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2025 Country Report - Lithuania

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Recommendation for a COUNCIL RECOMMENDATION

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

{COM(2025) 215 final}

Lithuania

2025 Country Report



ECONOMIC DEVELOPMENTS AND KEY POLICY CHALLENGES

Lithuania has shown resilience in the face of shocks, but convergence has slowed recently

In 2024, Lithuania saw a strong economic recovery, supported by consumption and buoyant services exports, but trade and geopolitical risks cast a shadow over exports, and over consumption and investment decisions. Following the slowdown in 2023 with 0.3% growth, GDP recovered strongly to 2.8% growth in 2024, compared to a 1.6% average across EU Member States, as wages continued to rise and private consumption rebounded. Consumer confidence increased to well above its long-term average and retail sales grew fast in 2024, at 8% year-on-year by the end of 2024. However, savings are also historically high, at 6.8% of gross disposable income in 2023 compared to almost no savings on average pre-COVID-19, likely due to uncertainty and geopolitical risks. Savings are projected to have increased to over 10% in 2024 and to continue to rise in 2025 and 2026. In addition, investment saw a decline in 2024, mostly in equipment and machinery. Lithuania's economy is expected to continue growing over the forecast horizon, supported by robust private consumption, a modest recovery in investment, in large part due to public investments and those supported by the RRF, and buoyant exports. However, trade tensions and their impact on uncertainty, in addition to existing geopolitical risks for the Baltics in particular, are set to have a dampening

effect on goods exports, consumption and investments. Geopolitical risks from Lithuania's neighbourhood may be affecting investment decisions and limiting some drivers of growth. Real GDP for 2025 is expected to grow by 2.8%. While downside risks on investment decisions will remain, strong fundamentals are forecast to support a resumed acceleration in 2026 with 3.1% real GDP growth.

Consumer price inflation dropped in 2024, and while price growth is expected to increase again in 2025, trade and commodity price developments will limit this normalisation. HICP (harmonised index of consumer prices) inflation fell from a record high of 18.9% in 2022 to 0.8% in 2024, due to energy price deflation and very low inflation across most other components of the index. At the same time, strong wage growth has kept services inflation at around 6%, and this is expected to slow only gradually over 2025 and 2026. Higher excise duties on petrol, alcohol and cigarettes to support defence funding are also expected to have an impact on inflation, although to a lesser extent. However, following a jump in energy and food prices in the early months of the year, trade announcements have reversed movement in the prices of these commodities, and they are expected to recover only slowly over the forecast horizon. Trade realignments are also expected to keep inflation lower. In 2025, HICP inflation is expected to increase to 2.6%, followed by a slowdown to 1.2% in 2026.

Unemployment increased in 2023 and 2024, and structural mismatches remain.

The economic slowdown in 2023 and the growing labour force, fuelled by migration (including from Ukraine and Belarus) contributed to the unemployment rate increasing to 7.1% in 2024 (see Social Scoreboard in Annex 13). The unemployment rate is projected to decrease to around 6.8% in 2025 and 6.6% in 2026 given demographic trends and the reduction in new migration inflows. However, the job vacancy rate has been hovering around 1.8-2% since 2023 and has shown no signs of coming down, which – along with some persistent unemployment – points to labour market mismatches. In the 2024 European Investment Bank Investment Survey, 76% of firms still cited the availability of skilled staff as a long-term barrier to investment, although this percentage has decreased since 2022, and the proportion of those that describe the availability of skills as a *major* obstacle has also decreased in the past three years (from 47.3% of firms in 2021 to 42.4% of firms in 2024).

While Lithuania has weathered recent shocks relatively well compared to its neighbours, a non-negligible part of its exports is exposed to upcoming and further possible tariffs. With exports representing between 75% and 80% of its GDP in recent years, higher tariffs are set to have an impact on Lithuania's economy. The United States (US) represented around 5% of Lithuania's total direct exports of goods in 2024. While this made the US Lithuania's fourth-largest export market after Latvia, Poland and Germany, it is small compared to intra-EU trade taken as a whole, which accounts for about 67% of the country's exports. Nevertheless, over half of Lithuania's exposure to the US is indirect, going through other EU Member States. Lithuania benefited from a relatively advantageous real effective exchange rate

position prior to recent crises, which mostly allowed it to cushion trade shocks ⁽¹⁾. Moreover, the resilience of Lithuanian exports seems to reveal a good degree of non-cost competitiveness. However, additional strain from tariff increases could add to cost-competitiveness concerns from long-standing growth in unit labour costs.

Increasing public sector spending needs will continue to weigh on public finances, with rising public deficit and debt looming in the medium term. Lithuania has among the lowest public debt stocks in the EU, but also some of the lowest levels of public expenditure and public revenue. However, public spending is expected to rise due to population ageing (see Annex 1), the planned increases in defence expenditure and the indexation of public pensions and other social benefits, while revenue growth is expected to be lower. This is partly because Lithuania has not yet implemented the broader tax reform outlined in its recovery and resilience plan (see below), only adopting some changes relating to increases in VAT and excise duties. As a result, the general government deficit increased from 0.7% in 2023 to 1.3% in 2024 and is projected to continue to rise to 2.3% in 2025 and 2026 (see Annex 1). Even though Lithuania's VAT gap (the gap between revenues actually collected and the theoretical tax liability) fell sharply in recent years to 14.6% in 2022, it is still more than double the EU average (see Annex 2). Without accounting for additional defence spending, the debt-to-GDP ratio is set to increase from 37.3% in 2023 to 43.9% in 2026 (see Annex 1) and, under current policies, will reach 58% by 2035, mostly due

⁽¹⁾ Saioa Armendariz, Carlos de Resende, Alice Fan, Gianluigi Ferrucci, Bingjie Hu, Sadhna Naik, and Can Ugur. 'Competitiveness and Productivity in the Baltics: Common Shocks, Different Implications', *IMF Working Papers* 2025, 018 (2025).

to rapidly increasing costs linked to population ageing.

Taking into account the flexibility for higher defence spending provided for by the National Escape Clause ⁽²⁾, net expenditure ⁽³⁾ in Lithuania is projected to stay within the established ceiling. In 2024, net expenditure in Lithuania grew by 10.7% (see Annex 1). This increase is mainly driven by increasing general government expenditure on public wages, social benefits (pensions included), and intermediate consumption. In 2024, Lithuania implemented several discretionary revenue measures (the most significant of them being the increase of excise duties adopted as part of the “Green tax package”) with a revenue increasing net annual impact of around 0.2% of GDP. This revenue increasing impact is deducted from net expenditure. In 2025, net expenditure is forecast by the Commission to grow by 9.0%, which is above the maximum growth rate as reported by Lithuania in its medium-term fiscal structural plan ⁽⁴⁾. This increase is driven by the projected rapid growth in

nationally-financed current primary expenditure, in particular on social benefits (pensions included) and operating expenditure. The projected deviation in 2025 is allowed under the conditions of the national escape clause based on current projections for defence spending.

Lithuania plans to implement a comprehensive tax reform to collect revenues to fund increasing defence spending needs. Lithuania’s tax revenue as a share of GDP is currently among the lowest in the EU, reaching only 32.1% of GDP in 2023 (vs the 39.0% EU average) (see Annex 2). This shortfall is primarily due to low revenues from labour, property and capital taxes, with Lithuania’s capital taxes ranking as the fifth lowest in the EU in 2023. The tax system is characterised by numerous special tax regimes and exemptions, resulting in taxation inequalities and opportunities for tax arbitrage. Defence spending was already increased following Russia’s full-scale invasion of Ukraine. Meanwhile, the Lithuanian government is discussing plans to increase defence spending further, from 2.5% of GDP in 2023 to 5.5% in 2026, and to keep it at around that level until 2030. To achieve this objective, Lithuania will need to increase its annual defence expenditure by around EUR 2.3 billion (in 2024 prices). To cover part of these spending needs, on 14 May 2025 the Lithuanian Government approved a tax package proposal and submitted it to the Parliament for deliberation. The package includes measures to: (i) partly unify the personal income tax rates across different sources of income and to increase its progressivity; (ii) raise the corporate income tax rate by one percentage point; (iii) broaden the recurrent property tax base; (iv) increase the reduced value added tax (VAT) rate from 9% to 12% for accommodation, passenger transport, and cultural events, but decreasing it to 5% for books; (v)

⁽²⁾ On 2 May 2025, Lithuania requested to the Commission and to the Council the activation of the National Escape Clause. On this basis, the Commission adopted a Recommendation for a Council Recommendation allowing Lithuania to deviate from, and exceed, the net expenditure path COM(2025)609.

⁽³⁾ Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

⁽⁴⁾ The medium-term plan has been positively assessment by the Commission (Commission recommendation for a Council recommendation endorsing the national medium-term fiscal-structural plan of Lithuania, COM/2025/616 final).

Box 1:

UN Sustainable Development Goals (SDGs)

Lithuania performs well in SDGs related to, preservation of life below water (SDG 14), quality of education (SDG 4) and sustainable cities and communities (SDG 11), but is moving away from the targets for SDG 2 on zero hunger and SDG 15 on life on land.

Lithuania is catching up in areas such as reduction of poverty (SDG 1) and productivity (SDG 9), but further action is required on environmental sustainability (e.g. SDG 6 clean water and sanitation).

remove the reduced VAT rate for central heating and firewood intended for heating by increasing it to the standard 21% rate; (vi) partly remove the personal income tax exemption on private health insurance; and (vii) introduce new taxes on non-life insurance premiums and sugary beverages.

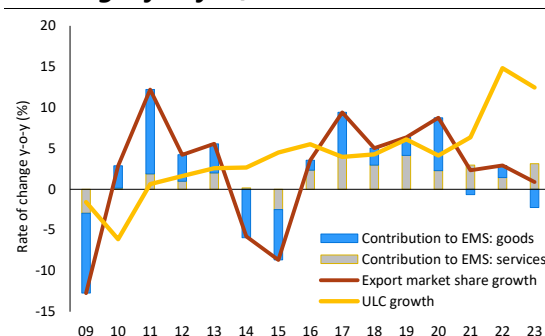
Slowing productivity growth could affect competitiveness over the medium term

Convergence stagnated recently, but the outlook is broadly positive. In 2025, Lithuania is forecast to be the seventh-fastest-growing economy in the EU in terms of real GDP growth at 2.8%. At the same time, Lithuania's rate of convergence to the EU average has slowed since 2020, with GDP per capita in purchasing power standards hovering around 87-88% of the EU average in 2020-2024. This stagnating convergence can partly be attributed to high inflation differentials, with Lithuania having seen HICP inflation 1.7, 9.7 and 2.3 percentage points higher than the EU aggregate in 2022, 2023 and 2024 respectively, undermining purchasing power.

However, competitiveness concerns are mounting. Labour productivity growth per person has stagnated, and productivity per hour worked even decreased between 2022 and 2024, more strongly than at EU level.

This is likely due to firms retaining workers even in times of slower activity. Unit labour costs in Lithuania have been among the fastest growing in the EU, particularly in 2022-2023, implying a risk for cost competitiveness. At the same time, while growth in export market shares has almost come to a halt recently, Lithuania has not yet seen any decrease in these overall shares, as a growing market share in services has compensated for a shrinking goods market share (Graph 1.1). Considering the importance of trade in the economy, strong wage increases over time combined with slower productivity growth may affect Lithuania's competitiveness over the medium term.

Graph 1.1: Trade performance and unit labour costs (ULC) (EMS = export market share, rate of change, y-o-y %)



Source: Eurostat

Lithuania will need to advance to a higher value-added economy in order to face changing geopolitical and demographic dynamics. Lithuania is projected to experience the sixth-largest population decline globally by 2050, an

almost 20% decline from its current 2.89 million. Moreover, the contribution of total factor productivity⁽⁵⁾ to potential growth has been declining since 2019. Lithuania's open economy, centred on industry, manufacturing, transport and trade, requires investments in technological renewal and advanced technologies, as well as a focus on innovative activities to transition towards higher value-added production. The regional divide is widening between Vilnius and the regions, indicating a need to attract investment to the regions. At the same time, constrained access to finance creates challenges both for industry and for innovative small and medium-sized enterprises and start-ups. Business investment in R&D remains low, while the disconnect between business and science further limits investment potential. Skills shortages in key sectors constrain investments by innovative companies, and an ageing workforce, teacher shortages and challenges in vocational education, tertiary education and adult learning hamper productivity improvements. It would also be beneficial if Lithuania tackled emissions in the transport sector, improved resource productivity and embarked on the transition to a circular economy. Lastly, high inequality and poverty and persistent challenges in the healthcare system remain obstacles to improving quality of life and people's participation in economic activity.

⁽⁵⁾ The overall productivity of the economy due to improvements from technological progress and skills of workers/managers.

Barriers to private and public investment

Lithuania's investment landscape is generally favourable, driven by a robust economic recovery, a supportive regulatory environment for businesses, and an expanding start-up ecosystem. Nevertheless, some barriers to investment persist.

- **Access to finance.** Some 51% of Lithuanian firms cite a lack of financial resources as an impediment to investment, according to the 2024 European Investment Bank (EIB) Investment Survey. Risk aversion, including due to geopolitical risks, and concentration within the banking sector are potential reasons for restricted bank lending conditions, with bank loans to GDP accounting for only 33.5%, compared to the EU average of 74.5%. In addition, while Lithuania's start-up ecosystem has experienced substantial growth in venture capital, scale-up financing remains limited, with Lithuania's capital markets remaining underdeveloped on the whole.
- **Labour and skills shortages.** The availability of skilled staff is a reported obstacle to investment, with 76% of firms citing the availability of skilled staff as a barrier to long-term investment, compared to the EU average of 59%, according to the 2024 EIB Investment Survey. Labour market challenges are systematically reported to be more pronounced in Lithuania than in other EU Member States, particularly in high-skill sectors and for smaller firms. In this context, the low appeal and insufficient labour market relevance of vocational training and limited adult learning contribute to labour and skills shortages and mismatches. Skills forecasting is also fragmented across multiple institutions, limiting the effective use of its results to develop skills in line with labour market needs.
- **Regional disparities.** Transport connections and infrastructure vary significantly across counties, with Vilnius having better accessibility than other regions both in terms of transport and gigabit connectivity. In Vilnius county, 81% of the population within a 120 km radius can be reached in under 90 minutes by car, compared to the national average of 68%, and just 47% in Šiauliai county. Poor connections limit the pool of suitable candidates to be hired by employers, which in turn hinders investment. In addition, while only 34% of businesses in Lithuania identify digital infrastructure as a barrier to long-term investment, compared to the EU average of 41%, and Lithuania excels at 5G connectivity, the slow roll-out of gigabit connectivity in rural areas could hamper long-term investment.
- **Limited innovative activity.** Unattractive R&D incentives, bureaucratic hurdles, weak business-science linkages and remaining inefficiencies in Lithuania's research and innovation support system discourage private R&D investment.

