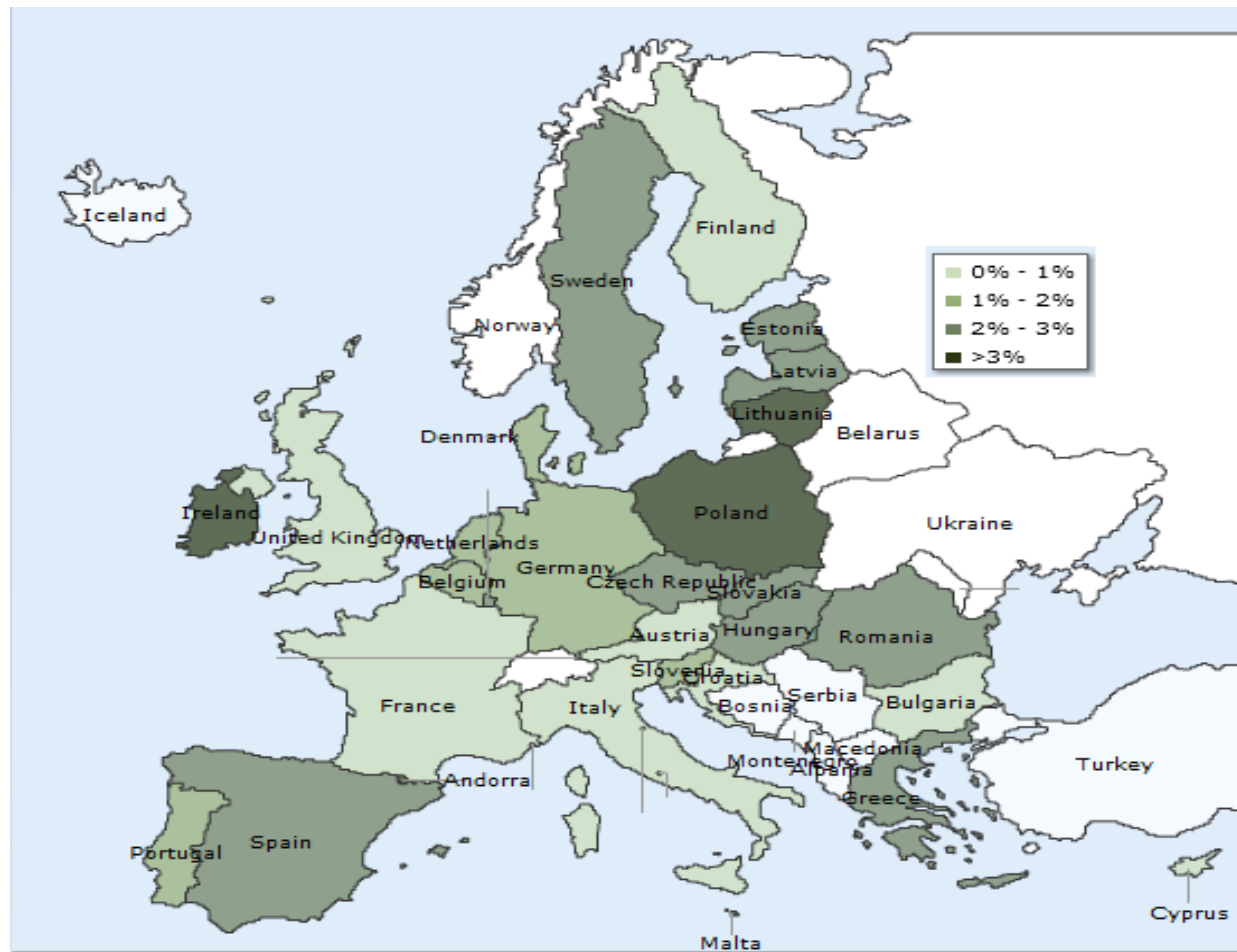
Myself

- **2007-2015: Senior Lecturer in EIPA in charge of training on structural funds and economic governance**
- **1995-2007: Administrator of Italian Chambers of Commerce and Industry representation office to the EU**
- **1992-1995: Administrator in European Commission**
- **1991-1992: Researcher at the Economic and Social Institute (Amsterdam)**
- **Development Economist**
- **Brussels-based**

OUTLINE

- 1. Lithuania in the fiscal pillar**
- 2. Lithuania in the macro-economic pillar**
- 3. Lithuania in the socio-economic pillar**
- 4. Lithuania in the stability pillar**
- 5. Lithuania in the European semester**

All EU economies set to grow in 2015



1. Lithuania in the new EU Fiscal rules

■ **Government deficit and expenditures**

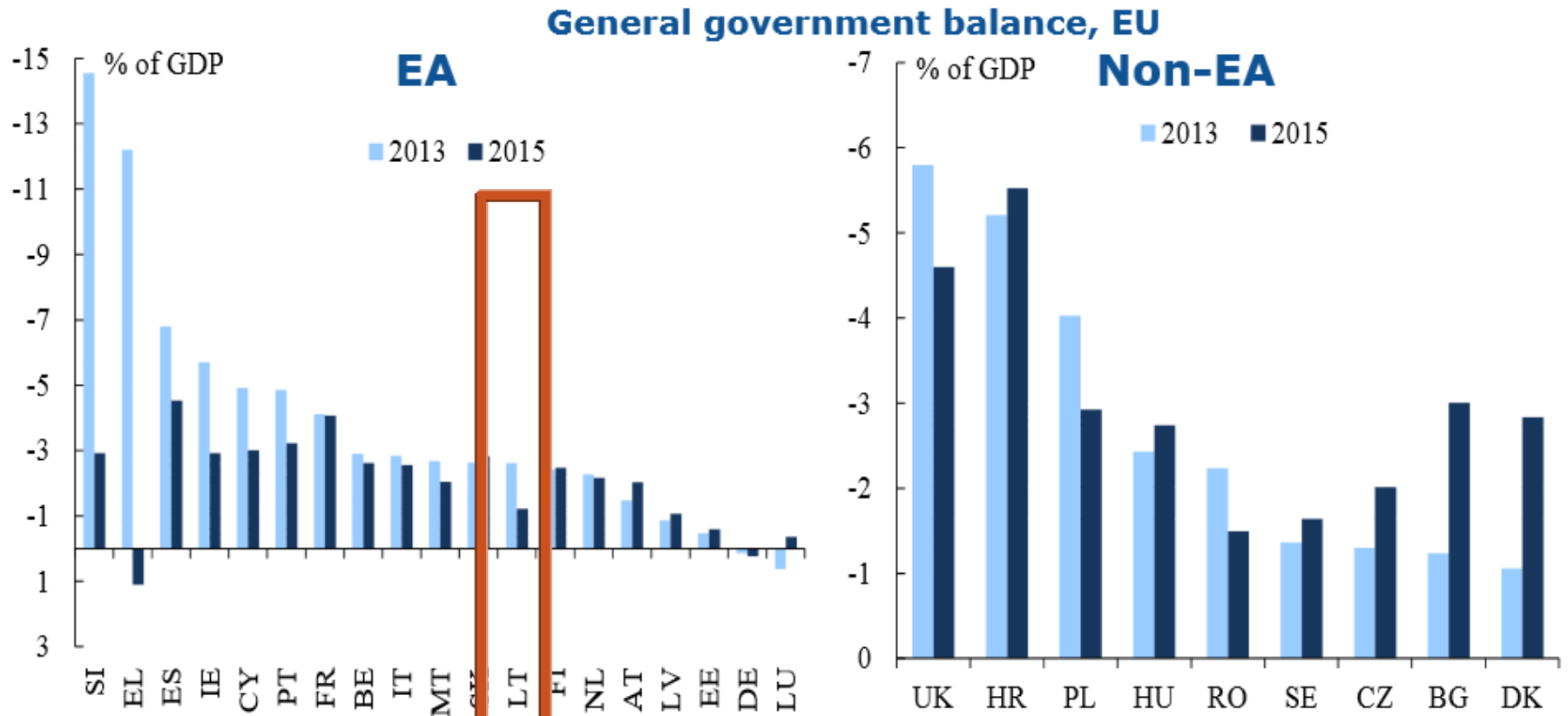
- Effective deficit $< 3\%$
- $0,5\% < \text{Medium Term Objectives (MTO) in structural terms} < 0$ or surplus
- Expenditure growth $< \text{potential GDP growth}$
- Adjustment path