The implementation of Lithuania's RRP is delayed. At present, Lithuania has fulfilled 30% of the milestones and targets in its RRP. The above challenges as well as the fragmentation and limited cooperation among national, regional, local authorities and stakeholders also act as a bottleneck to the implementation of EU funds.

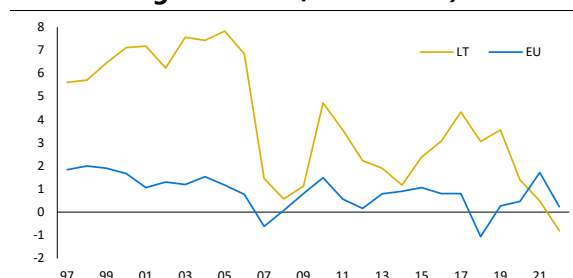
It remains important to accelerate the implementation of cohesion policy programmes. The mid-term review offers opportunities to speed up progress and better address EU strategic priorities related to competitiveness, defence, housing, water resilience and the energy transition.

While Lithuania has leveraged the Strategic Technologies for Europe Platform (STEP) to reallocate some Cohesion Policy resources towards this priority, it still has the opportunity to further support the development or manufacturing of critical technologies in the areas of digital and deep tech, clean and resource efficient technologies, and biotechnologies through other instruments, including the Recovery and Resilience Facility.

INNOVATION, BUSINESS ENVIRONMENT AND PRODUCTIVITY

Moving to higher value-added production to maintain competitiveness

Graph 2.1: **Productivity growth (labour productivity per person, three-year window annualised growth rate, 1996-2022)**



Source: Eurostat

As Lithuania nears the income levels of advanced EU economies, shifting to a higher value-added economy is key to staying competitive. Since the global financial crisis, Lithuania has experienced a general slowdown in productivity growth (see Graph 2.1). More recently, multiple crises caused a decline in productivity: by 2.3% in 2022 and by 1.1% in 2023. At the same time, the slowdown in productivity growth – although still above the EU average – may be a result of the progress made in catching up to the advanced economies. The 2022-2023 dip in productivity can also be partly attributed to labour hoarding during the recent economic downturn: amid a structurally tight labour market, companies may have preferred to keep people on. Nevertheless, as a result of negative productivity growth in 2022-2023 and a double-digit rise in wages (amid strong inflation), unit labour

costs increased by 15% in 2022 and by 12% in 2023, after more moderate increases of roughly between 3% and 6% per year in the preceding decade (Graph 2.1). Since the early 2000s, the proportion of medium-high- and high-technology manufacturing in industrial production has increased from around 11% in 1999 to 26% in 2024 (1.7% to 4.8% for high-technology alone), but medium-low- and low-technology manufacturing still represent 35% and 38% of production, respectively. 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.

Bridging the regional divide by attracting investment to the regions

Divergence in labour productivity growth amplifies regional disparities in GDP per capita, innovation and high-skilled employment. Labour productivity grew by around 20% in 2014-2024 in Vilnius, Kaunas and Tauragė (see Annex 17). In the meantime, Marijampolė and Telšiai counties saw much lower productivity growth of 7% over the period, further widening the productivity gap. These disparities are reflected in GDP per capita and in key growth drivers such as R&D, innovation and high-skilled employment. Namely, the high-tech sector accounts for

10% of total employment in Vilnius, while in the rest of Lithuania this share reaches only 2.7%. As a result, urban regions attract a highly skilled workforce developing high value-added products, while the rest of the country is populated mainly by micro-enterprises in low-performing economic areas, limiting productivity spillovers to the regions.

The regions could benefit from accelerating investment attraction to upgrade the regional economic base, facilitated by infrastructure, skilled labour, competitive incentives and strong public services. The regions could capitalise on their cost competitiveness and available industrial sites through advanced manufacturing, as pointed out in the Invest Lithuania competitiveness strategy ⁽⁶⁾. A successful example is in Kaunas region, where automotive electronics investments have spurred the development of local clusters, demonstrating how targeted industrial zones and specialised training programmes can attract foreign direct investment and generate quality employment. To replicate such best practice the following are needed. First, regional connectivity – in addition to Rail Baltica and upgrades to the Via Baltica highway – is critical to regional competitiveness. This is exemplified by the joint management of public transport services in Tauragė region, which has improved labour mobility and could serve as a model for other regions. Second, bringing workforce skills into line with industry demands is essential for advanced manufacturing and requires closer collaboration between education institutions and businesses to develop specialised skills. Third, clearly defined

incentives, including competitive tax incentives, streamlined administrative procedures and pre-developed industrial sites, are key for attracting strategic foreign and domestic investors.

To improve the efficiency and quality of municipal services, regional cooperation could be strengthened further. Lithuania is currently considering sharing the provision of municipal services to improve the efficiency, accessibility and quality of public services ⁽⁷⁾. In this context, the current legal and institutional framework could benefit from being reviewed, as inter-municipal cooperation faces obstacles due to conflicting regulations and loopholes. Regional cooperation could be taken even further, by clarifying regional strategies facilitated by the central government, with the aim of attracting investment and creating local clusters.

Improving access to finance and capital markets development

Restrictive lending conditions and limited external financing options are hindering economic growth. In Lithuania, the banking industry, predominantly under foreign control, has one of the highest levels of market concentration in the EU. This structure may affect competitive dynamics, potentially contributing to high lending rates and collateral requirements, particularly in the corporate lending segment. Despite a recent recovery in credit growth over 2024, the country still has a high proportion of finance-constrained firms (13.7%), with many firms relying heavily on self-financing. This is reflected in a low bank-loans-to-GDP ratio

⁽⁶⁾ Invest Lithuania 'Acceleration of the Lithuanian economy: strategic guidelines for rapid growth' (2024).

⁽⁷⁾ See 'Enabling inter-municipal shared services provision in Lithuania', OECD 2024.

(33.5%, compared to the EU average of 74.5%). Addressing these challenges by fostering competition among market players to facilitate lending conditions, while increasing transparency on products and pricing from smaller banks, could potentially reduce borrowing costs for bank customers and bolster the growth of the Lithuanian economy (see Annex 5).

Lithuanian capital markets continue to be relatively underdeveloped, characterised by limited activity and liquidity, largely attributable to restricted demand and supply for funding. Lithuania's capital market development lags significantly behind the EU average. By the end of the third quarter of 2024, equity market capitalisation in Lithuania was only 5.9% of GDP, compared to the EU average of 69.3%. In 2023, listed shares and bonds comprised just 6.5% of the funding sources for Lithuanian non-financial corporations. Local businesses prefer bank intermediation over stock and bond issuance. This reliance on traditional banking limits investment opportunities and reduces interest from institutional and retail investors. Further harmonising reporting requirements across Baltic capital markets could increase the attractiveness of non-bank finance.

Planned changes to the second-pillar pension scheme⁽⁸⁾ raise risks related to the further development of Lithuanian capital markets. In January 2025, the Ministry of Social Security and Labour presented proposals to reform the second-pillar pension scheme. This is partly a response to a constitutional court ruling stating that legislation should set out the special personal circumstances under which

contributors can withdraw their pension savings from the second pillar. However, aside from setting out these circumstances, the proposed reform also gives participants a 21-month window to withdraw their pension savings and includes proposals to abolish an automatic enrolment of the citizens to the second pillar schemes, creating a voluntary 'opt-in' enrolment model. At present, the Lithuanian second-pillar funds have accumulated around EUR 9.1 billion (11.6% of GDP) in savings, around EUR 1 billion of which is invested in the national market. An 'opt-in' model combined with a withdrawal option is likely to reduce the level of savings in Lithuania, further undermining capital market development and complicating access to finance.

The Lithuanian venture capital sector shows some potential, although it remains underdeveloped relative to EU standards. Lithuania's start-up ecosystem has grown in parallel to venture capital, with start-ups raising EUR 292 million in 2023. The sector has seen enterprise value grow to 7.1 times the value of 2018, outpacing regional and European averages. Despite this, private equity investments relative to GDP remain below the EU average. The small scale of projects and the overall shallow capital market make the Lithuanian equity market less attractive to international investors. Steps are being taken to set up a fund for initial public offerings (IPOs) of small and medium-sized enterprises in the Baltic states, supported by the national promotional institutions Altum in Latvia and ILTE (Investment in the Lithuanian Economy) in Lithuania.

The Bank of Lithuania's 2022 action guidelines for capital market development aim to increase the market's appeal to both domestic and foreign investors, promoting alternative financing avenues such as securities

⁽⁸⁾ The second pillar refers to a supplementary pension saving scheme which is run by private-sector investment funds.

issuance. Despite some progress, key measures have yet to mature, such as improving the legal framework to facilitate the issuance of a wider range of financial instruments and modern investment tools. The Capital Market Council, set up in January 2023, seeks to combine market and public sector efforts to advance capital market growth. The historically low saving rate of Lithuanian households also limits credit availability for enterprise investments, spurring reliance on either internal financing from the company's withheld profits or foreign savings. A significant portion of household savings is held in demand deposit accounts, with relatively few assets in investments, insurance and pension funds. Although the proportion of financial assets in these areas has increased from 13.5% in 2015 to 19.3% in 2023, it remains well below the EU average of 45.4%. (see Annex 5).

Unlocking R&D potential through improved incentives and stronger science-business links

Low levels of private R&D investment hamper innovative activity, indicating further potential for Lithuania's R&D ecosystem. R&D intensity in Lithuania, at around 1% of GDP, is well below the EU average (2.25%), with the difference explained by low business investment in R&D. After several years of stagnation, business investment in R&D as a percentage of GDP declined for the first time in 2023, to 0.44% of GDP, which is more than three times lower than the EU average (see Annex 3). Similarly, the number of patent applications is three times lower than the EU average (only 45 applications per million inhabitants compared to an EU average of 152), pointing to limited innovative activity.

One challenge is that, while Lithuania offers generous R&D incentives, small and medium-sized enterprises do not consider them to be attractive. The tax incentives offered by Lithuania include a 300% deduction for R&D costs, a reduced 6% tax rate on intellectual property income, and accelerated depreciation for R&D assets (see Annex 2). However, to date these incentives have had limited impact on overall business R&D activity. In particular, small and newly established firms are often not profitable enough to benefit from deductions or reduced rates for R&D expenditure. They also shy away from the administrative burden of demonstrating that their projects qualify as R&D projects under the tax rules. In addition, the reduced corporate income tax rate for small businesses (6%) is straightforward and widely used by eligible small and medium-sized enterprises, making the additional gain provided by R&D incentives not attractive enough. As a result, the take-up of tax incentives to engage in R&D is low, suggesting a need to review and streamline the framework to increase private R&D investment.

Lithuania's research and innovation support system has improved but inefficiencies remain. Although the consolidation of agencies under the Innovation Agency and ILTE, supported by the recovery and resilience plan, was successful, and R&D support in Lithuania has been somewhat streamlined, there is still a degree of fragmentation. Strengthening the capacities of the Research Council of Lithuania (RCL) and fine-tuning the institutional framework could further boost efficiency. There is also a lack of independent research and innovation policy monitoring, which may hinder evidence-based policymaking. The Ministry of Education, Science, and Sports is in the process of setting up its own policy monitoring and analysis unit, as the RCL is

not performing this function, and STRATA, the Government Strategic Analysis Center, has paused its analytics on research and innovation. (see Annex 3).

The disconnect between business and science limits R&D potential, due to a fragmented public science base and weak incentives for academia to engage with business. Lithuania's rate of public-private scientific co-publications has remained among the lowest in the EU for the past decade, an important indicator for science-business linkages (see Annex 3). Such collaborations could be particularly useful for small and medium-sized enterprises without sufficient resources to conduct in-house R&D. Lithuania has taken steps to increase collaboration between science and business by revising the Law on Science and Studies, to strengthen the R&D component in the evaluation criteria for higher education institutions. National joint science-business missions are planned under the recovery and resilience plan, and the Lithuanian government is planning to implement a financial scheme with mandatory participation of at least one college in the missions. However, the full potential of the missions is limited due to Lithuania's science base being spread across different universities and many small colleges, with the latter being less likely to engage in such R&D programmes. Under the recovery and resilience plan, the government is implementing measures to address this fragmentation by encouraging mergers of higher education institutions. This includes a legal framework for the voluntary reorganisation of universities. However, so far no university has announced any merger plans. Financial incentives could be ensured to optimise the university network in order to reach critical mass and achieve scientific excellence. With respect to colleges, consolidation plans are taking shape, but the ability of colleges to meet new performance criteria – including

those concerning R&D – will only be demonstrated in 2028 when these criteria come into effect (see Annex 12).

Tackling declining numbers of STEM specialists to address skills mismatches hampering innovation

Declining tertiary enrolments in science, technology, engineering and mathematics (STEM) are jeopardising innovative capacity. Although medium-level vocational education and training enrolments in STEM fields in Lithuania exceed the EU average, tertiary enrolments especially in engineering, manufacturing and construction have fallen significantly (see Section 4), exacerbating skills gaps in key sectors. Information and communication technology enrolments have in the meantime slowly increased (4.1% to 6.3% between 2017 and 2022), yet the supply of information and communication technology graduates falls short of labour market demand. The Lithuanian government has taken steps to address these challenges via the college reorganisation scheme and the science, technology, engineering, arts and mathematics (STEAM) education strategic plan (2023-2030) (see Annex 12). Overall, skills mismatches have so far not improved, with 76% of firms citing the lack of appropriately skilled staff as an impediment to long-term investment (see Section 4, as well as Annex 4), in turn causing a drag on innovative capacity. The failure to attract skilled workers from abroad and the limited retention of international students exacerbate this issue.

DECARBONISATION, ENERGY AFFORDABILITY AND SUSTAINABILITY

Transport emissions remain persistently high

The transport sector remains the largest emitter of greenhouse gases in Lithuania, accounting for 31.7% of the country's total emissions in 2022 (excluding the land use, land-use change, and forestry sector). While Lithuania's overall greenhouse gas emissions have remained relatively stable since the turn of the century, emissions from the transport sector have followed a general upward path, particularly in the last decade – increasing by 38% between 2013 and 2022⁽⁹⁾. This increase can be partly attributed to the significant growth in the road transport service sector in recent decades.

Nevertheless, Lithuania's old and polluting car fleet remains the key factor behind its high greenhouse gas emissions, and prevents it from complying with air pollution reduction obligations. In 2023, 77.1% of Lithuania's private cars were 10 years or older, and 25.9% were over 20 years old, making it one of the oldest fleets in the EU⁽¹⁰⁾. Although the proportion of zero- and low-emission vehicles in Lithuania has been increasing in recent years, their adoption

remains below the EU average. In 2023, only 8.2% of newly registered vehicles in Lithuania were battery-operated, compared to 14.5% in the EU (Annex 7). Additionally – at 76.4%⁽¹¹⁾ – Lithuania had the fifth-highest proportion of petrol-powered cars (including hybrids) among new registrations in the EU. Ensuring sufficient public charging infrastructure is essential for the roll-out of electric mobility. At the same time, Lithuania has some of the lowest transport taxes in the EU and is one of the few EU countries without an annual car pollution tax. The absence of such a tax reduces incentives for the shift towards more sustainable and low-emission transport alternatives.

Recent efforts to promote sustainable transport are showing preliminary results, but major challenges remain.

Despite the overall increase in greenhouse gas emissions in recent years, the period from 2019 to 2022 saw the first slight decline in greenhouse gas emissions in the transport sector, with a reduction of 4.3% (from fuel combustion measured in CO₂ equivalent). However, public transport remains poorly coordinated and unattractive for both providers and passengers, with the lowest uptake in the EU. In 2022, 92.9% of passenger journeys were made by car⁽¹²⁾. Municipalities are left to develop their own transport systems,

⁽⁹⁾ Eurostat data: `env_air_gge`, calculations by the European Commission.

⁽¹⁰⁾ Eurostat data: `road_eqs_carage`, calculations by the European Commission.

⁽¹¹⁾ Source: [Passenger cars in the EU - Statistics Explained](#).

⁽¹²⁾ Eurostat data: `tran_hv_psmo`, coaches, buses and trolley buses accounted for 7.1% of passenger journeys, and trains for 1.1% of passenger journeys.

leading to uneven development and a lack of intermunicipal and intermodal connectivity, trip planning, and other essential passenger services. The public perception is that unprofitable but necessary routes are being abandoned. The interurban mobility system is yet to be adequately reformed, as part of the recovery and resilience plan, which aims to review and optimise the existing long-distance network. In addition, while the Lithuanian Law on Alternative Fuels ⁽¹³⁾ requires municipalities to set up zero-emission zones by 1 January 2025, only Kaunas municipality has introduced an access payment scheme in its Old Town. Vilnius and Panevėžys have also set up low-emission zones, but they are yet to collect fees from passing polluting vehicles.

Rail transport presents untapped potential for decarbonising the transport sector. In 2022, only 1.1% of all passenger journeys in Lithuania were by rail, which is the second lowest percentage recorded in the EU ⁽¹⁴⁾. By contrast, rail accounted for the highest percentage of freight transport in Lithuania in the same year (37.2% vs 5.5% in the EU)⁽¹⁵⁾. As a result, to decarbonise its (freight) transport, Lithuania could strongly benefit from electrifying its railways – currently at 7.9% (EU: 56.9%) ⁽¹⁶⁾. Furthermore, the cross-border Rail Baltica project, which aims to strengthen

connectivity between the Baltic states and the rest of the EU, is crucial for shifting transport from road to rail to boost sustainable mobility. However, its progress has been slow and would benefit from accelerating measures to ensure swift implementation.

Reducing waste and boosting resource efficiency

Lithuania faces challenges transitioning towards a circular economy. In 2023, the circular material use rate was only 3.9%, three times lower than the EU average (11.8%) and among the five lowest in the EU ⁽¹⁷⁾. This rate worsened slightly compared to 2022 (at 4.1%) and has shown no clear improvement since 2018. Lithuania is highly dependent on imports of raw materials, but the sources of these materials are relatively diversified (see Annex 7). Promoting the use of secondary materials for value creation could help Lithuania's manufacturing industries achieve a higher gross operating surplus. Although Lithuania had been identified as one of the Member States at risk of missing the 2025 targets for reusing and recycling municipal and packaging waste in the June 2023 Waste Early Warning Report ⁽¹⁸⁾, it has since notified the Commission of its intention to delay meeting the 2025 target of 55% for preparing municipal waste for reuse and recycling until 2030. At the same time, its material footprint of 22.7 tonnes per person is considerably higher than the EU average of 14 tonnes per person (Annex 7), thus warranting a transition to a more resource-efficient circular model. It is

⁽¹³⁾ Source: [XIV-196 Law of the Republic of Lithuania on Alternative Fuels](#) - see Article 35(7), requiring municipal councils to set up low-emission zones and update them periodically for areas of more than 50 000 inhabitants.

⁽¹⁴⁾ Eurostat data: `tran_hv_psmod`.

⁽¹⁵⁾ Eurostat data: `tran_hv_ms_frmod`, although the proportion of transport from rail in Lithuania averaged 56.1% over 2013-2021, there was a sharp 15.6 percentage-point decrease in the last recorded year.

⁽¹⁶⁾ Source: [Leading EU regions in rail electrification - News articles - Eurostat](#).

⁽¹⁷⁾ Eurostat data: `cei_srmo30`.

⁽¹⁸⁾ COM(2023) 304 final, [Waste Early Warning Report - European Commission](#)

estimated that, in order to transition to a circular economy, which includes waste management, Lithuania needs total additional investments of at least EUR 122 million a year.

Resource productivity in Lithuania remains considerably below the EU average, impacting industries' resource efficiency and production costs. It may therefore even hamper its competitiveness. In 2023, Lithuania generated EUR 1.21 per kilogram of material consumed. While this is an improvement compared to 2020, it is less than half the EU average of EUR 2.74. Furthermore, Lithuania's industrial production emitted approximately one third more greenhouse gases than the EU average (360 g/EUR vs 270 g/EUR in CO₂ equivalent), despite notable improvements over the past decade. In addition, Lithuania's manufacturing capacity across all net-zero technologies remains modest, but the battery sector has significant development potential. Lithuania could benefit from further targeting its support for the manufacture of clean tech solutions.

Environmental degradation undermines climate resilience

Two thirds of Lithuania's protected habitats have an unfavourable conservation status, impacting Lithuania's climate resilience, as the loss of biodiversity impairs the ability of ecosystem services to help mitigate the effects of climate change, by regulating water cycles, maintaining soil health and sequestering carbon. Drained peatlands make up 6% of Lithuania's agricultural land but account for 53% of the country's agricultural emissions (including the land use, land-use change, and forestry sector), significantly higher than the EU average of 3% and 25%, respectively (see Annex 9). The Lithuanian recovery and

resilience plan was initially set to contribute to the restoration of 8 000 ha of degraded peatlands, but this target was later reduced to 6 000 ha. While this could have been a good starting point for the wider peatland restoration efforts required under the Nature Restoration Regulation, Lithuania is having difficulty implementing the investment. It is expected that the measures outlined under the Nature Restoration Regulation may nevertheless contribute to achieving the peatland restoration targets.

Lithuania is experiencing more frequent and longer-lasting extreme weather events. In 2023, over 32% of Lithuanian territory was affected by drought, marking a significant increase from the average of 5.1% over the period from 2000 to 2020 ⁽¹⁹⁾. As a result, it is estimated that the climate-related losses amounted to EUR 466 million in 2023 (see Annex 9). Agriculture is a key sector affected and faces a high likelihood of vulnerability and hazard. Lithuania has experienced a significant reduction in the proportion of surface water bodies with a good ecological status, mainly as a result of agricultural run-off and urban pollution. Only 36.4% of lakes, rivers and coastal waters in Lithuania achieve a good ecological status ⁽²⁰⁾(see Annex 9). Agricultural pollution is also the main cause of nutrient flows contributing to the Baltic Sea's eutrophication. 2022, 9.3% of Lithuania's utilised agricultural areas were being farmed organically (2022), which is broadly on a par with the EU

⁽¹⁹⁾ Source: [Drought impact on ecosystems in Europe](#). The EU average was 3.6% in 2023, and averaged 3.5% over the 2000-2020.

⁽²⁰⁾ Source: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=SWD%3A2025%3A28%3AFIN

average⁽²¹⁾. However, this proportion is expected to increase by half, reaching almost 13% by 2028 (Annex 9)⁽²²⁾.

Lithuania's declining biodiversity presents a growing challenge for key economic sectors that rely on healthy ecosystems. Some 41% of Lithuania's economy relies heavily on ecosystem services⁽²³⁾, with key sectors such as agriculture, forestry, fisheries, aquaculture, construction and water utilities particularly affected (see Annex 9). At the same time, the common farmland bird index has dropped significantly, from 61.7 in 2019 to 45.2 in 2022—below the EU average of 68.2 and the lowest among all reporting Member States⁽²⁴⁾ (see Annex 9). This decline suggests a notable reduction in the health of farmland ecosystems and points to the impact of agricultural practices on biodiversity. As biodiversity loss continues, it may impact the above-mentioned key sectors, making it important to find ways to support both environmental sustainability and economic stability.

⁽²¹⁾ Eurostat data: [org_cropar](#), it should be noted that no EU-27 average is provided due to missing values for Austria from 2021 onwards.

⁽²²⁾ Under the Green Deal's [farm to fork strategy](#), the European Commission has set the following target: 'at least 25% of the EU's agricultural land under organic farming and a significant increase in organic aquaculture by 2030'.

⁽²³⁾ Defined as the contributions of ecosystems to the benefits that are used in economic and other human activity, including providing services (e.g. biomass provision or water supply), regulation and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).

⁽²⁴⁾ Eurostat data: [env_bio2](#)

Renovating the housing stock helps reduce energy demand

Lithuania's building renovation efforts still face significant challenges to make a meaningful contribution to the country's 2030 energy consumption reduction target for buildings. Despite considerable efforts in recent years, including energy-efficiency renovations and fiscal support to curb household energy prices, Lithuania's energy poverty remains among the highest in the EU. Although the proportion of households unable to keep their homes adequately warm fell from 26.7% in 2019 to 20% in 2023 (Annex 11), this remains almost double the EU average of 9.3%⁽²⁵⁾. Furthermore, from a medium-term perspective, residential final energy consumption increased by 1% between 2018 and 2022. This trend contrasts with Lithuania's long-term renovation strategy, which aims to achieve a 15% reduction in building energy consumption by 2030 (see Annex 8). Preliminary data from 2023 indicate that, despite a decline in final energy consumption in the residential sector between 2022 and 2023, the overall trend has not been reversed, and consumption is expected to continue rising. This increase is primarily driven by demand for heating and cooling, which accounts for 80% of total energy consumption (see Annex 8). Therefore, improving the energy efficiency of Lithuania's housing stock would play a crucial role in reducing both energy demand and energy prices. To that effect, among other (EU-) funds, the recovery and resilience facility is subsidising the cost of the renovations, the technical assistance, and some of the interest repayment to alleviate some of the financial burden borne by the homeowners and

⁽²⁵⁾ Eurostat data: [ilc_mdso1](#).

make energy efficiency renovations more attractive.

Ensuring grid stability amid Lithuania's renewable energy surge

The large increase of renewables in Lithuania, while welcome, raises potential risks to grid capacity and stability. In 2024, Lithuania developed an additional 1 724 MW of generating capacity (+59.6%), mainly driven by solar (+93%) and wind (+42%) energy. This helped Lithuania produce 80% of its electricity from renewable sources that year (Annex 8). As a result of this increase, the country's electricity grid must keep pace to enable new connections. While Lithuania has made progress in streamlining permitting procedures, the construction timelines for new grid capacity remain significantly longer than those for new generation or demand.

Despite recent efforts, Lithuania records sizeable fossil fuel subsidies without a planned phase-out before 2030, representing 0.47% of GDP. Scaling down and phasing out these subsidies is in line with EU commitments and can contribute to easing limits of fiscal space. Lithuania has amended its law on excise duty, which has led to an increase of standard excise duty rates for gas oils and selected heating fuels, the introduction of excise duty on peat for heating and the inclusion of a CO₂ component in the excise rates for energy products. However, further efforts could be made. Fossil fuel subsidies that neither address energy poverty in a targeted way nor respond to genuine energy security concerns, or that hinder electrification and are not crucial for industrial competitiveness could be considered as priorities for phase-out. These include: (i) a reduced excise tax on natural gas used for

heating in businesses and households; (ii) a reduced excise tax on gasoil for fishing and agriculture; and (iii) a reduced VAT rate for heating residential spaces (see Annex 8). Nevertheless, it is noted that, in Lithuania's industrial sector, the combination of national energy and carbon taxes and EU emissions trading leads to disincentives for fossil fuel use.

SKILLS, QUALITY JOBS AND SOCIAL FAIRNESS

Addressing labour market challenges and skills mismatches to foster sustainable and inclusive growth in Lithuania

While the labour market is performing well overall, structural skills mismatches and shortages may hamper long-term growth. The employment rate increased to 79.2% in 2024 after a dip to 78.5% in 2023. At the same time, the labour market was slow to absorb all new entrants to the labour force (more than 50 000 overall in 2023 and 2024), and in 2024 the unemployment rate deteriorated, although possibly only temporarily (see Section 1). Vulnerable groups such as young people and the low-skilled were particularly affected by the rise in unemployment. More structurally, the co-existence of labour shortages in certain sectors, such as health, public administration, transport and finance, with some persistent unemployment suggests a lack of matching efficiency in the Lithuanian labour market between firms and the skills they seek on the one hand and workers and the available skills on the other hand (see Section 1). At the same time, in 2023 less than 5% of people registered with the unemployment service took part in State measures to help them find work (active labour market policy measures) ⁽²⁶⁾. This was reportedly due to

limited interest among the unemployed to participate in such measures, and a lack of sufficient incentives (Annex 10).

Regional disparities, a rapidly ageing population and gaps in healthcare pose challenges to Lithuania's labour market and competitiveness. Unemployment remains more prevalent in rural areas due to limited job opportunities, while poor access to public services in these areas limits the attractiveness of the regions. Although wages have risen significantly in recent years, labour productivity decreased in both 2022 and 2023 (Annex 10). With wages forecast to continue growing, Lithuania risks losing its competitiveness if rising labour costs are not matched by a corresponding growth in productivity. At the same time, Lithuania's working-age population (15-64) is projected to decline by 42.4% by 2070, compared to 15.4% for the EU. This is exacerbated by the low effectiveness of the health system in decreasing preventable and treatable mortality among the working-age population. The number of potential productive life years lost in Lithuania due to non-communicable diseases such as cancer and cardio-vascular diseases is almost twice the EU average (Annex 14). Moreover, access to healthcare varies across regions, with accessibility to healthcare centres ranging from 36% of residents living within a 10-minute drive of the nearest healthcare centre in Vilnius to just 19% doing so in

⁽²⁶⁾ Based on the Joint Assessment Framework indicator on activation of the registered unemployed, which measures the proportion of people registered as unemployed with the Employment

Service and participating in a labour market policy activation measure (categories 2-7). See Annex 10.

Telšiai county (see Annex 17). These factors could further increase labour and skills shortages and underscore the need to make the education, health and public transport systems more effective, get the non-working population into work, and facilitate employment, particularly for vulnerable groups.