■ **Government debt**

- Debt $< 60\%$
- Reduction: $5\% * [\text{debt} - 60\%]$
- No golden – investment rule

Results in

Significant differences in fiscal performance between countries



Source: European Commission Winter Forecast February 2015

Fiscal Compact (Title III TSCG)

- “Golden rule” of balanced budget – preferably constitutional status
- CoJ controls transposition (Art. 8)
- limit of structural deficit is -0,5 % of nominal GDP
- limit is -1% if low risk MS (debt<<60%) and low risks to sustainability
- national automatic correction mechanism kick in if deviation from MTO
- no constraints on the content of public expenditure
- Debt reduction rule: 5% p.a. (art 4)

Sanctions in the SGP

- new sanction voting system : RQMV
- swifter sanctions to kick-in
- extended to EIB
- extended to ESI funds with Common Provision Regulation 1303/2013 (chapter IV)
 - EC request to MS to review and amend Operational Programmes, failure of “effective” action lead to suspension of payments
 - EC keeps EP informed of possible start + implementation
 - but does not apply to UK
 - Hungarian precedent in 2012 in Cohesion fund

Flexibility of the SGP - COM (2015) (13.1.2015)

Structural reform clause

- **Preventive arm:** temporary deviation from the MTO or extension allowed
- **Corrective arm:** extension of the correction deadline.

Investment clause

- **Favourable treatment for national contributions to the EFSI**
- **MTO Deviation in preventive arm** to boost EU projects

Cyclical clause

- **Preventive arm:** better account of ups and downs in the economic cycle (**matrix**)
- **Corrective arm:** extensions deadlines

Two-pack – Avoiding systemic problems (Reg 473/2013)

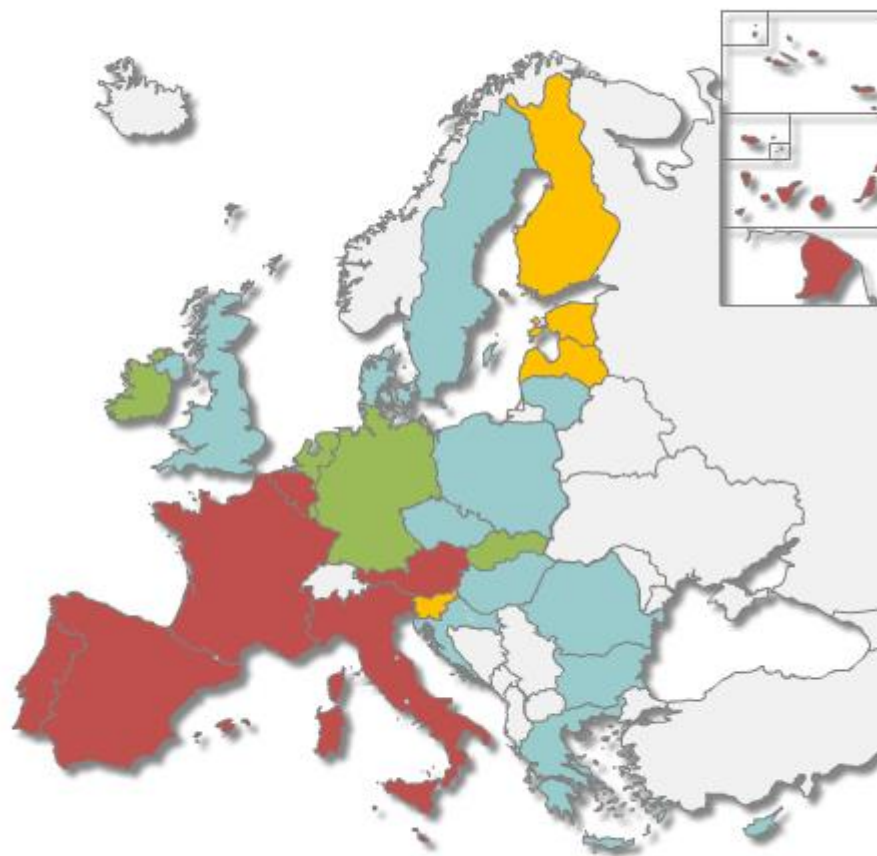
Prevention arm

- Draft budgetary plans before 15 October (adopted by end of year)
- EC checks if in line with SCP/recommendations and gives opinion
- EC can request change if serious breach
- Independent institutions monitoring compliance fiscal rules
- Economic dialogue

Correction of EDP

- closer monitoring of Euro MS
- reports every 6 or 3 months
- Economic Partnership Programmes (EPP)





November 2014 assessment on DBP 2015



Find them all on line:

http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/

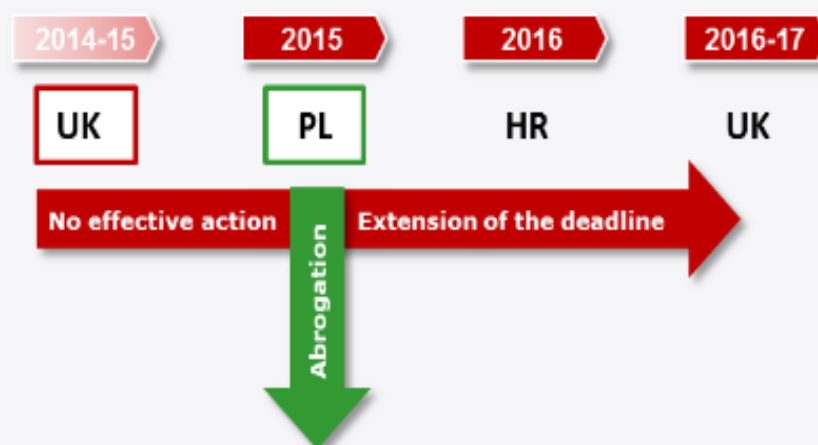
Legend:

	At risk of non-compliance
	Broadly compliant
	Compliant
	Not covered by the 2014 Draft Budgetary Plans exercise

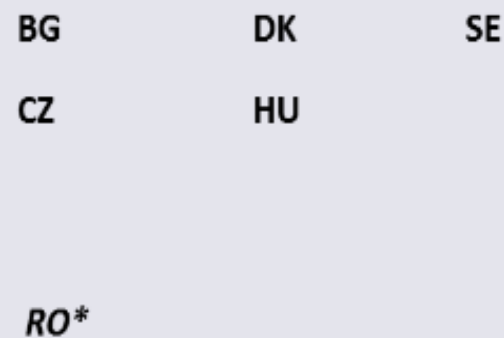
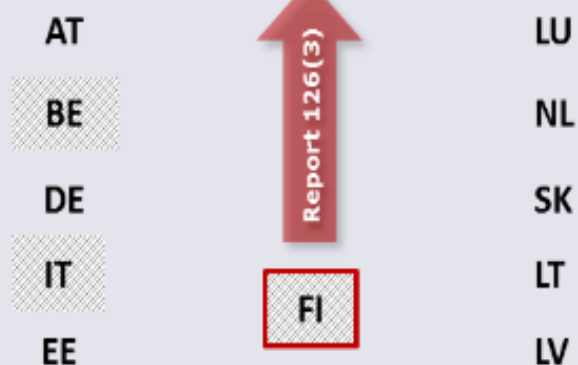
EURO AREA

NON-EURO AREA

Countries in the corrective arm (EDP)



Countries in the preventive arm



 Member States for which legal steps were adopted by the Commission in the context of the February package.