Improving the education system at all levels and increasing its labour market relevance

The results of Lithuanian students are improving or remaining stable, but extremely large differences in achievement are observed between students from high and low social, economic, and cultural contexts, as well as between students from different schools. Around 25% of students lack minimum basic skills in mathematics, reading and science, according to the 2022 PISA survey. The underachievement rate in mathematics is significantly higher among disadvantaged students (46.5% vs 11%). Students attending urban schools achieve on average 71 score-points more in mathematics than their peers in rural areas (EU gap: 46 score-points), highlighting a significant urban-rural achievement gap. The performance gap is exacerbated by the fact that a high number of schools in rural areas often face teaching staff shortages and overall have weaker outcomes and higher costs per student. As part of the recovery and resilience plan, the millennium school investment programme and school network consolidation reform aim to provide children with better access to high-quality schools regardless of where they live. However, recent changes to the rules on forming classes in smaller town gymnasiums risk slowing down the

progress made in consolidating school networks.

Lithuania's teaching profession is grappling with an ageing workforce and persistent shortages, exacerbated by an inadequate wage structure. As of 2022, Lithuania's proportion of general education teachers aged 55 and over was the highest in the EU, comprising 39.8% of the workforce (see Annex 12). Lithuania is making efforts, partially supported by the Recovery and Resilience Facility, to strengthen the attractiveness of the teaching profession and the system of teacher training and professional growth, to ensure the entry of new teachers into the education system, by implementing projects aimed at providing teachers with the opportunity to acquire another subject/specialization or didactic and managerial competencies. While salary increments aim to boost teacher retention, low entry wages and a lack of recognition for previous professional experience continue to dissuade young people and career switchers from joining the profession.

The persistently low labour market relevance of vocational education and training and tertiary education is being addressed but the results will take time to materialise. While Lithuania has implemented or is implementing several reforms supported by the Recovery and Resilience Facility to increase the labour market relevance of vocational education and training and tertiary education, their impact is yet to be seen. In the meantime, the labour market relevance of vocational education and training remains below the EU average (Annex 12). The employment rate of recent tertiary graduates is relatively high, but only 47% of college graduates are employed in positions matching their level of education, highlighting challenges with educational quality and labour market

relevance. Tertiary enrolments in science, technology, engineering and mathematics declined to 25.0% of all tertiary enrolments in 2023, down from 27.3% in 2017, despite labour market demand. However, enrolments in these subjects accounted for 50.3% of medium-level vocational training and education enrolments in 2022, surpassing the EU average of 36.2% (see Annex 12). Along with the fragmented skills forecasting framework, this contributes to skills mismatches in the labour market – the macroeconomic skills mismatch slightly increased in 2023 (20.9%), remaining above the EU average ⁽²⁷⁾. The rising rate of young people not in employment, education or training also indicates the underperformance of vocational training and education and tertiary education. This rate has grown from 10.7% in 2022 to 14.7% in 2024, contrasting with the overall decrease in the EU from 11.7% to 11% during the same period.

Participation in adult learning is set to pick up pace, but it would be beneficial if the capacity and effectiveness of the new individual learning accounts were improved. An individual learning account is a personalised platform that enables adults to acquire new skills and manage their own learning. Participation in adult learning has improved slightly compared to 2016 and has been picking up pace since the launch of the individual learning accounts in 2023. It is the first major step towards addressing the issues of a fragmented adult learning framework and low participation rates. However, concerns remain about this new system's capacity to meet the demand for reskilling and upskilling, its targeting, its credit conditions

⁽²⁷⁾ The macroeconomic skills mismatch indicator measures the dispersion of employment rates across skill groups (represented by qualification levels, with ISCED 0-2 low; 3-4 medium and 5-7 high). Source: Commission's own calculations.

and the quality and labour market relevance of its training programmes (see Annex 12). Given its rising popularity, this platform could be a good instrument to boost reskilling and upskilling. Fostering stronger collaboration with social partners could amplify the platform's impact on better addressing skills shortages and mismatches.

Improving quality of and access to healthcare to increase healthy life expectancy

Lithuania's health outcomes are among the EU's poorest, marked by high rates of treatable and preventable mortality (183 and 309 per 100 000 population, respectively), highlighting deficiencies in healthcare efficacy. Life expectancy at birth is 77.6 years, below the EU average of 81.4 years, and the working-age mortality rate is 22.2%, significantly higher than the EU average of 14.3%.

Lithuania's healthcare system is confronted with challenges that severely impact the accessibility and quality of medical services. Central to these issues is the nation's health spending, which is about 40% below the EU average, with a low share of public spending on healthcare (5.3% of GDP in 2023, compared to the EU average of 7.6%). This low spending limits the system's capacity to provide comprehensive services, placing a disproportionate financial burden on individuals. Individuals cover 31.8% of healthcare costs through out-of-pocket payments – more than twice the EU average – compounding socio-economic disparities in health outcomes. The share of total spending on health directed at prevention is also lower than the EU average, which in turn limits the range of

preventive and primary care services that can be provided, further exacerbating health disparities (see Annex 14).

A critical shortage of health workers further hampers service delivery, particularly in rural areas. While urban centres benefit from a high concentration of doctors, rural communities often lack sufficient medical staff, resulting in medical deserts that delay healthcare delivery. The situation is made worse by an ageing nursing workforce: 37.9% of nurses are aged 55-64, one of the highest rates in the EU, and only 10.6% are aged 25-34. This reveals a demographic imbalance that threatens workforce sustainability.

The combination of financial constraints, health workforce shortages and high out-of-pocket costs forms a significant barrier to improving health service delivery, which impedes economic growth and competitiveness. By securing improved financing, implementing strategic workforce planning, and shifting towards preventive and primary care, Lithuania can create a more resilient healthcare system, boosting its attractiveness to investors and foreign talent.

Reducing poverty and income inequality to promote sustainable growth and inclusion

Income inequality and poverty remain high, and are not significantly reduced by the current tax-benefit system. Gross incomes in Lithuania are among the most unequally distributed in the EU, whereas the effectiveness of the current tax-benefit system to reduce income inequality and poverty lags behind the EU average (see Annex 13 and Annex 11). This leads to income inequality after tax and benefits in Lithuania remaining among the highest in

the EU in 2023 (see Annex 11). In addition, more than a fifth of Lithuania's population remained below the at-risk-of-poverty threshold in 2023. Higher unemployment rates outside the cities (see Annex 10) translate into higher poverty levels in rural areas (see Annex 11). These issues are expected to be addressed by the reforms envisaged under the recovery and resilience plan to increase minimum income adequacy, make personal income taxation and social insurance contributions more effective, and reduce income inequality and poverty. However, this will depend on the final shape of these reforms, which are currently being prepared.

Despite improvements in pension adequacy, older people (65+) continue to face significant poverty risks, with women being particularly affected. Lithuania has implemented several measures in recent years to address the high poverty level of the older population. Despite that, the at-risk-of-poverty rate for older people (65+) rose to 36.9%⁽²⁸⁾ in 2024 (after initially decreasing from 39.5% in 2022 to 36.1% in 2023) and remains among the highest in the EU (EU: 16.8%). The gender gap in old-age poverty in 2024 was also substantial, with women's at-risk-of-poverty rate nearly double that for men (41.9% vs 27.5%)⁽²⁹⁾. Low pension adequacy remains an issue: the average old-age pension remained below the poverty threshold in 2023, while the aggregate replacement ratio for pensions and the median relative income of older people were among the lowest in the EU (Annex 11). A rapidly ageing population signals the need to find sustainable ways to further address pension adequacy in the longer term.

⁽²⁸⁾ Eurostat provisional data for 2024

⁽²⁹⁾ Eurostat provisional data for 2024

A substantial proportion of the unemployed and persons with disabilities face poverty risks, driven by gaps in coverage and the low adequacy of social benefits. The at-risk-of-poverty rate for the unemployed (18-64) increased from 51.4% in 2022 to 59.5%⁽³⁰⁾ in 2024 (EU: 48.8%). Lowest unemployment insurance benefits as well as average cash social benefits remain below the poverty threshold, while only around half of the self-employed is covered by unemployment insurance scheme. People with disabilities in Lithuania face the highest at-risk-of-poverty rate in the EU in 2024 (38.2% vs 20.7%), which reflects their low employment rates. Lithuania has one of the highest disability employment gaps in the EU, which is further exacerbated by the low adequacy of disability benefits.

Housing quality continues to be a concern, while a sharp rise in prices poses a risk to housing affordability. The housing stock is largely composed of energy-inefficient, multi-family dwellings with ongoing quality issues. In 2023, overcrowding rates remained notably higher than the EU average (26% vs 16.8%), and the proportion of the population with neither a bath nor shower in their dwelling was several times the EU average (Annex 11). Although housing cost overburden rates in Lithuania remain better than the EU average, in part due to the high share of property ownership, there has been a significant surge in house prices and rental prices, which have more than doubled since 2010. Along with the limited rental market and an underdeveloped social housing sector, this could hinder housing affordability in the longer term, especially in the biggest cities.

⁽³⁰⁾ Eurostat provisional data for 2024

Providing adequate and sustainable funding for public services and social benefits

Government spending on public services and social protection in Lithuania remains among the lowest in the EU, limiting timely and equal access to healthcare, social protection, and high-quality public-administration services. In 2023, Lithuania's general government expenditure on healthcare was the sixth lowest in the EU, amounting to 5.3% of GDP compared to the EU average of 7.4%. Spending on social protection is also systematically below the EU average, at 14.0% of GDP in 2023, almost six percentage points lower than the EU average of 19.8%. In addition, the efficiency of social protection spending, particularly on sickness and disability policies, appears to be limited. In 2023, Lithuania allocated 3.7% of its GDP to sickness and disability payments and measures, the fourth highest level in the EU. However, despite similar disability prevalence rates (27.4% of Lithuania's total population in 2023 vs 26.8% in the EU), Lithuania had the second highest at-risk-of-poverty rate for people with disabilities in the EU in 2023 and the highest rate in 2024⁽³¹⁾. Another critically underfunded area is general public services, which received the third lowest level of funding in the EU in 2023 (3.4% of GDP, compared to the EU average of 5.9%).

Spending pressures on pensions, health and long-term care are expected to increase due to projected population decline, which will lead to Lithuania having one of the highest old-age dependency ratios in the EU. Demographic challenges already have a

⁽³¹⁾ Eurostat provisional data for 2024

visible negative impact on the quality of social and healthcare services in remote regions. According to the 2024 Ageing Report, age-related public expenditure in Lithuania is projected to increase by 4.6 percentage points by 2070 under current policies, further straining public finances. In the coming years Lithuania will need to implement fiscal policies to keep its net expenditure path on a sustainable trajectory, while addressing the demographic challenges and improving the adequacy of benefits and the quality of care.

These findings are consistent with the second-stage analysis in line with the social convergence framework. This analysis points to challenges related to (i) the increasing rates of unemployment and persons not in education, employment or training; (ii) high income inequality; (iii) the number of people at risk of poverty or social exclusion; and (iv) the low rate of participation in adult learning. It does not, however, point to overall social convergence challenges for Lithuania, nor in the light of the measures implemented or envisaged.⁽³²⁾

⁽³²⁾ European Commission, [SWD\(2025\)95](#). The analysis relies on all the available quantitative and qualitative evidence and the policy response undertaken and planned.

KEY FINDINGS

To foster competitiveness, sustainability and social fairness, Lithuania would benefit from:

- **accelerating the implementation of the recovery and resilience plan**, including the REPowerEU chapter; swiftly implementing **cohesion policy**, taking advantage of the opportunities under the mid-term review and making optimal use of EU instruments, including **InvestEU** and **STEP**, to improve competitiveness;
- **easing stringent bank collateral requirements** while fostering market competition, to improve access to finance for small and medium-sized enterprises; and **further developing its capital markets** and maintaining automatic enrolment to the second-pillar pension scheme;
- **reviewing and streamlining existing R&D tax incentives** and optimising the university network, to foster business-science linkages, private investment in R&D, and innovative activities; and **incentivising tertiary enrolments in science, technology, engineering and mathematics**, thus addressing skills gaps and supporting innovative capacity;
- **strengthening the societal and economic resilience of regions, in particular considering the impact of geopolitical risks across Lithuania**, including by improving the current legal and institutional framework to foster cooperation among municipalities in the provision of public services, and by developing local clusters;
- **improving public transport coordination** and sustainable mobility infrastructure, and modernising the car fleet to reduce emissions from the sector;
- **improving the energy efficiency of homes**, to reduce primary energy consumption and energy poverty; **continuing ongoing efforts to phase out fossil fuel subsidies**, including for heating; and **supporting anticipatory grid development**;
- **increasing the use of circular materials**, including by improving recycling systems; and **strengthening biodiversity protection and water resilience** in agricultural production;
- **improving health outcomes** by strengthening access to primary care and increasing the availability of health workers across regions;
- **to support upward social convergence, providing adequate financing** for healthcare, social protection and general public services;
- **improving the quality and equity of the general education system**, particularly by addressing the urban-rural achievement gap; and **making the teaching profession more attractive** to address persistent shortages;
- **addressing skills shortages and mismatches** by boosting participation in active labour market policy measures and by making adult learning more accessible and relevant;

- **better targeting social security spending to support the most vulnerable**, in particular the groups most at risk of poverty, such as the unemployed, older people, and persons with disabilities; and **increasing the adequacy of old-age pensions**, while maintaining the sustainability of the pension system.

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This Annex contains a series of tables relevant for the assessment of the fiscal situation in Lithuania, including how Lithuania is responding to Council recommendations to be issued under the reformed Economic Governance Framework.

The reformed framework, which entered into force on 30 April 2024⁽³³⁾, aims to strengthen debt sustainability and promote sustainable and inclusive growth through growth-enhancing reforms and priority investments. The medium-term fiscal-structural plans (hereinafter, MTPs or plans) constitute the cornerstone of the framework, setting the budgetary commitment of Member States over the medium term. This commitment is defined in terms of net expenditure growth, which is the single operational indicator for fiscal surveillance.

Lithuania submitted its plan on 30 April 2025. The plan covers the period until 2029, presenting a fiscal adjustment over four years. The Commission has assessed the MTP of Lithuania and on 4 June 2025 recommended to the Council to adopt a recommendation setting the net expenditure growth ceilings contained in the plan⁽³⁴⁾.

The assessment of the fiscal situation of Lithuania considers the Commission Recommendation for a Council Recommendation endorsing Lithuania's plan and is carried out on the basis of outturn data from Eurostat and the Commission Spring 2025 Forecast, and taking into account the Annual Progress Report (APR) that Lithuania submitted on 30 April 2025. Furthermore, given Lithuania's request to activate the National Escape Clause⁽³⁵⁾ following the Commission Communication of 19 March 2025⁽³⁶⁾, the assessment also considers, as appropriate, the projected increase in defence expenditure based on the Commission Spring 2025 Forecast.

The Annex is organised as follows. First, developments in **government deficit and debt** are presented based on the figures reported in Table A1.1. Then, the assessment of the **fiscal situation** of Lithuania follows, considering the Commission Recommendation for a Council Recommendation endorsing the plan, based on the relevant figures presented in Tables A1.2 to A1.9, including data on defence expenditure.

The Annex also provides information on the **cost of ageing** and the **national fiscal framework**. Fiscal sustainability risks are discussed in the Debt Sustainability Monitor 2024.⁽³⁷⁾

⁽³³⁾ Regulation (EU) 2024/1263 of the European Parliament and of the Council (EU) on the effective coordination of economic policies and on multilateral budgetary surveillance, along with the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU on the budgetary frameworks of Member States are the core elements of the reformed EU economic governance framework.

⁽³⁴⁾ COM(2025) 616 of 4.6.2025, final.

⁽³⁵⁾ On 2 May 2025, Lithuania requested to the Commission and to the Council the activation of the National Escape Clause. On this basis, the Commission adopted a Recommendation for a Council Recommendation allowing Lithuania to deviate from, and exceed, the net expenditure path set by the Council, COM(2025)609.

⁽³⁶⁾ Communication from the Commission accommodating increased defence expenditure within the Stability and Growth Pact of 19 March 2025, C(2025) 2000 final.

⁽³⁷⁾ European Commission (2025) 'Debt Sustainability Monitor 2024,' *European Economy-Institutional Papers* 306.

Developments in government deficit and debt

Lithuania's government deficit amounted to 1.3% of GDP in 2024. Based on the Commission Spring 2025 Forecast, it is projected to increase to 2.3% of GDP in 2025 while the Annual Progress Report projects an increase to 2.8% of GDP. The government debt-to-GDP ratio amounted to 38.2% at the end of 2024, and, according to the Commission, is projected to increase to 41.2% at end-2025. According to the Annual Progress Report, it will increase to 42.4%. The difference between the general government balance projected by the Commission and Lithuania is due to lower projected general government expenditure on intermediate consumption and investment in the Commission Spring 2025 Forecast. The Annual Progress Report does not include budgetary projections beyond 2025.

Table A1.1: **General government balance and debt**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1	General government balance	%GDP	-1.3	-2.8	-2.3	na.	-2.3
2	General government gross debt	%GDP	38.2	42.4	41.2	na.	43.9

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Developments in net expenditure

The net expenditure⁽³⁸⁾ growth of Lithuania in 2025 is forecast by the Commission⁽³⁹⁾ to be above the recommended maximum, corresponding to a deviation of 1.0% of GDP. In Lithuania's APR net expenditure growth is projected at 9.9% in 2025, compared to the Commission's forecast of 9.0%. The difference between the Commission's and Lithuania's projections are mainly driven by different assumptions regarding the general government expenditure plans on investment and intermediate consumption. Based on the long-term historical patterns, the Commission does not project full implementation of these expenditure plans, which slightly reduces overall net expenditure growth.

⁽³⁸⁾ Net expenditure is defined in Article 2(2) of Regulation (EU) 2024/1263 as government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-off and other temporary measures.

⁽³⁹⁾ Commission Spring 2025 Forecast, *European Economy-Institutional paper 318*, May 2025.

Table A1.2: **Net expenditure growth**

	Annual			Cumulative*		
	MTP	APR	COM	MTP	APR	COM
	Growth rates					
2024	n.a.	10.5%	10.7%	n.a.	n.a.	n.a.
2025	6.1%	9.9%	9.0%	6.1%	21.5%	9.0%
2026	5.2%	n.a.	5.8%	11.6%	n.a.	15.3%

* The cumulative growth rates in the APR are calculated by reference to the base year of 2023. The COM figures are calculated by reference to 2024.

Source: Medium-term fiscal structural plan of Lithuania (MTP), Annual Progress Report (APR) and Commission's calculation based on Commission Spring 2025 Forecast (COM)

The assessment of net expenditure growth and in particular its comparison with the recommended net expenditure path considers that Lithuania has requested the activation of the national escape clause to facilitate transitioning to a higher level of defence expenditure. General government defence expenditure in Lithuania amounted to 1.8% of GDP in 2021, 2.1% of GDP in 2022 and 2.5% of GDP in 2023⁽⁴⁰⁾. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 2.8% of GDP in 2024 and 3.2% of GDP in 2025. Based on current projections for defence spending, the deviation that is projected for Lithuania is within the flexibility provided by the national escape clause.

Table A1.3: **Net expenditure (outturn and forecast), annual and cumulated deviations vis-à-vis the medium-term plan**

	Variables		2023	2024	2025	2026
			Outturn	Outturn	COM	COM
1	Total expenditure	bn NAC	27.6	31.0	34.7	36.9
2	Interest expenditure	bn NAC	0.4	0.6	0.8	1.0
3	Cyclical unemployment expenditure	bn NAC	0.0	0.0	0.0	0.0
4	Expenditure funded by transfers from the EU	bn NAC	0.8	1.0	1.8	1.7
5	National co-financing of EU programmes	bn NAC	0.1	0.1	0.2	0.2
6	One-off expenditure (levels, excl. EU funded)	bn NAC	0.0	0.0	0.0	0.0
7=1-2-3-4-5-6	Net nationally financed primary expenditure (before discretionary revenue measures, DRM)	bn NAC	26.3	29.2	31.9	33.9
8	Change in net nationally financed primary expenditure (before DRM)	bn NAC		2.9	2.7	2.0
9	DRM (excl. one-off revenue, incremental impact)	bn NAC		0.1	0.1	0.2
10=8-9	Change in net nationally financed primary expenditure (after DRM)	bn NAC		2.8	2.6	1.8
11	Outturn / forecast net expenditure growth	% change		10.69%	9.0%	5.8%
12	Net expenditure growth as reported in the medium-term plan*	% change		n.a.	6.1%	5.2%
13=(11-12) x 7	Annual deviation	bn NAC		n.a.	0.9	0.2
14 (cumulated from 13)	Cumulated deviation	bn NAC		n.a.	0.9	1.0
15=13/17	Annual balance	% GDP		n.a.	1.0	0.2
16=14/17	Cumulated balance	% GDP		n.a.	1.0	1.2
17	p.m. Nominal GDP	bn NAC	73.8	78.4	83.5	88.1

* The medium-term plan was positively assessed by the Commission and is now pending the endorsement by the Council.

Source: Commission Spring 2025 Forecast and Commission's calculation

⁽⁴⁰⁾ Eurostat, government expenditure by classification of functions of government (COFOG).

Table A1.4: **Defence expenditure and the national escape clause**

			2021	2022	2023	2024	2025	2026
1	Total defence expenditure	% GDP	1.8	2.1	2.5	2.8	3.2	3.6
2	of which: gross fixed capital formation	% GDP	0.4	0.7	0.9	1.2	1.5	1.8
3	Flexibility from increases in defence expenditure	% GDP					1.4	1.5
4	Cumulated balance after flexibility	% GDP					-0.3	-0.3

Source: Eurostat (COFOG), Commission Spring 2025 Forecast and Commission's calculation

Table A1.5: **Macroeconomic developments and forecasts**

	Variables		2024	2025		2026	
			Outturn	APR	COM	APR	COM
1=7+8+9	Real GDP	% change	2.8	2.8	2.8	na.	3.1
2	Private consumption	% change	3.5	3.6	4.2	na.	4.0
3	Government consumption expenditure	% change	1.4	0.1	0.3	na.	0.2
4	Gross fixed capital formation	% change	-1.3	5.2	3.5	na.	4.0
5	Exports of goods and services	% change	2.1	3.5	3.0	na.	3.3
6	Imports of goods and services	% change	2.4	4.3	3.9	na.	3.7
	Contributions to real GDP growth						
7	- Final domestic demand	pps	1.9	3.2	3.2	na.	3.2
8	- Change in inventories	pps	1.0	0.0	0.0	na.	0.0
9	- Net exports	pps	-0.2	-0.4	-0.4	na.	-0.1
10	Output gap	% pot GDP	-1.7	-1.8	-1.8	na.	-0.9
11	Employment	% change	1.7	0.3	0.4	na.	0.3
12	Unemployment rate	%	7.1	7.0	6.8	na.	6.6
13	Labour productivity	% change	1.0	2.5	2.4	na.	2.8
14	HICP	% change	0.9	3.3	2.6	na.	1.2
15	GDP deflator	% change	3.4	3.4	3.6	na.	2.4
16	Compensation of employees per head	% change	9.1	8.4	7.6	na.	7.2
17	Net lending/borrowing vis-à-vis the rest of the world	% GDP	4.2	na.	3.7	na.	3.7

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.6: **General government budgetary position**

	Variables (% GDP)	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1=2+3+4+5	Revenue	38.2	39.6	39.3	na.	39.5
	<i>of which:</i>					
2	- Taxes on production and imports	11.6	11.9	11.9	na.	12.0
3	- Current taxes on income, wealth, etc.	10.7	11.0	10.9	na.	11.1
4	- Social contributions	11.1	11.5	11.3	na.	11.6
5	- Other (residual)	4.8	5.2	5.2	na.	4.8
8=9+16	Expenditure	39.5	42.4	41.6	na.	41.9
	<i>of which:</i>					
9	- Primary expenditure	38.7	41.4	40.6	na.	40.7
	<i>of which:</i>					
10	- Compensation of employees	11.6	11.8	11.7	na.	11.7
11	- Intermediate consumption	4.4	5.1	4.7	na.	4.7
12	- Social payments	15.4	16.4	16.3	na.	16.7
13	- Subsidies	0.3	0.3	0.3	na.	0.3
14	- Gross fixed capital formation	4.2	5.2	4.9	na.	4.6
15	- Other	2.8	2.6	2.6	na.	2.7
16	- Interest expenditure	0.8	1.0	1.0	na.	1.2
18=1-8	General government balance	-1.3	-2.8	-2.3	na.	-2.3
19=1-9	Primary balance	-0.5	-1.8	-1.3	na.	-1.2
20	Cyclically adjusted balance	-0.6	na.	-1.6	na.	-2.0
21	One-offs	0.0	0.0	0.0	na.	0.0
22=20-21	Structural balance	-0.6	-2.1	-1.6	na.	-2.0
23=22+16	Structural primary balance	0.2	-1.1	-0.6	na.	-0.8

Source: Commission Spring 2025 Forecast (COM), Annual Progress Report (APR)

Table A1.7: **Debt developments**

	Variables	2024	2025		2026	
		Outturn	APR	COM	APR	COM
1	Gross debt ratio* (% of GDP)	38.2	42.4	41.2	na.	43.9
2=3+4+8	Change in the ratio (pps. of GDP)	0.9	4.0	3.0	na.	2.7
	Contributions**					
3	Primary balance	0.5	1.8	1.3	na.	1.2
4=5+6+7	'Snow-ball' effect	-1.4	-1.3	-1.3	na.	-1.0
	<i>of which:</i>					
5	- Interest expenditure	0.8	1.0	1.0	na.	1.2
6	- Real growth effect	-1.0	-1.0	-1.0	na.	-1.2
7	- Inflation effect	-1.2	-1.3	-1.3	na.	-0.9
8	'Stock-flow' adjustment	1.8	3.5	3.0	na.	2.5

* End of period.

** The 'snow-ball' effect captures the impact of interest expenditure on accumulated general government debt, as well as the impact of real GDP growth and inflation on the general government debt-to-GDP ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting (including leads and lags in Recovery and Resilience Facility grant disbursements), accumulation of financial assets, and valuation and other residual effects.

Source: Commission Spring 2025 Forecast and Commission's calculation (COM), Annual Progress Report (APR)

Table A1.8: **RRF – Grants**

Revenue from RRF grants (% of GDP)		2020	2021	2022	2023	2024	2025	2026
1	RRF grants as included in the revenue projections	na.	0.0	0.1	0.3	0.5	1.1	0.6
2	Cash disbursements of RRF grants from EU	na.	0.5	0.0	0.8	0.2	0.9	0.6
Expenditure financed by RRF grants (% of GDP)		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	na.	0.0	0.0	0.1	0.1	0.2	0.2
4	Gross fixed capital formation	na.	0.0	0.1	0.2	0.4	0.9	0.5
5	Capital transfers	na.	0.0	0.0	0.0	0.0	0.0	0.0
6=4+5	Total capital expenditure	na.	0.0	0.1	0.2	0.4	0.9	0.5
Other costs financed by RRF grants (% of GDP)		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	na.	na.	na.	na.	na.	na.	na.
8	Other costs with impact on revenue	na.	na.	na.	na.	na.	na.	na.
9	Financial transactions	na.	na.	na.	na.	na.	na.	na.

Source: Annual Progress Report

Table A1.9: **RRF - Loans**

Cash flow from RRF loans projected in the Plan (% of GDP)		2020	2021	2022	2023	2024	2025	2026
1	Disbursements of RRF loans from EU	na.	na.	na.	0.1	0.8	0.0	0.9
2	Repayments of RRF loans to EU	na.	na.	na.	0.0	0.0	0.0	0.0
Expenditure financed by RRF loans (% of GDP)		2020	2021	2022	2023	2024	2025	2026
3	Total current expenditure	na.	na.	na.	0.0	0.0	0.3	0.4
4	Gross fixed capital formation	na.	na.	na.	0.0	0.0	0.3	0.3
5	Capital transfers	na.	na.	na.	0.0	0.0	0.0	0.0
6=4+5	Total capital expenditure	na.	na.	na.	0.0	0.0	0.3	0.3
Other costs financed by RRF loans (% of GDP)		2020	2021	2022	2023	2024	2025	2026
7	Reduction in tax revenue	na.	na.	na.	na.	na.	na.	na.
8	Other costs with impact on revenue	na.	na.	na.	na.	na.	na.	na.
9	Financial transactions	na.	na.	na.	na.	na.	na.	na.

Source: Annual Progress Report

Cost of ageing





















Total age-related spending in Lithuania is projected to rise from about 16% of GDP in 2024 to 18% in 2040 and 29% in 2070 (see Table A1.10). This increase results from the projected rise in pension spending and, to a more limited extent, healthcare and long-term care spending.

The rise in public pension spending is concentrated in the medium term, with a projected increase of 2.3 pps of GDP by 2040. The increase by 2040 is the second largest of all Member States over this period. Still, at 9.3% and 9.7% of GDP in 2040 and 2070, respectively, pension spending would remain notably below the EU average of 12.1% and 11.8%.

Public healthcare ⁽⁴¹⁾ expenditure is projected at 4.3% of GDP in 2024 (below the EU average of 6.6%) and is expected to increase by 0.4 pps by 2040 and by a further 0.4 pp by 2070.

Public expenditure on long-term care ⁽⁴²⁾ is projected at 1% of GDP in 2024 (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.