 Member States for which legal steps will be adopted by the Commission in the context of the May package.

*Member States under programme.

2. Lithuania in the macroeconomic pillar

Examples:

- external imbalances (export and import)
 - loss of competitiveness
 - excessive asset prices
 - excessive private or public debt
-
- problems spill over to other countries
 - common interest to coordinate among MS

Scoreboard (since 2013 also key employment and social indicators)

1. **CURRENT ACCOUNT** balances
2. Net international investment position
3. export market shares
4. Real effective exchange rates (based on HICP)
5. Nominal Unit Labour Costs ULC
6. Increases in real HOUSE prices
7. Private Sector Credit flow
8. Public Sector DEBT
9. **Private sector DEBT**
10. Unemployment rate

external imbalances

competitiveness

internal imbalances

Table A2. MIP scoreboard 2012

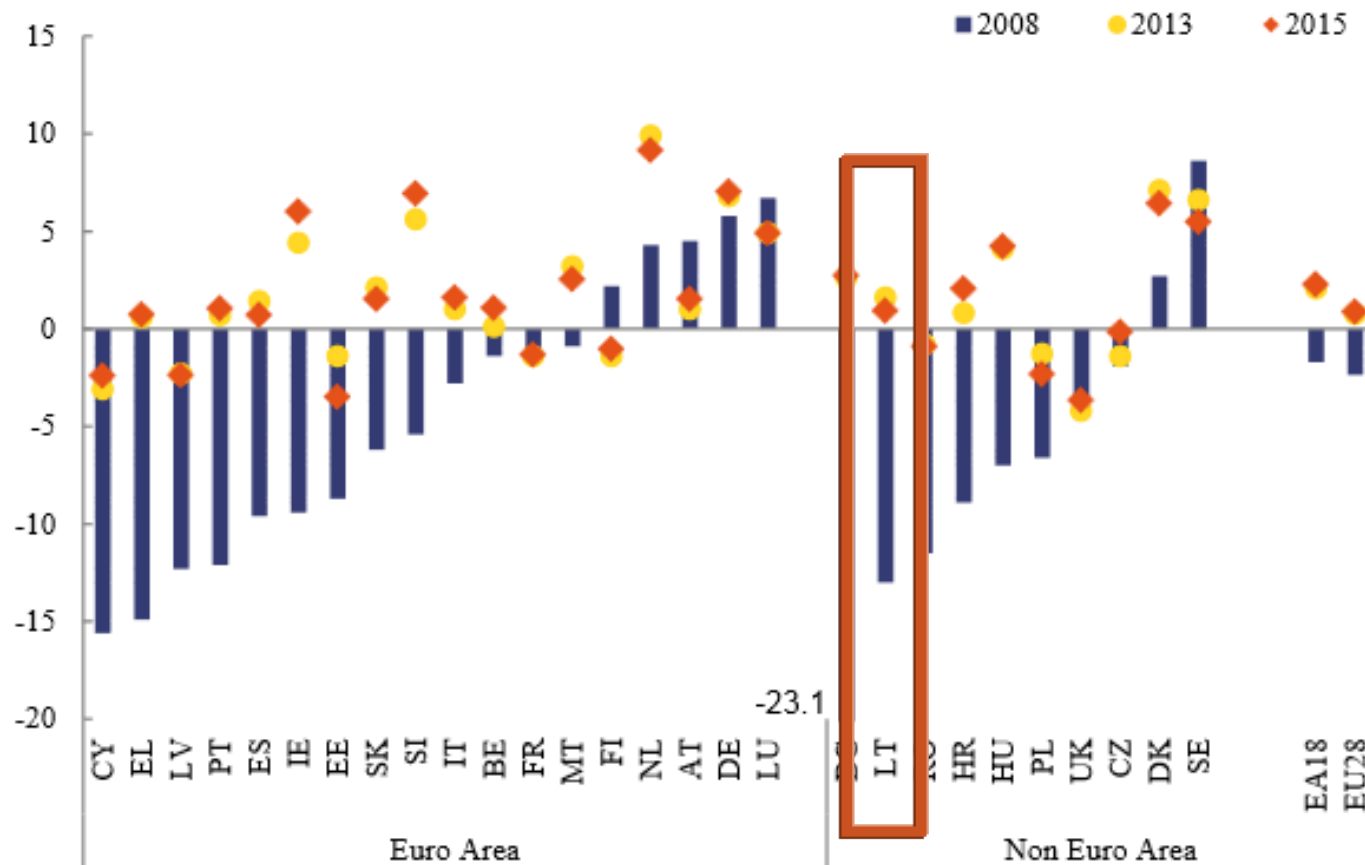
Year 2012	External Imbalances and Competitiveness									Internal Imbalances						
	Current Account Balance as % of GDP		Net International Investment Position as % of GDP	Real Effective Exchange Rate (42 IC - HICP deflators)		Export Market Shares		Nominal ULC		% y-o-y change in Deflated House Prices	Private Sector Credit Flow as % of GDP, consolidated	Private Sector Debt as % of GDP, consolidated	General Government Sector Debt as % of GDP	Unemployment Rate		% y-o-y change in Total Financial Sector Liabilities
	3 year average	p.m.: level year 2012		% change (3 years)	p.m.: % y-o-y change	% change (5 years)	p.m.: % y-o-y change	% change (3 years)	p.m.: % y-o-y change					3 year average	p.m.: level year 2012	
Thresholds	-4/+6%	-	-35%	±5% & ±11%	-	-6%	-	+9% & +12%	-	+6%	14%	133%	60%	10%	-	16.5%
BE	-0.4	-2.0	48	-4.3	-2.3	-14.9	-5.2	6.6	4.1	-0.2	-1.5	146	100	7.7	7.6	-3.9
BG	-0.9	-1.3	-80	-4.0	-2.0	4.8	-5.5	7.4	-0.5	-5.3 (p)	2.5	132	19	11.3	12.3	10.1
CZ	-3.0	-2.4	-50	0.4	-2.8	-4.2	-4.6	3.9	3.8	-3.9	0.6	72	46	7.0	7.0	5.4
DK	5.9	6.0	38	-7.7	-2.8	-18.6	-4.8	1.0	1.6	-5.1	6.1	239	45	7.5	7.5	5.0
DE	6.5	7.0	42	-8.9	-3.2	-13.1	-4.6	3.0	3.1	1.8	1.5	107	81	6.2	5.5	4.4
EE	0.9	-1.8	-54	-3.4	-0.6	6.5	-4.1	-2.8	4.2	3.5	4.7	129	10	13.2	10.2	12.9
IE	2.3	4.4	-112	-12.2	-4.3	-16.3	-3.3	-10.4	0.0	-11.7	-1.6	306	117	14.4	14.7	-0.7
EL	-7.5	-2.4	-109	-4.5	-3.9	-26.7	-7.3	-8.1	-6.2	-12.4 (1)	-6.8	129	157	18.2	24.3	-3.4
ES	-3.1	-1.1	-93	-5.2	-2.3	-14.6	-4.9	-5.6	-3.0	-16.9	-10.5	194	86	22.3	25.0	3.3
FR	-1.8	-2.2	-21	-7.8	-3.2	-14.0	-6.8	4.1	2.1	-2.3	3.5	141	90	9.9	10.2	-0.1
HR	-0.5	0.0	-89	-8.3	-2.6	-24.7	-7.4	0.8	1.2	-2.4	-2.1	132	56	13.8	15.9	0.9
IT	-2.3	-0.4	-25	-6.2	-1.8	-23.8	-5.0	3.1	2.3	-5.4 (p)	-1.0	126	127	9.2	10.7	7.1
CY	-6.7	-6.9	-82	-5.8	-1.9	-26.6	-9.4	0.8	-2.7	-2.2	10.0	299	87	8.7	11.9	-1.9
LT	-1.3	-0.2	-53	-6.7	-2.0	29.3	5.7	-4.6	1.9	-3.2	-0.3	63	41	15.6	13.4	-0.3
LU	7.0	6.6	169	-2.3	-1.4	-18.3	-4.0	9.8	4.7	2.5	-5.0	317	22	4.8	5.1	11.3
HU	0.6	1.0	-103	-1.2	-2.3	-17.8	-7.4	4.4	2.7	-9.2	-6.1	131	80	11.0	10.9	-8.3
MT	-1.6	1.6	25	-7.7	-2.1	4.5	-1.9	4.9	3.7	0.3	-1.6	155	71	6.6	6.4	4.1
NL	8.8	9.4	47	-6.0	-1.8	-12.0	-3.3	3.3	2.8	-8.7	0.2	219	71	4.7	5.3	4.9
AT	2.2	1.6	0	-4.7	-1.7	-21.2	-6.3	4.1	3.0	na (2)	2.7	147	74 (3)	4.3	4.3	-0.9
PL	-4.6	-3.7	-67	1.3	-2.3	1.3	-2.7	4.4	2.0	-5.9 (e)	3.4	75	56	9.8	10.1	9.6
PT	-6.5	-2.0	-115	-4.0	-1.5	-16.0	-5.3	-5.3	-3.1	-8.6 (p)	-5.4	224	124	13.6	15.9	-3.6
RO	-4.4	-4.4	-68	-1.9	-6.0	5.9	-7.1	4.8	6.5	-9.2	0.9	73	38	7.2	7.0	5.3
SI	1.2	3.3	-45	-4.5	-1.2	-19.9	-6.9	0.4	0.8	-8.4	-2.9	114	54	8.1	8.9	-0.8
SK	-1.7	2.2	-64	-3.2	0.0	4.2	1.5	0.9	1.0	-5.9	3.2	73	52	14.0	14.0	2.6
FI	-0.5	-1.7	18	-8.3	-2.7	-30.8	-7.1	4.8	4.4	-0.5 (p)	9.0	158	54	8.0	7.7	-0.2
SE	6.2	6.0	-10	10.1	-0.8	-18.8	-6.0	0.7	2.9	-0.2	1.8	212	38	8.1	8.0	4.4
UK	-2.8	-3.8	-9	5.8	4.3	-19.0	-1.7	6.1	3.0	-0.9	2.6	179	89	7.9	7.9	-4.3