Table A1.10: Projected change in age-related expenditure in 2024-2040 and 2024-2070

	age-related expenditure 2024 (% GDP)	change in 2024-2040 (pps GDP) due to:					age-related expenditure 2040 (%GDP)	
		pensions	healthcare	long-term care	education	total		
LT	15.4						18.0	LT
EU	24.3						25.2	EU
	age-related expenditure 2024 (% GDP)	change in 2024-2070 (pps GDP) due to:					age-related expenditure 2070 (%GDP)	
		pensions	healthcare	long-term care	education	total		
LT	15.4						19.4	LT
EU	24.3						25.6	EU

Source: 2024 Ageing Report (EC/EPC).

National fiscal framework

The Independent Fiscal Institution of Lithuania, the Budget Monitoring Department of the National Audit Office of Lithuania (NAOL-BMD), has a relatively wide mandate and reports a need for more resources. It uses its own internal forecast model to assess the government forecasts before endorsement decisions. It considers its current staff level sufficient but has reported a need for more budgetary resources to maintain capacity. Despite having a legal right to access to information and despite having MoUs, the NAOL-BMD has experienced some access to information issues with the government. The embedded nature of the Lithuanian IFI allows the institution to rely on supporting functions of the mother organisation but may make it more difficult to build "brand recognition".

A high-level vision guides public investment plans in Lithuania, while good practices for the appraisal and selection of investments are in place. "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 detailed by source of financing (i.e., national, EU, other) and main users ⁽⁴³⁾. The Ministry of Finance plays a key role in coordinating the preparation and implementation of the National Progress Plan, which ensures fiscal realism and affordability of the plan, as well as in managing development programmes. All public investment projects, including public-private partnerships, exceeding EUR 1 million are prepared and appraised following the methodological standards established by the Ministry of Finance and maintained by the Central Project Management Agency (CPMA). Life-cycle costs are available for all projects. Standard methodology for estimating routine maintenance needs and costs is available and used in the estimation of life-cycle costs, though not yet in the decision-making process. Finally, while

⁽⁴¹⁾ Key performance characteristics, recent reforms and investments are discussed in Annex 11 'Health and health systems'.

⁽⁴²⁾ The quality and the accessibility of the long-term care system are covered in Annex 9 'Social policies'.

⁽⁴³⁾ 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.

central asset registers could (1) inform decision-makers on the condition of the existing asset and its maintenance needs and (2) support the decision on developing new assets, they are not in place in Lithuania.

Table A1.11: **Fiscal Governance Database Indicators**

2023	Lithuania	EU Average
Country Fiscal Rule Strength Index (C-FRSI)	21.80	14.52
Medium-Term Budgetary Framework Index (MTBFI)	0.73	0.73

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.

Source: [Fiscal Governance Database](#)

This annex provides an indicator-based overview of Lithuania's tax system. It includes information on: (i) the tax mix; (ii) competitiveness and fairness aspects of the tax system; and (iii) tax collection and compliance.

Lithuania's tax revenues are relatively low. Table A2.1 shows that Lithuania's tax revenues as a percentage of GDP remained considerably below the EU aggregate in 2023, despite increasing by 0.4 pps year on year following a dip in 2022. Just over half of Lithuania's tax revenues come from labour taxes. This proportion is in line with the EU average (see Graph A2.1), but as it is the same share of a lower total tax take, it still leaves Lithuania's labour-tax revenue as a percentage of GDP significantly lower than the EU aggregate. Taxes on capital as a share of GDP are only around 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.

Lithuania has scope to mobilise additional sources of revenue to address fiscal

pressures. Lithuania's tax system offers tax-arbitrage opportunities, for example between the highly differentiated treatment of income from employment, self-employment, and some forms of incorporated business. The income of the self-employed and of micro firms is taxed particularly lightly. Revenues from recurrent property taxes, which are among the taxes least detrimental to growth, are currently very low. Lithuania's environmental tax revenues are also modest, and the effective carbon-tax rate was EUR 61.80 per tonne of CO₂ equivalent in 2023, well below the EU average. At the same time, public spending is set to continue rising as a share of GDP. This is being driven by population ageing and the new government's commitment to significantly increase defence spending.

Lithuania's commitments in its recovery and resilience plan (RRP) include: (i) broadening the tax base with sources less detrimental to economic growth; and (ii) abolishing inefficient or environmentally unfriendly tax exemptions and special tax regimes. The measures already adopted include a gradual

Table A2.1: Taxation indicators

		Lithuania					EU-27				
		2010	2021	2022	2023	2024	2010	2021	2022	2023	2024
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	28.8	32.0	31.7	32.1		37.8	40.2	39.7	39.0	
By tax base	Taxes on labour (% of GDP)	14.3	16.0	15.9	16.4		19.8	20.5	20.1	20.0	
	of which, social security contributions (SSC, % of GDP)	11.8	10.1	9.8	10.2		12.9	13.0	12.7	12.7	
	Taxes on consumption (% of GDP)	11.5	11.8	11.4	10.8		10.9	11.2	10.9	10.5	
	of which, value added taxes (VAT, % of GDP)	7.9	8.3	8.4	8.0		6.8	7.3	7.4	7.1	
	Taxes on capital (% of GDP)	3.0	4.3	4.4	4.9		7.1	8.5	8.7	8.5	
Some tax types	Personal income taxes (PIT, % of GDP)	3.6	7.4	7.6	7.7		8.6	9.6	9.4	9.3	
	Corporate income taxes (CIT, % of GDP)	1.0	2.0	2.3	2.7		2.2	2.9	3.2	3.2	
	Total property taxes (% of GDP)	0.8	0.4	0.4	0.4		1.9	2.2	2.1	1.9	
	Recurrent taxes on immovable property (% of GDP)	0.4	0.3	0.3	0.3		1.1	1.1	1.0	0.9	
	Environmental taxes (% of GDP)	1.9	2.0	1.6	1.6		2.5	2.4	2.1	2.0	
	Effective carbon rate in EUR per tonne of CO ₂ equivalents	NA	72.7	NA	61.8		NA	86.0	NA	84.8	
Progressivity & fairness	Tax wedge at 50% of average wage (single person) (*)	36.9	31.0	29.7	29.4	28.3	33.9	31.8	31.5	31.5	31.8
	Tax wedge at 100% of average wage (single person) (*)	40.6	37.6	38.4	39.0	39.3	40.9	39.9	39.9	40.2	40.3
	Corporate income tax - effective average tax rates (1) (*)	12.4	12.4	12.4	12.4		21.3	19.3	19.1	18.9	
	Difference in Gini coefficient before and after taxes and cash social transfers (pensions excluded from social transfers) (2) (*)	6.2	7.4	7.7	7.7		8.6	8.2	7.9	7.7	
Tax administration & compliance	Outstanding tax arrears: total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)		8.2	4.5				35.5	32.6		
	VAT gap (% of VAT total tax liability, VTTL) (**)		15.7	14.6	17.8			6.6	7.0		

(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 2023. For more details on the VAT gap, see European Commission, Directorate-General for Taxation and Customs Union, VAT gap in the EU - 2024 report, <https://data.europa.eu/doi/10.2778/2476549>

For more data on tax revenues as well as the methodology applied, see the Data on Taxation webpage, https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/data-taxation_en.

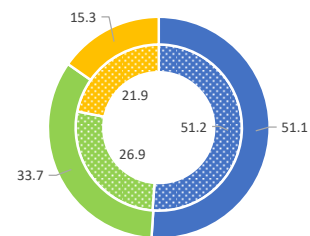
Source: European Commission, OECD

increase in excise duties and the introduction of a CO₂ tax component that will gradually increase budget revenues, with the yield set to reach the equivalent of 0.6% of GDP by 2028. The new coalition government has developed tax reforms to fund spending pressures that are relevant to Lithuania's outstanding RRP milestones. The Lithuanian Ministry of Finance has put forward a comprehensive tax package that would have a fiscal impact of EUR 542 million once fully coming into force. The package includes measures to unify the personal income tax rates across different sources of income, to raise the corporate income tax (CIT) rate by a further 1 pp, to broaden the recurrent property tax base, to increase the reduced value-added tax rate from 9% to 12% and cease applying a reduced rate to central heating and firewood, and to introduce new taxes on non-life insurance premiums and sugary beverages.

Lithuania's business-taxation system is viewed as attractive for investment by various international rankings. According to the IMD World Competitiveness Ranking for 2023, Lithuania ranks 32nd, a slight drop (i.e. a slight decline in competitiveness) from 29th in the previous year. However, Lithuania ranks second in the Tax Complexity Index (TCI) (i.e. Lithuania has a relatively simple tax system for businesses), which comprehensively measures the complexity of countries' CIT systems faced by multinational corporations. Tax-compliance costs for SMEs in Lithuania are less than the EU average. As discussed in the 'Making Business Easier' annex, these low compliance costs are part of Lithuania's generally quite business-friendly regulatory environment. Estimated overall tax-compliance costs are below the EU average, as are CIT compliance costs, although VAT compliance costs are slightly above the EU average.

Graph A2.1: **Tax revenue shares in 2023**

Tax revenue shares in 2023, Lithuania (outer ring) and EU (inner ring)



■ Taxes on labour ■ Taxes on consumption ■ Taxes on capital

Source: Taxation Trends Data, DG TAXUD

Lithuania raises relatively little CIT revenue, although this is slowly increasing. In 2023, Lithuania's CIT revenues were equivalent to 2.7% of GDP. While this remains below the EU average, it was an increase of 0.4 pps compared with 2022, and well above an exceptionally low CIT yield of 1.0% of GDP in 2010. Lithuania's top statutory CIT rate increased from 15% to 16% at the start of 2025, but this is still the joint-fifth lowest in the EU (the EU-27 average top statutory CIT rate is around 21%). The country's forward-looking effective CIT rate (EATR) was 12.4% in 2023, the

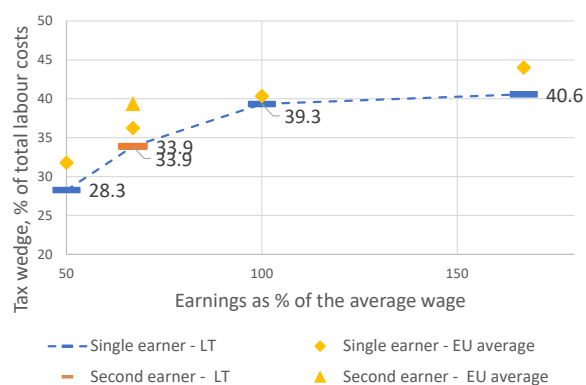
fifth lowest in the EU (the EU-27 average was around 19%). While the top statutory CIT rate has decreased from 29% in 1995, Lithuania's EATR was the same in 2023 as in 2002. A special favourable regime with a 6% tax rate exists for some of the smallest companies with fewer than 10 employees, which can act as a distortive disincentive to the growth of firms (see Annex 2). Lithuania also has special economic zones, where it offers firms a tax holiday for the first 10 years in which they conduct business and a 50% tax exemption in the following six years. Lithuania's relatively low CIT yield is now driven more by the statutory CIT rate than by tax expenditures. 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 a range of innovation-related tax schemes in place, but the take-up and impact of these schemes is patchy. Lithuania was among the bottom third of EU Member States in 2023 for total R&D expenditure, business R&D expenditure and public support for R&D (all expressed as a percentage of GDP) (see the 'Innovation to Business' annex for more detail). This is despite Lithuania's strengths in knowledge-intensive sectors such as life sciences, photovoltaics, and information and communication technologies. The country has a range of tax provisions to support research and innovation, including an R&D cost allowance, an 'IP box' and accelerated depreciation, but these provisions may not be especially effective. Take-up of the various R&D tax incentives is low, especially among small, innovative start-ups that are helping to drive the catch-up of Lithuania's economy with its more developed peers. In Lithuania, general tax rules are beneficial for venture-capital and other investment entities. The income, including dividends and other taxable profits, of collective investment vehicles, venture-capital vehicles and private-equity vehicles is exempt from CIT (unless the income is received from entities registered in tax havens, or is derived from investments in tax havens).

Lithuania has reduced the labour tax wedge⁽⁴⁴⁾ in recent years, especially at lower earnings levels. Graph A2.2 shows that the labour-tax wedge for Lithuania in 2023 was lower than the EU average for all earnings levels. In particular, the tax wedge for single workers earning 50% of the average wage decreased from 36.9% in 2010 to 28.3% in 2024, below the EU average of 31.8% (see also Table xx). 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). In recent years, the ability of the Lithuanian tax-and-benefit system to reduce the high level of market-income inequality (as measured by the system's ability to reduce the Gini coefficient) has been increasing and was at the EU average in 2023 (see Table A13.1). All dividend income 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%. Average effective tax rates for labour are somewhat higher than those for capital.

⁽⁴⁴⁾ The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer).

Graph A2.2: **Tax wedge for single and second earners, % of total labour costs, 2024**



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

Source: European Commission

Lithuania is making progress in increasing tax compliance and the effectiveness of its tax administration.

Through its RRP, Lithuania has taken a range of actions to strengthen its tax administration. These actions include: (i) digitalisation projects; (ii) improving IT tools such as taxpayer risk-profile assessment; (iii) the automatic collection of data on transactions; and (iv) training to improve the skills of tax and customs specialists. Lithuania is well advanced in the automated pre-filling of tax returns for personal-income-tax and CIT returns by using a national electronic declaration system. A number of steps have been taken to reduce the size of the shadow economy and make tax administration more efficient. These steps include measures to: (i) introduce electronic receipts; (ii) limit cash transactions; (iii) regulate the sale of used vehicles; and (iv) track alcohol sales. Tax arrears continued to decline in 2022, falling by 3.7 pps to the equivalent of 4.5% of total net revenue. This is significantly below the EU-27 average of 32.6%, although that EU average is distorted by very large values in a few Member States. Lithuania's VAT gap (the gap between revenues actually collected and the theoretical tax liability) fell sharply in recent years to 14.6% in 2022, though that is still more than double the EU average. VAT compliance appears to have improved most in the sectors of the country's economy where it was previously weakest. The

preliminary forecast for the 2023 VAT gap suggests a deterioration to 17.8%, but this is based on partial information and should be interpreted with caution. Lithuania has a relatively low number of mutual-agreement-procedure cases, indicating that the Lithuanian tax system does not have major issues in this respect.

Lithuania is a moderate innovator with fast innovation growth, but R&D investment has stagnated, and the public research system is fragmented. Over the last decade, Lithuania has seen its position in the European Innovation Scoreboard improve, establishing itself as a moderate innovator. While its performance has increased by more than the EU average since 2017 (+16.3% vs +10%)⁽⁴⁵⁾, it is still below the average of the moderate innovator group. Lithuania's R&D intensity remained unchanged from 2022 to 2023 (at 1.05% of GDP), falling short of its own target of 1.5% of GDP for 2024. Together with its underfinancing, the fragmentation of the public science base locks the country in lower scientific performance stratum and low levels of science-business linkages. While the start-up ecosystem is rapidly expanding, Lithuania shows only limited dynamism when it comes to the digitalisation of SMEs and the adoption of advanced technologies by enterprises in general.