Source: EUROSTAT, DG ECFIN (for the indicators on the REER).

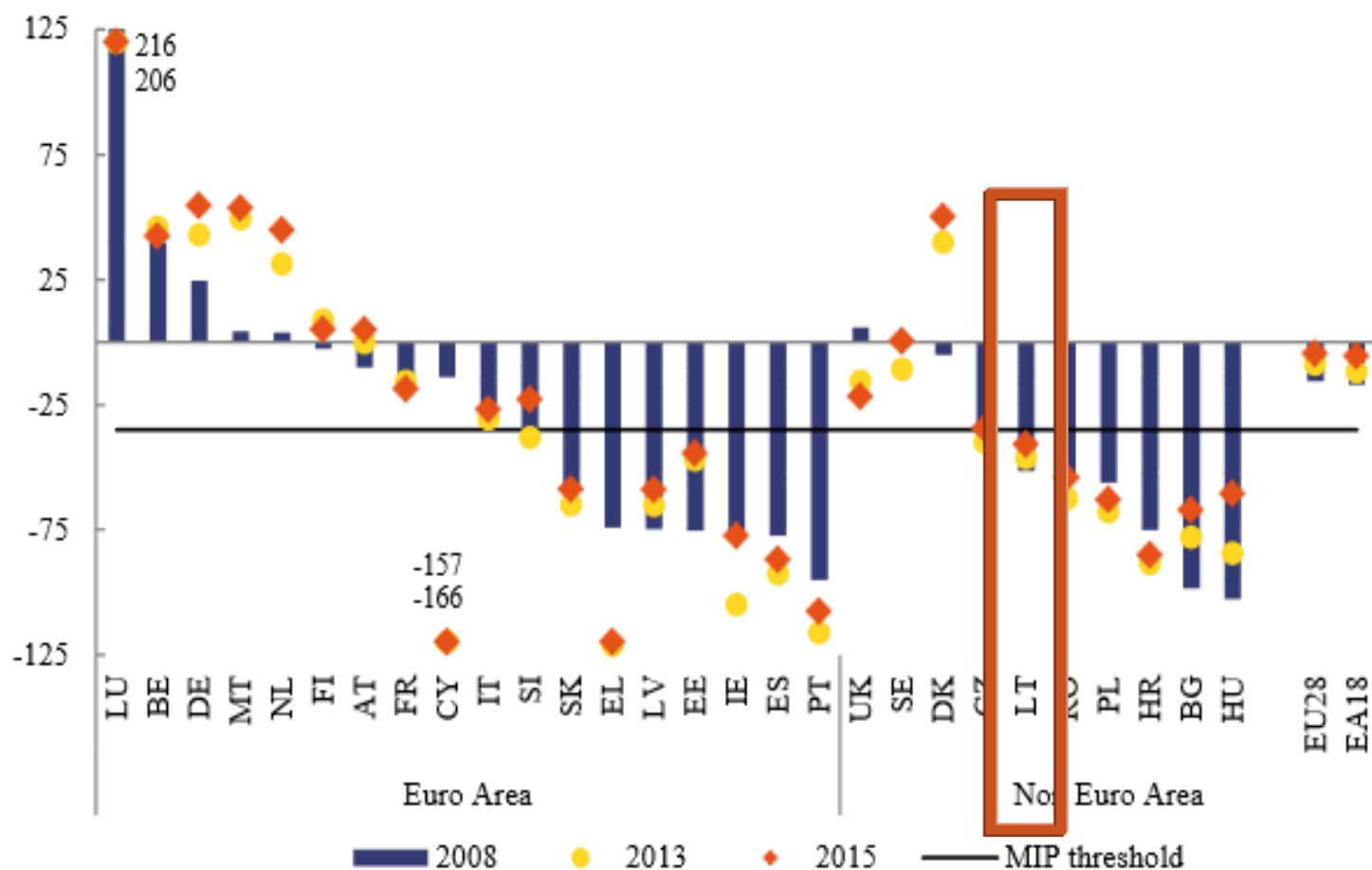
Note: (1) Eurostat estimate based on HPI data from Bank of Greece produced in agreement with ELSTAT. (2) HPI data up until 2011 by Statistics Austria. For 2012, Eurostat estimates a deflated rate of 9.6% based on non-harmonised HPI data by ECB & Central Bank of Austria. (3) Eurostat expressed a reservation on Austrian general government sector debt, see Eurostat press release 152/2013. (4) p= provisional data, e= estimated.

Current Accounts rebalancing across countries

Graph 1: Current Accounts Deficits (-) and Surpluses (+)
2008, 2013 and 2015 (forecast)
(% of GDP)

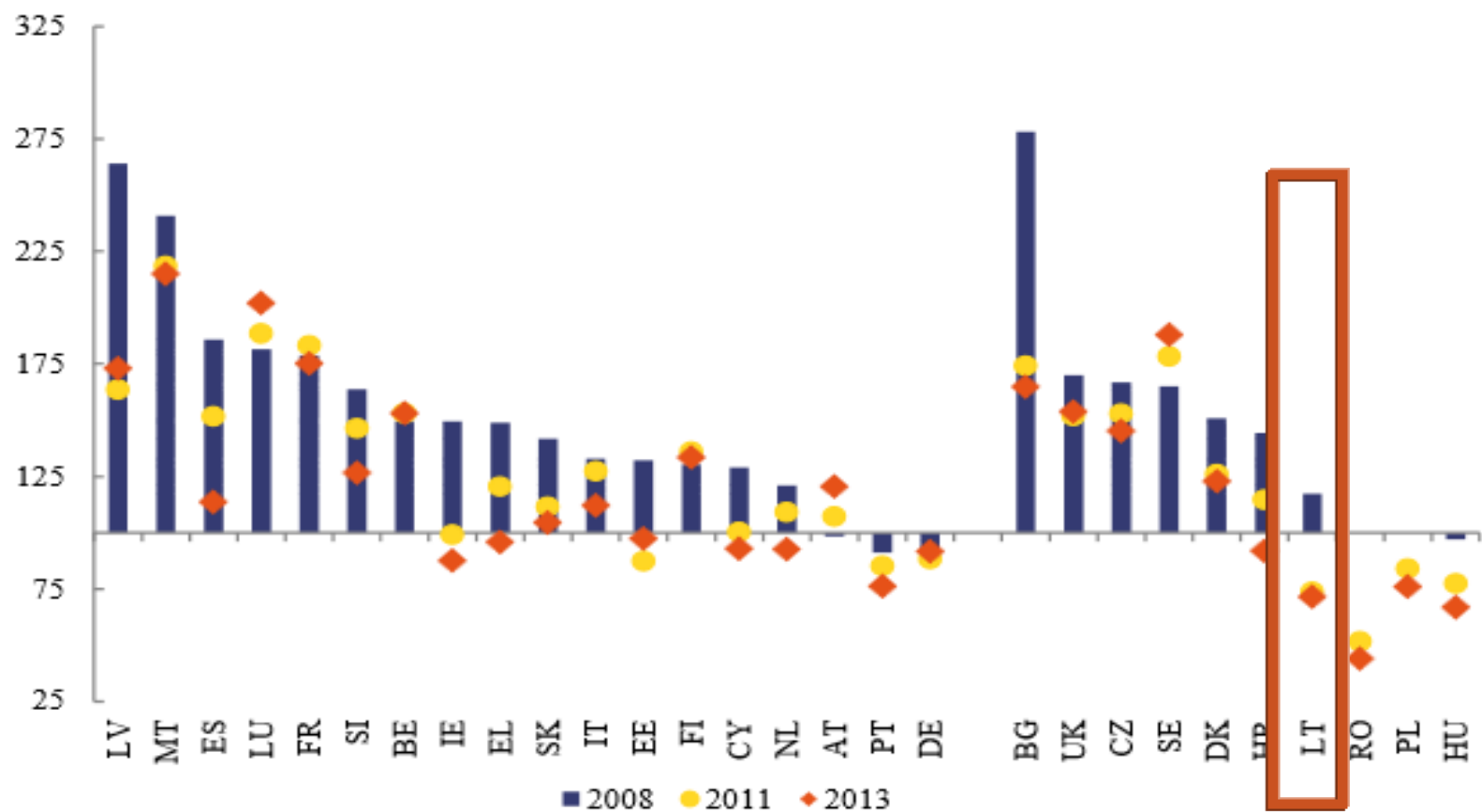


Graph 3: Net International Investment Positions
2008, 2013 and 2015 (projection)
(% of GDP)