Science and innovative ecosystems

Lithuania's public research base is underfunded and fragmented, hampering its performance. In 2023 public expenditure on R&D, at 0.61% of GDP, increased slightly from its historical low of 0.52% in 2022. For 15 years, R&D expenditure fluctuated around similar values proportional to the absorption of cohesion funds. Allocations for strengthening research and innovation, digitisation, SME competitiveness and skills for smart specialisation amount to EUR 884 million in total for 2021-2027. These investments, however, are not maintained with stable national funding. This issue could be addressed by 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. Allocating a substantial part of the additional resources to the public science base would help tackle the issue of underfunding. Furthermore, inadequate funding combined with structural inefficiencies leads to a low quality of scientific production, as measured by the share of scientific publications within the top 10% most cited publications worldwide as a percentage of total publications. Even if Lithuania's score on this indicator has increased nearly threefold over the last decade, it is still well below the EU average (6.4% vs 9.6%).

The network of universities and colleges lacks critical mass to reach excellence.

Lithuania saw a first, largely successful wave of voluntary university consolidation from 2010 to 2021. Further consolidation of the university network is needed to improve its performance, i.e. raise the quality of scientific production and increase its contributions to the economy. Given Lithuania's geography and small size, it has been recommended to continue scaling down the number of universities and colleges, with smaller ones potentially being regrouped under a joint leadership or becoming subsidiaries of larger institutions⁽⁴⁶⁾. In 2023, in line with its recovery and resilience plan (RRP), Lithuania set up a legal framework for merging higher-education institutions calling for voluntary reorganisation and mergers amongst universities, however, without allocated funding for this process. To date no universities have announced any intention to merge. Another RRP scheme which provides funding for the reorganisation of colleges is being implemented and its impact remains to be seen (see Annex on education and skills).

⁽⁴⁵⁾ [European Innovation Scoreboard \(EIS\), country profile Lithuania.](#)

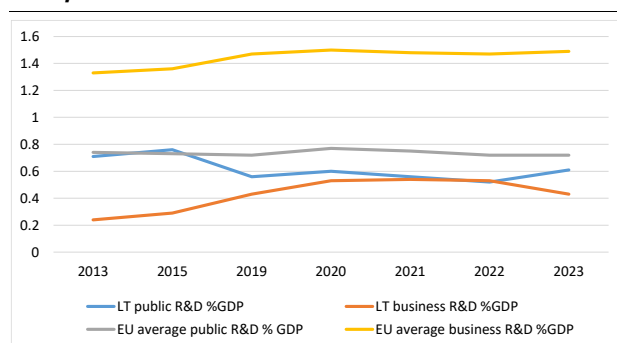
⁽⁴⁶⁾ [OECD Economic Surveys: Lithuania, 2020, p. 94.](#)

Business innovation

Business innovation strengthened over the past decade but seems to have stalled in recent years and remains very low.

Business expenditure on R&D as a percentage of GDP more than doubled between 2013 and 2020, but then stagnated. In 2023 it even decreased, falling to 0.43%, more than three times lower than the EU average. In terms of increasing innovation output, Lithuania improved the most among EU Member States over the last decade (from one of the lowest levels in 2012) as measured by the innovation output indicator⁽⁴⁷⁾, but still scores well below the EU average on this composite indicator. Lithuania performs particularly poorly in terms of patent applications⁽⁴⁸⁾. The new government has set itself a goal of increasing business R&D investment to 1% of GDP by 2030.

Graph A3.1: **R&D investment as a percentage of GDP, 2013-2023**



Source: Eurostat

Business-science linkages are weak overall, hampered by fragmentation of the public science base. Over the past decade the rate of public-private scientific co-publications, as a percentage of the total number of publications, has remained largely stable, at one of the

lowest levels in the EU⁽⁴⁹⁾. Most collaboration projects happen in the established sectors of life sciences, photovoltaics and ICT. The national missions aiming to foster breakthrough innovation have been launched under the RRP, and three consortia are implementing ambitious plans to develop frontier science and technologies and to create start-ups and unique products. However, these missions fail to exploit a large part of the Lithuanian scientific potential as, due to the fragmented science base, many universities are not part of the selected consortia. Consolidation of universities could pave the way for better exploiting the country's scientific potential for science-business cooperation and breakthrough innovation. Cohesion funds support public-private cooperation to strengthen the innovation ecosystem, but Lithuania does not have a dedicated national cluster policy⁽⁵⁰⁾.

Lithuania's research and innovation support system has improved significantly but still suffers from shortcomings.

Several agencies and institutions under the Innovation Agency (IA) and the national promotion bank ILTE have been successfully consolidated. However, parts of the support system, including the Research Council of Lithuania (RCL) and the Central Project Management Agency (CPMA), is still fragmented and has inefficiencies. In particular, RCL applicants report experiencing long delays for some programmes and not receiving services of the same quality as those provided by the IA. This is because the RCL lacks administrative and expert capacity and shares responsibilities with the CPMA throughout the funding cycle, from call design to project selection and funding. If the IA and the RCL are to become fully functional and efficient one-stop shops, delivering high-quality support to both businesses and researchers, it would be

⁽⁴⁷⁾ JRC, [Tracking country innovation performance: The Innovation Output Indicator 2023 \(IOI\)](#), p. 7.

⁽⁴⁸⁾ Eurostat, Patent applications filed under PCT per billion GDP (in PPS €) 0.6 in 2021 vs 3.4 EU average, places 22nd in EU-27.

⁽⁴⁹⁾ Eurostat, value 5.8 in 2023, places 25th in the EU. EU average is 7.7.

⁽⁵⁰⁾ European Cluster Collaboration Platform, [ECCPfactsheet Lithuania 2023 Final.pdf](#), p. 19.

beneficial to strengthen administrative and expert capacity in the RCL in the short term, and to further adjust the institutional set-up post-2027 to allow the reform process to be completed. Furthermore, there is a shortage of independent monitoring and analysis of research and innovation policy, which impedes evidence-based policymaking. The Ministry of Education, Science and Sports (MoESS) is in the process of establishing its own unit for policy monitoring and analysis, as the RCL is not performing this function, and the Strata agency has paused its analytics on research and innovation.

Lithuania promotes the development of defence innovations and dual-use technologies. Swift and efficient interinstitutional cooperation between the Ministries and the Lithuanian Armed Forces has created a favourable environment for defence innovation companies. Besides having access to NATO instruments such as the defence innovation accelerator DIANA and the NATO Innovation Fund, Lithuania has set up a multitude of national initiatives, including the 'Miltech Lab' and 'Miltech Sand Box' for problem-solving and testing of services; defence innovation vouchers to promote the development of advanced technologies; creative workshops to refine challenges and identify unmet needs; and the 'Miltech Academy' to boost the defence innovation capacity of the military, law enforcement, businesses and scientists. The MILInvest fund continues to implement acceleration programmes for military and dual-use technology start-ups. Lithuania also supports the development of strategic defence and security technologies through 2021-2027 cohesion funding, under the new priority 'strategic technologies for Europe platform (STEP)'.

Despite showing some potential, Lithuania still lags behind on the digitalisation of SMEs and the take-up of advanced technologies by enterprises in general. Only 66.3% of Lithuanian SMEs have at least a basic

level of digital intensity, well below the EU average of 72.9%. Although the proportion of Lithuanian companies having adopted AI has almost doubled, from 4.9% in 2023 to 8.8% in 2024, this is still well below the European average of 13.5%. The adoption of data analytics and advanced cloud services are also far from the Digital Decade EU-level target of 75% adoption by 2030. National measures and investment under the RRP aim to promote the adoption and development of digital technologies, involving three European Digital Innovation Hubs (one of which, the EDIH VILNIUS, specialises in high-performance computing). Moreover, a EUR 15 million initiative was launched in 2023 to fund start-ups and spin-offs in the Vilnius region, focusing on artificial intelligence, blockchain technology, and robotics process automation.

Financing innovation

The start-up ecosystem continues to expand, but many SMEs struggle to access finance, hampering their ability to innovate and grow. Lithuania has created a favourable environment for start-ups. In 2023 it recorded the fastest growth in the Baltic region, catching up with regional leader Estonia. The combined business value of Lithuanian start-ups grew sevenfold between 2018 and 2023, reaching double the average of the wider Baltic region and Central and Eastern Europe (CEE)⁽⁵¹⁾. An adjusted R&D tax incentive scheme, talent development and improved access to finance could ensure further growth. Lithuanian SMEs report difficulties in accessing finance twice more often than the EU average, hampering their ability to innovate and scale up. This problem is particularly acute for young innovative SMEs with a high growth

⁽⁵¹⁾ [The Lithuanian startup ecosystem 2023 review | Dealroom.co.](#)

potential⁽⁵²⁾. (See the annex on access to finance).

The availability of local private equity and venture capital is improving as capital funding sources diversify, reducing reliance on government funding. In the period from 2018 to 2023 government funding still accounted for 28% of capital raised, but by 2023 the rate had decreased to 20%. In the same year, Baltic private equity and venture capital funds invested a total of EUR 111 million in Lithuanian companies, by means of 104 transactions.

Innovative talent

Lithuania experiences a shortage of talent and has taken broad initiatives to address this issue. Lithuania is still among the leading countries in the EU as regards the share of population aged 25-34 with tertiary education, but the rate of new graduates in science and engineering keeps diminishing. At the same time, however, the number of graduates increased in the field of computing. Talent shortage is identified as a key impediment across the board, from start-ups to large companies. Lithuania addresses this by carrying out broad talent development programmes, from digital and AI entrepreneurship programmes in schools to scholarships and business development labs for university students and young adults. Recently, the MoESS started implementing an ambitious reform on researchers' careers, which is already showing positive quantitative metrics: the salary of researchers has increased to 150% of the national median, reaching a government goal set in 2021, the career path has been adapted in line with the EU framework for research careers, and efforts are underway to create a favourable environment for PhD

students, aimed at increasing their numbers by 10%.

Entrepreneurship education has improved significantly, and notable efforts have been made to continue its development. Since 2008, entrepreneurship education has been integrated more extensively into the educational framework with the introduction of the "Economics and Entrepreneurship" class and with successful revisions of the curricula. Entrepreneurship education score has improved from 3.33 in 2011 to 4.7 in 2023⁽⁵³⁾. Additionally, in the 2024–2028 Public Financial Education Action Plan, further focus is put on improving entrepreneurship education, which includes developing a common university course on financial literacy and entrepreneurship and developing methodological tools for teachers.

⁽⁵²⁾ OECD, [Economic Policy Reforms 2023: Going for Growth](#), p. 150.

⁽⁵³⁾ World Bank (2025). [GEM National Expert Survey: Basic school entrepreneurial education and training](#).

Table A3.1: Key innovation indicators

Lithuania	2012	2017	2020	2021	2022	2023	2024	EU average (1)	USA
Headline indicator									
R&D intensity (gross domestic expenditure on R&D as % of GDP)	0.9	0.9	1.12	1.1	1.05	1.05	:	2.24	3.45
Science and innovative ecosystems									
Public expenditure on R&D as % of GDP	0.66	0.57	0.6	0.56	0.52	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	2.4	4.7	5.7	6.4	:	:	:	9.6	12.3
Researchers (FTEs) employed by public sector (Gov+HEI) per thousand active population	4.7	4.4	5.1	5.4	5.3	4.9	:	4.2	:
International co-publications as % of total number of publications	34.9	45.9	49.6	51.2	48.7	51.4	:	55.9	39.3
R&D investment & researchers employed in businesses									
Business enterprise expenditure on R&D (BERD) as % of GDP	0.24	0.33	0.53	0.54	0.53	0.43	:	1.49	2.7
Business enterprise expenditure on R&D (BERD) performed by SMEs as % of GDP	0.15	0.27	0.47	0.46	0.41	:	:	0.4	0.3
Researchers employed by business per thousand active population	0.9	1.8	2.1	2.4	2.7	2.2	:	5.7	:
Innovation outputs									
Patent applications filed under the Patent Cooperation Treaty per billion GDP (in PPS €)	0.8	0.5	0.5	0.6	0.4	:	:	2.8	:
Employment share of high-growth enterprises measured in employment (%)	19.6	19.54	16.11	:	:	:	:	12.51	:
Digitalisation of businesses									
SMEs with at least a basic level of digital intensity	:	:	:	:	63.7	:	66.27	72.91	:
% SMEs (EU Digital Decade target by 2030: 90%)	:	:	:	:	:	40.53	:	33.17	:
Data analytics adoption	:	:	:	:	:	40.53	:	33.17	:
% enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	27.69	:	33.6	:	38.86	:
Cloud adoption	:	:	:	27.69	:	33.6	:	38.86	:
% enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	27.69	:	33.6	:	38.86	:
Artificial intelligence adoption	:	:	:	4.45	:	4.86	8.76	13.48	:
% enterprises (EU Digital Decade target by 2030: 75%)	:	:	:	4.45	:	4.86	8.76	13.48	:
Academia-business collaboration									
Public-private scientific co-publications as % of total number of publications	4.3	5.5	5.7	5.6	5.1	5.8	:	7.7	8.9
Public expenditure on R&D financed by business enterprise (national) as % of GDP	0.089	0.051	0.043	0.056	0.036	:	:	0.05	0.02
Public support for business innovation									
Total public sector support for BERD as % of GDP	0.092	0.065	0.171	0.221	0.171	:	:	0.204	0.251
R&D tax incentives: foregone revenues as % of GDP	0.016	0.023	0.037	0.05	0.051	0.039	:	0.102	0.141
BERD financed by the public sector (national and abroad) as % of GDP	0.08	0.042	0.134	0.171	0.120	:	:	0.100	0.110
Financing innovation									
Venture capital (market statistics) as % of GDP, total (calculated as a 3-year moving average)	0.009	0.011	0.015	0.041	0.074	0.074	:	0.078	:
Seed stage funding share (% of total venture capital)	17.8	14.9	44.6	29.7	13.7	14.7	:	7.3	:
Start-up stage funding share (% of total venture capital)	56.3	80.1	36.8	51.9	32.9	39.9	:	44.0	:
Later stage funding share (% of total venture capital)	25.9	5	18.5	18.4	53.4	45.4	:	48.7	:
Innovative talent									
New graduates in science and engineering per thousand population aged 25-34	25.2	17.3	14.9	13.7	11.9	:	:	17.6	:

(1) EU average for the last available year or the year with the largest number of country data.

Source: Eurostat, DG JRC, OECD, Science-Metrix (Scopus database), Invest Europe, European Innovation Scoreboard

Lithuania has made progress in creating a business-friendly environment but addressing skills mismatches and financial constraints remain key challenges.