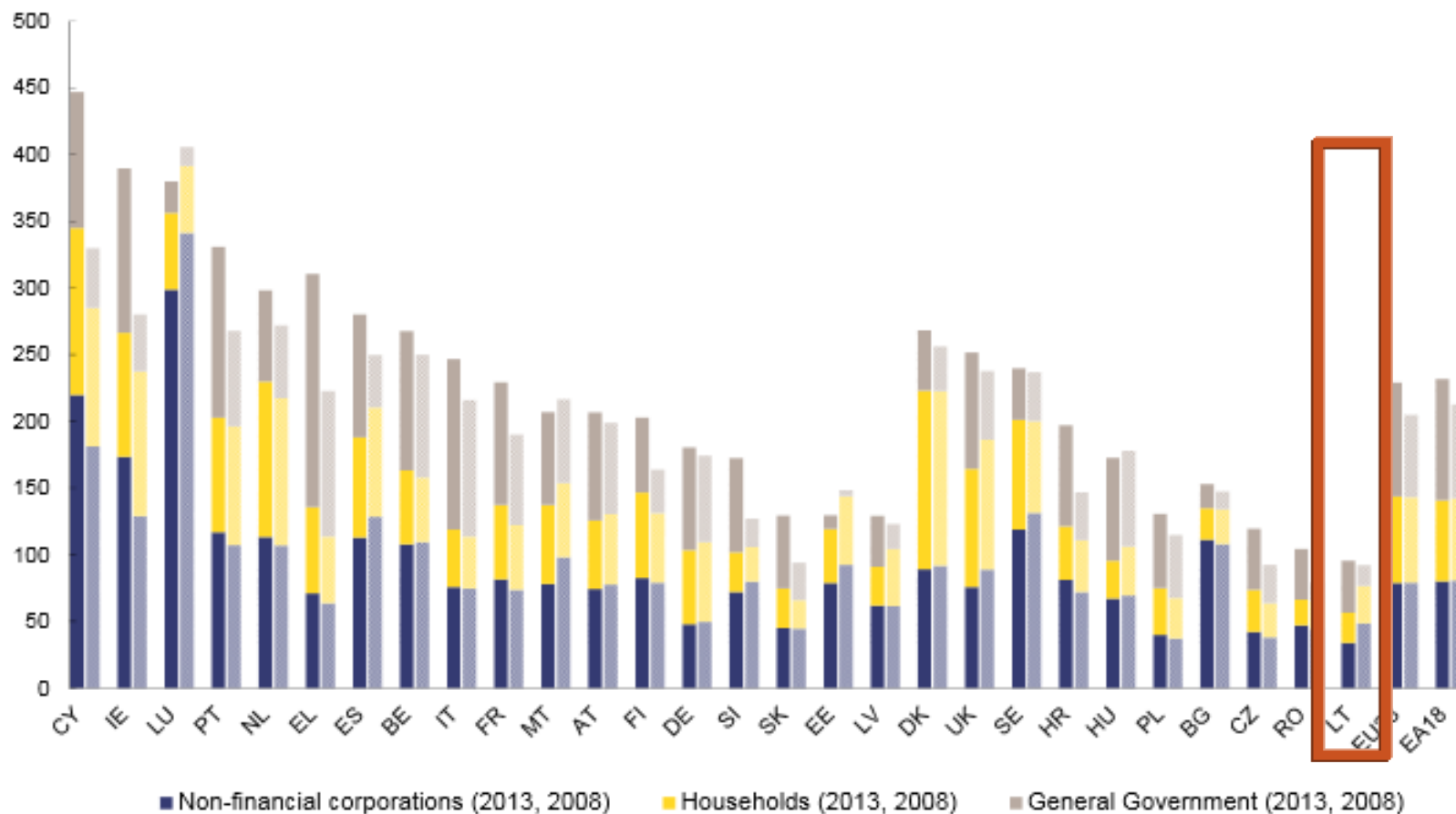
Asset prices: houses

Graph 6: House prices (deflated)
2008, 2011 and 2013
(index 2000=100, u.o.i.)



Non financial corporations (blue) and household (yellow) debt

Graph 5: Non-Financial Corporate, Household and General Government Debt
2013 compared with 2008 (shaded)
(% of GDP)



■ Non-financial corporations (2013, 2008)

■ Households (2013, 2008)

■ General Government (2013, 2008)

The Results of the Indepth Reviews 2015

	MIP categories	2014	2015
1	No imbalance	-	-
2	Imbalances, which require monitoring and policy action	BE, BG, DE, NL, FI, SE, UK	BE, NL, <i>RO**</i> , FI, SE, UK
3	Imbalances, which require monitoring and decisive policy action	HU	HU, DE
4	Imbalances, which require specific monitoring and decisive policy action	IE, ES, FR	IE, ES, SI
5	Excessive imbalances, which require specific monitoring and decisive policy action	HR, IT, SI	BG, FR, HR, IT, PT**
6	Excessive imbalances, which require decisive policy action and the activation of the Excessive Imbalance Procedure	-	-

* Bold signals a change with respect to 2014

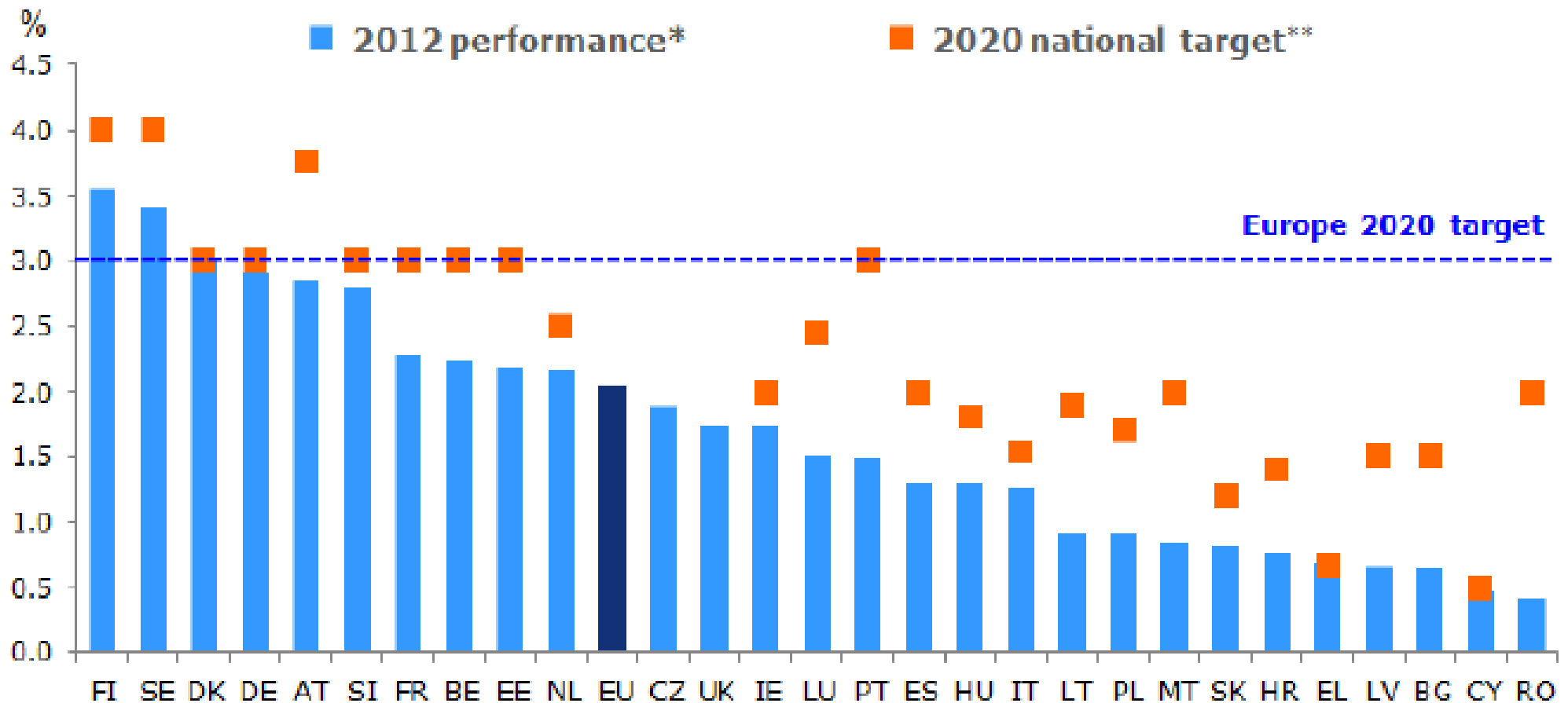
** In 2014, PT was in a financial assistance programme and RO in a precautionary programme

3. Lithuania in the socio-economic pillar

Member States targets	Employment rate (in %)	R&D (in % of GDP)	Emissions reduction targets (compared to 2005 levels) ²	Renewable energy (in % of gross final energy consumption)	Energy efficiency ³	Early school leaving in %	Tertiary education in %	Reduction of population at risk of poverty or social exclusion (in number of persons)
							definition)	decrease by 140,000 persons
FR	75%	3%	-14%	23%	236.3	9.5%	50% (17-33 year-olds)	1,900,000
HR	62.9%	1.4%	11%	20%	9.19	4%	35%	Reduction of the number of persons at risk of poverty or social exclusion to 1,220,000, equivalent to a decrease by 152,000 persons compared to 2011
HU	75%	1.8%	10%	14.65%	26.6	10%	30.3%	450,000
IE	69-71%	approx. 2% (2.5% of GNP)	-20%	16%	13.9	8%	60%	200,000 (persons in combined poverty)*
IT	67-69%	1.53%	-13%	17%	158.0	16%	26-27%	2,200,000
LT	72.8%	1.9%	15%	23%	6.485	<9%	48.7%	Reducing the number of persons at risk of poverty or social exclusion to 814,000
LU	73%	2.3-2.6%	-20%	11%	4.482	<10%	66%	6,000
LV	73%	1.5%	17%	40%	5.37	10%	34-36%	121,000 (at risk of poverty after social transfers and/or living in households with very low work intensity)*
MT	70%	2%	5%	10%	0.825	10%	33%	6,560
NL	80%	2.5 %	-16%	14%	60.7	<8 %	>40%	100,000 (people aged 0-64 living in a jobless household)*
PL	71%	1.7%	14%	15%	96.4	4.5%	45%	1,500,000
PT	75%	2.7-3.3%	1%	31%	22.5	10%	40%	200,000
RO	70%	2%	19%	24%	42.99	11.3%	26.7%	580,000
SE	>80%	4%	-17%	49%	43.4	<10%	40-45%	Reduction of the % of women and men aged 20-64 who are not in the labour force (except full-time students), the long-term unemployed or those on long-term sick leave to well under 14%*
SK	72%	1.2%	13%	14%	16.2	6%	40%	170,000
UK	No target in NRP	No target in NRP	-16%	15%	177.6	No target in NRP	No target in NRP	Poverty Act and Child Poverty Strategy 2011-2014*

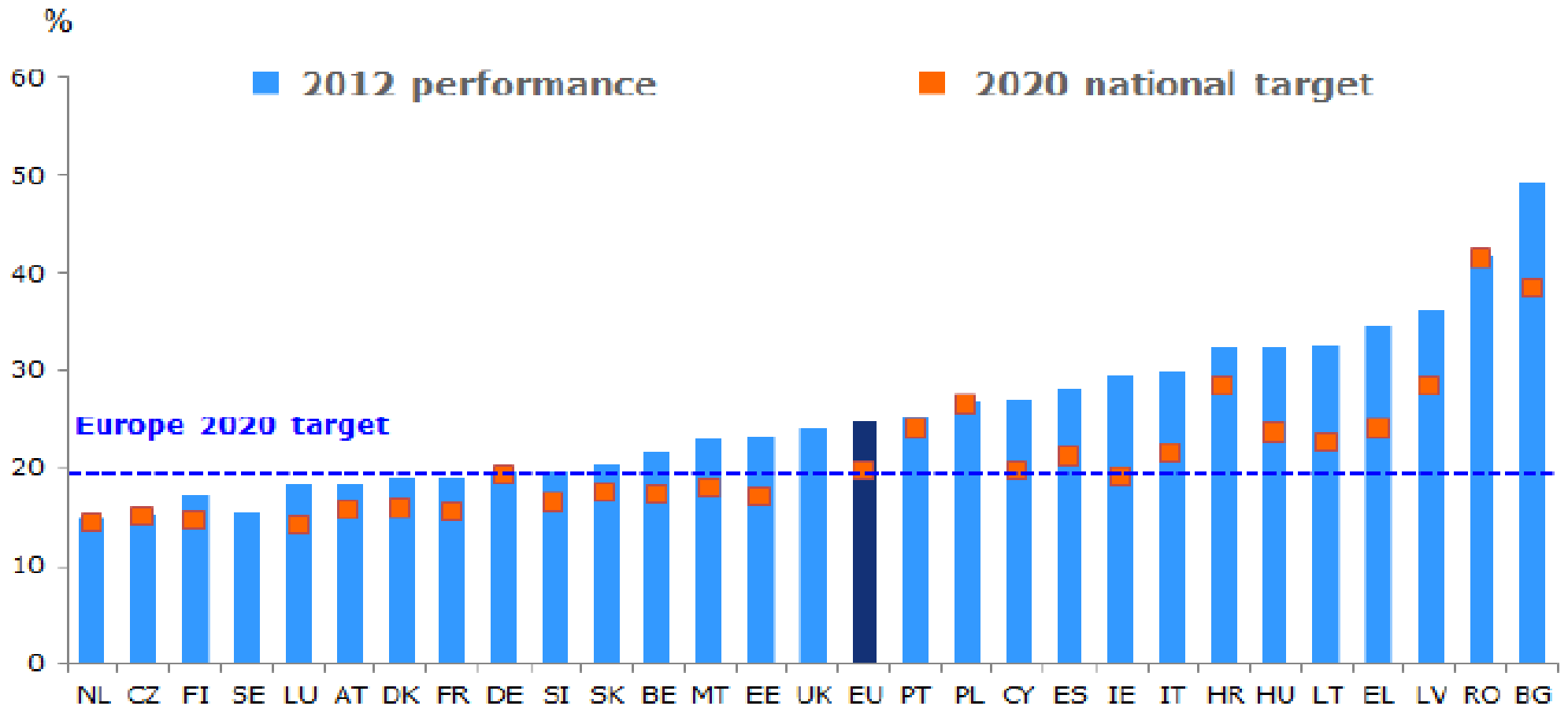
But are the targets deliverable ?

R&D investment in EU Member States as a % of GDP

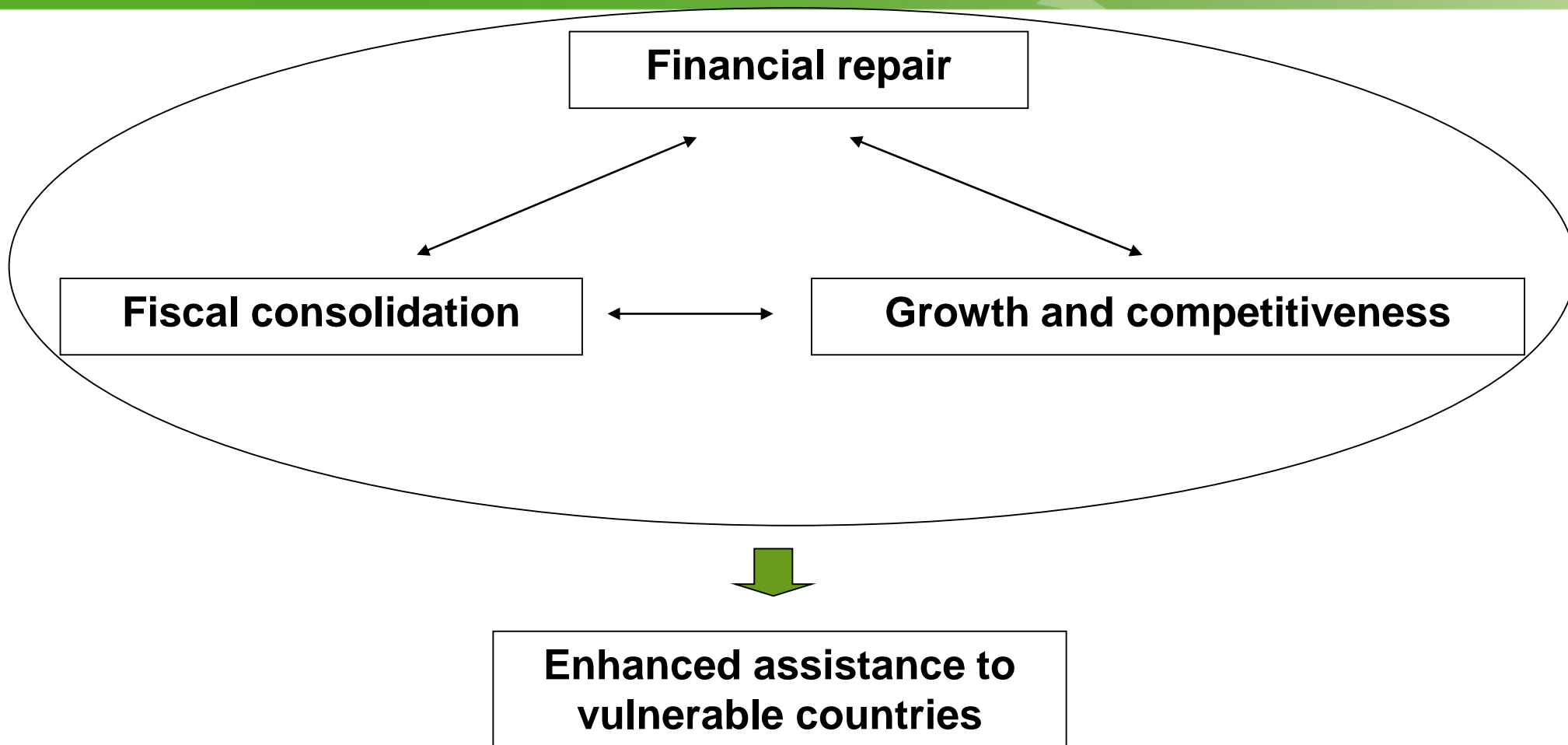


But are the targets deliverable ?

People at risk of poverty or social exclusion in EU Member States*
(% of population)



4. Lithuania in the stability pillar



Balance of payment assistance (BoP) Council Reg. 332/2002 based on Art 143 TFEU





- Triggered to provide financial assistance to MS in difficulty of balance of payments/external financing constraints
- permanent nature
- but only for non Euro Area MS
- funds raised by EC on financial markets but administered by ECB
- lending capacity : € 50 Bn

The permanent response

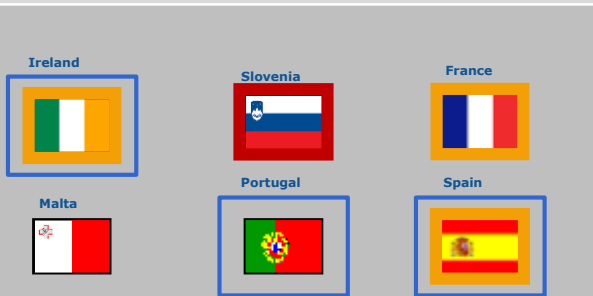
European Stability Mechanism (ESM)

- permanent mechanism for financial assistance to Euro area MS and takes over from EFSF (European Financial Stability Facility)
- primary/secondary market purchases, recapitalisation of banks, precautionary facilities with a lending capacity of 500 Bn Euro
- intergovernmental LU organisation under public international law (2012)
- capital contributors: DE 27% FR 20% IT 17% LV 2,7% but for Euro MS under 75% of EU GDP per capita there is a temporary reduction for 12 years
- clearance from Court rulings
- www.esm.europa.eu

National context: situation under the Stability and Growth Pact and Macroeconomic Imbalance Procedure

-  Excessive imbalances
-  Imbalances
-  Imbalances requiring decisive action
-  Post-programme surveillance

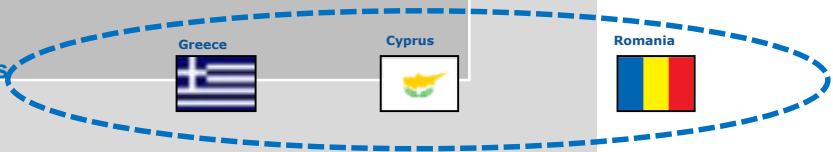
Countries in Excessive Deficit Procedure (EDP)



Countries not in EDP (Preventive Arm)



Programme countries

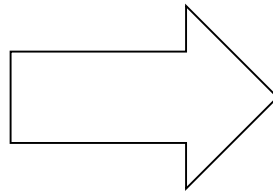


EURO AREA

NON EURO AREA

5. Lithuania in the European semester Country Reports February Year n

**BEFORE: EC Staff
working papers
(May/June)
accompanying
draft CSR**



**NOW: Country reports
(February)**

- 1. Analysis of fiscal, economic and social developments**
- 2. Challenges and implementation of key policies**
 - Including macroeconomic imbalances/in-depth reviews

More time for constructive dialogue with national authorities/social partners on issues before submitting NRP/SCP and before finalisation of CSR

Lithuania

Country Report

February 2015

Overall, Lithuania has made some progress in addressing the country-specific recommendations. As regards the recommended strengthening of the budgetary strategy and review of the tax system, some minor revenue-increasing measures have been adopted. Lithuania has transposed the Fiscal Compact into national law, but its fiscal framework still has room for improvement: in particular, binding expenditure ceilings are yet to be implemented. Relatively minor measures have been adopted for the recommended comprehensive pension reform, but these fall short of addressing the medium-term challenge of pension system sustainability. On social protection and labour market policy, the government is considering a number of relevant policies but these have not yet been adopted. Initial steps have been taken to accelerate housing renovation in order to increase energy efficiency. Lithuania has made some progress on upgrading its energy infrastructure. It has opened the first liquefied natural gas terminal in the Baltic States, and its continuing efforts to improve its gas and electricity interconnections with its neighbouring states will further strengthen energy supply security. Finally, Lithuania has made substantial progress on reforming state-owned enterprises and has enacted respective legislation to ensure that the effects of the reform are lasting. Therefore, the reform of state-owned enterprises may be considered almost complete.

	Public finances				Financial sector		Structural reforms					Employment and social policies					
	Sound public finances	Pension and healthcare systems	Fiscal framework	Taxation	Banking and access to finance	Housing market	Network industries	Competition in service sector	Public administration and smart regulation	R&D and innovation	Resource efficiency	Labour market participation	Active labour market policy	Wage setting mechanisms	Labour market segmentation	Education and training	Poverty and social inclusion
AT																	
BE																	
BG																	
CZ																	
DE																	
DK																	
EE																	
ES																	
FI																	
FR																	
HR																	
HU																	
IE																	
IT																	
LT																	
LU																	
LV																	
MT																	
NL																	
PL																	
PT																	
RO																	
SE																	
SI																	
SK																	
UK																	

Note: Country-specific recommendations for 2014-2015 proposed by the Commission on 2 June 2014. Cyprus and Greece should implement commitments under EU/IMF

financial assistance programmes. Recommendations for Portugal are conditioned by exit from the programme. More information at :

http://ec.europa.eu/europe2020/index_en.htm

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Country specific recommendation CSR 2015 Lithuania

HEREBY RECOMMENDS that Lithuania take action in 2015 and 2016 to:

1. Avoid deviating from the medium-term objective in 2015 and ensure that the deviation in 2016 is limited to the allowance linked to the systemic pension reform. Broaden the tax base and improve tax compliance.
2. Address the challenge of a shrinking working-age population by improving the labour-market relevance of education, increasing attainment in basic skills, and improving the performance of the healthcare system; reduce the high tax wedge for low income earners by shifting the tax burden to other sources less detrimental to growth.
3. Adopt a comprehensive reform of the pension system that also addresses the challenge of pension adequacy. Improve the coverage and adequacy of unemployment benefits and cash social assistance and improve the employability of those looking for work.

Done at Brussels,

*For the Council
The President*

Contact address




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	First pillar Fiscal Surveillance	Second pillar Macroeconomic Surveillance	Third pillar Socio-Economic Coordination	Fourth pillar Financial solidarity
2010			<i>Europe 2020 Strategy for Jobs and Growth</i>	 - Regulation ERM - Decision EFSF
2011	Six-pack - Strengthening of the surveillance and correction procedures, esp. for Eurozone Member States	Six-pack - Macroeconomic scoreboard - Surveillance and correction procedures		
2012	TSCG (title III)		TSCG (title IV)	Treaty ESM
2013	Two-pack Additional oversight			Two-pack - Enhanced surveillance - Negotiation framework for conditionality
2015	Flexibility rule			