Investment and business activities continue to be constrained by difficulties in accessing finance, despite the easing monetary policy environment. Lithuania has a high-quality regulatory environment for entrepreneurs, but entrepreneurial activity has recently declined due to a decreasing share of adult entrepreneurs. Participation in the EU's unitary patent system and public procurement reforms are opportunities for further growth.

Economic framework conditions

Lithuania's business landscape has been challenged by several factors in recent years, but investment conditions developed more favourably in 2024. Lithuania's services and manufacturing sector have been hit hard by the consequences of the COVID-19 pandemic and Russia's full-scale invasion of Ukraine. Supply-chain disruptions, sluggish external demand and very high inflation have weighed on the competitiveness of its economy, but recent developments point towards a strong recovery. High nominal wage growth, accompanied by a strong decline of inflation, is leading to an increase in domestic demand. External developments have supported an upswing in exports of manufactured goods and services in the transport and logistics sector⁽⁵⁴⁾, except for certain sub-sectors such as rail freight transport and tourism, where negative trends persist. The share of firms reporting that their perceived competitiveness outside the EU has improved rose from 4.3% in Q1 2023 to 10.4% in Q4 2024⁽⁵⁵⁾. According to survey data, firms in Lithuania's services sector experienced a significant increase in both perceived and expected demand in 2024. Moreover, coming

from very low levels, the manufacturing sector reported a strong increase in expected demand since 2023⁽⁵⁶⁾.

Despite these positive developments, the non-availability of skilled staff and skills mismatches are hampering investment.

Unemployment has continued to increase in Lithuania, rising from 6.9% in 2023 to 7.5% in 2024 (see the Labour Market Annex). This was accompanied by an increase in the vacancy rate (measured as the ratio of job vacancies to overall available jobs), which is now close to its all-time high (1.9%). The vacancy rate is still below the EU average (2.3%) but has considerably increased since 2020 (when it was 1.3%)⁽⁵⁷⁾. This points to skills mismatches and skills shortages which are of concern for Lithuanian firms. According to the EIB Investment Survey, 76% of firms report the non-availability of rightly skilled staff as an impediment to long-term investment. It is below the EU average of 77% but has stagnated at a high level (72% in 2023, 75% in 2022). It can also be seen in industry, and especially in some key sectors such as furniture manufacturing, food processing and telecommunications where the labour market has tightened considerably in recent years with 31.7%, 28.4% and 25% of firms reporting in 2024 that a lack of labour was limiting their production (in 2023: 8.2%, 18.5% and 12%)⁽⁵⁸⁾.

Investment and business activity remain constrained by difficulties in accessing finance. The monetary policy environment is easing, but Lithuanian firms remain financially constrained and 51% of firms cite a lack of financial resources as an impediment to investment (see the Access to Finance Annex). 22% of Lithuanian enterprises reported that the general availability of finance had deteriorated, but the share of financially constrained firms was among the highest in the EU (SAFE 2024). This affects key sectors of the economy, such as

⁽⁵⁴⁾ European Commission, Autumn Forecast, 2024.

⁽⁵⁵⁾ ECFIN Business and Consumer Survey.

⁽⁵⁶⁾ ECFIN Business and Consumer Survey.

⁽⁵⁷⁾ Eurostat.

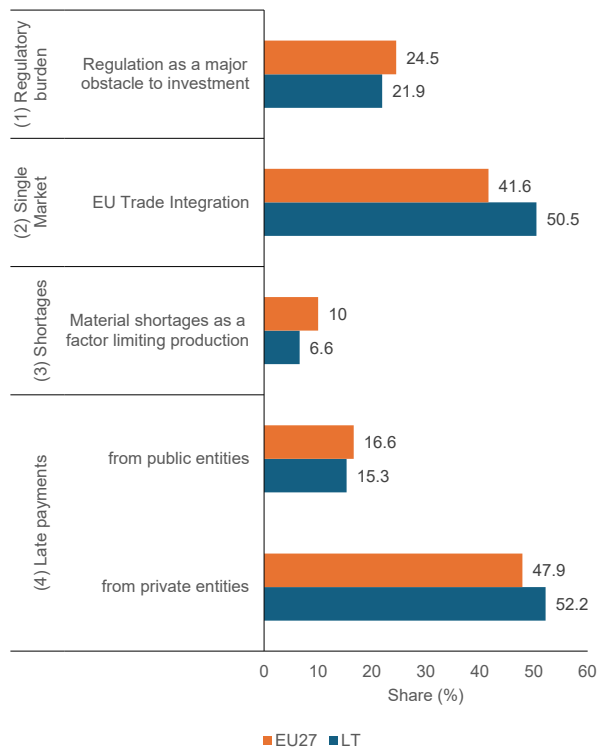
⁽⁵⁸⁾ ECFIN Business and Consumer Survey.

the transport and logistics sector. Companies from the land transport and storage/warehousing subsectors are suffering particularly heavily from financial constraints. In Lithuania, 37% and 16% of these firms reported that lack of financing is limiting their business activities (the EU averages were 13% and 16% respectively). Manufacturing industries such as food products; computer, electronic and optical products; and rubber and plastic products stated that financial constraints were limiting production (15%, 14% and 18% respectively; the EU averages were 5%, 5% and 4%) ⁽⁵⁹⁾.

Lithuania is developing its digital infrastructure to meet EU European targets, but regional disparities are hampering this. According to the EIB Investment Survey, only 34% of businesses mention digital infrastructure as an obstacle to long-term investment (the EU average is 41%). Lithuania excels in 5G deployment but needs to enhance fibre broadband coverage, which is currently being implemented under the RRP Lithuania should particularly increase its efforts to roll out gigabit connectivity in rural areas in order to meet EU targets by 2030. Cybersecurity awareness in enterprises has improved, and the National Cybersecurity Development Programme has been approved in order to combat cybercrime and enhance education, cooperation and resilience.

⁽⁵⁹⁾ ECFIN Business and Consumer Survey.

Graph A4.1: Making Business Easier: selected indicators.



Share of (1) enterprises, (2) average intra-EU exports and imports in GDP, (3) firms, (4) SMEs.

Sources: (1) EIB IS, (2) Eurostat, (3) ECFIN BCS, (4) SAFE survey.

Regulatory and administrative barriers

Lithuania is building up its competitiveness in a business-friendly regulatory environment, but increased monitoring would boost enforcement efficiency. According to the OECD's 2024 edition of the economy-wide Product Market Regulation indicator, Lithuania is the best performer among OECD countries. Lithuania performs particularly well in the areas of administrative and regulatory burden for limited liability companies and the obtaining of licences and permits (ranking 5th and 1st respectively) ⁽⁶⁰⁾. However, the real situation on the ground might differ from the legal situation which is analysed in the PMR. According to the EIB Investment Survey, business and labour

⁽⁶⁰⁾ OECD PMR 2024.

regulation in Lithuania is less favourable for companies than in previous years. 62% and 58% of firms report these fields as an impediment to investment (the EU averages are 66% and 62% respectively). The percentage of firms reporting business regulation as an impediment to investment is still below the EU average but has increased by 6 percentage points. The respective share of firms reporting labour regulation as an impediment to investment has increased by 15%. This could indicate a discrepancy between the legal situation in principle and actual enforcement on the ground, so further investigation may be required.

According to the Global Entrepreneurship Monitor, Lithuania has a high-quality regulatory environment for entrepreneurs, but entrepreneurial activity has recently dropped. With 11 out of 13 Entrepreneurial Framework Condition scores increasing from 2022 to 2023, Lithuania has a strong support system for entrepreneurs and a business support package to reduce energy price shocks that is complemented by ambitious measures in its recovery and resilience plan (RRP)⁽⁶¹⁾. Some challenges remain, however, including unequal access to resources for women entrepreneurs, a decline in entrepreneurial activity in 2023 and a significant drop in male entrepreneurship. The ratio of male entrepreneurs to the total male population decreased from 16.6% to 6.1% in 2023⁽⁶²⁾. Lithuania also performs poorly when it comes to the availability of and access to entrepreneurial finance (see the Innovation to Business Annex). Another weak spot is a lack of entrepreneurial education in schools (see the Education and Skills Annex). Lithuania nevertheless still ranks 4th out of 49 economies in the National Entrepreneurial Context Index, which indicates a generally supportive environment for entrepreneurs.

Tax compliance costs are close to the EU average, but corporate income taxes might discourage the smallest businesses from investing. The estimated average total enterprise tax compliance cost is between EUR 10 000 and EUR 15 000, which amounts to roughly 1.5%-3% of turnover. The administrative burden of tax compliance for Lithuanian SMEs is slightly below the EU average (see the Taxation Annex)⁽⁶³⁾. However, Lithuania's tax system might negatively affect the corporate sector (particularly SMEs) by creating incentives to report revenue below EUR 300 000 to avoid a higher tax rate, thereby reducing not only tax revenue but also business growth⁽⁶⁴⁾ (see the Taxation Annex).

Single market

Lithuania is well integrated into the single market and is compliant in transposing EU Single Market directives into national legislation. Trade integration in Lithuania is high and amounts to roughly half of GDP. Lithuania performs well when it comes to transposing EU single market directives, having a deficit of only 0.3% and being among the best performing Member States for this indicator (the EU average is 0.8%). It also ranks 4th on conformity with only 0.4% of single market directives being wrongly transposed (the EU average is 0.9%). Lithuania has a moderate number of single market infringement cases and their average duration is close to the EU average. In 2024, Lithuania managed to resolve 100% of the SOLVIT cases (6) it handled as the lead centre, which was above the EU average of 84.9%.

Fewer professional services are subject to stricter regulation than in other EU Member

⁽⁶¹⁾ [Entrepreneurship in Lithuania - GEM Global Entrepreneurship Monitor](#).

⁽⁶²⁾ [GEM Global Entrepreneurship Monitor](#).

⁽⁶³⁾ [Tax compliance costs for SMEs - Publications Office of the EU](#).

⁽⁶⁴⁾ Scot, Thiago; Garriga Pablo: Corporate Responses to Soze-Based Tax Rates in Lithuania. World Bank Policy Research Working Paper, 2023.

States. According to the OECD, regulatory barriers for lawyers and architects are higher in Lithuania than in comparable countries. The barriers which are in place range from very strict incompatibility rules and multidisciplinary restrictions (e.g. a total ban on multidisciplinary activities for lawyers) to multiple certification requirements for architects⁽⁶⁵⁾. Overall, Lithuania applies a more competition-friendly approach when it comes to entering the Lithuanian service sector⁽⁶⁶⁾.

Public procurement

Since 2023, Lithuania has followed an ambitious public procurement strategy that will require close monitoring because competition on the market can be improved. In 2023, 37% of contracts were awarded after receiving only a single bid. This was higher than the EU average of 29%. 6% of contracts were awarded without public tender (the EU average was 8%)⁽⁶⁷⁾. Lithuania is making efforts to address the issue and has implemented several measures to improve competition and attract new suppliers, especially SMEs (82% of public procurement contracts were awarded to SMEs in 2023⁽⁶⁸⁾). Lithuania has initiated a procurement centralisation reform that requires procurement to take place through the Central Purchasing Organisation (CPO) e-catalogue, which covers health sector contracts and other central government contracts. By mid-2023, centralised public procurement amounted to 34.6% of the overall procurement volume, a sharp increase from 10% in 2020⁽⁶⁹⁾. Lithuania has also established a national certification framework, introduced new training materials and launched a public procurement master's programme to enhance the professionalisation

of public procurers. Moreover, Lithuania has made progress in Socially Responsible Public Procurement, including the publication in 2023 of National Guidelines on the subject, and the launch of the Social Procurement Monitoring Report tool in November 2024, which allows for tracking the inclusion of social criteria in public procurement contracts.

These reforms are ambitious and promising, but their implementation needs to be closely monitored. Lithuania will benefit from a well-functioning CPO, but it will be crucial to provide it with sufficient resources and capacity.

⁽⁶⁵⁾ eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0385&rid=1

⁽⁶⁶⁾ [Lithuania PMR country note](#).

⁽⁶⁷⁾ Single Market Scoreboard 2024.

⁽⁶⁸⁾ Procurement Monitoring Report template.

⁽⁶⁹⁾ OECD Public Procurement in Lithuania, 2024.

Table A4.1: **Making Business Easier: indicators.**

Lithuania							
POLICY AREA	INDICATOR NAME	2020	2021	2022	2023	2024	EU-27 average
Investment climate							
Shortages	Material shortage, firms facing constraints, % ¹	8.8	21.2	26.9	9.9	6.6	10.0
	Labour shortage, firms facing constraints, % ¹	11.7	21.9	25.8	14.2	17.8	20.2
	Vacancy rate, vacant posts as a % of all available ones (vacant + occupied) ²	1.3	2.0	1.9	2.0	1.9	2.3
Infrastructure	Transport infrastructure as an obstacle to investment, % of firms reporting it as a major obstacle ³	5.9	7.6	6.1	5.6	12.3	13.4
	VHCN coverage, % ⁴	-	78.2	78.0	78.1	-	78.8
	FTTP coverage, % ⁴	-	78.2	78.0	78.1	-	64.0
	5G coverage, % ⁴	-	33.3	90.1	98.9	-	89.3
Reduction of regulatory and administrative barriers							
Regulatory environment	Impact of regulation on long-term investment, % firms reporting business regulation as a major obstacle ³	21.1	22.4	20.3	13.5	21.9	24.5
Late payments	Payment gap - corporates B2B, difference in days between offered and actual payment ⁵	15.7	11.9	12.3	13.4	-	15.6
	Payment gap - public sector, difference in days between offered and actual payment ⁵	17.8	10.6	17.3	18.7	-	15.1
	Share of SMEs experiencing late payments, %* ⁶	52.2	52.8	50.6	59.2	-	
	from public or private entities in the last 6 months	-	-	-	-	52.2	47.9
	from private entities in the previous or current quarter	-	-	-	-	15.3	16.6
Single Market							
Integration	EU trade integration, % (Average intra-EU imports + average intra EU exports)/GDP ²	45.0	51.2	57.9	51.9	50.5	41.6
	EEA Services Trade Restrictiveness Index ⁷	0.036	0.036	0.036	0.035	0.038	0.050
Compliance	Transposition deficit, % of all directives not transposed ⁸	0.8	1.7	0.3	0.3	0.3	0.8
	Conformity deficit, % of all directives transposed incorrectly ⁸	1.1	1.0	1.0	0.7	0.4	0.9
	SOLVIT, % resolution rate per country ⁸	100	100	-	100	100	84.9
	Number of pending infringement proceedings ⁸	17.0	16.0	15.0	15.0	12.0	24.4
Public procurement							
Competition and transparency in public procurement	Single bids, % of total contractors** ⁸	28	30	34	37	44	-
	Direct awards, %** ⁸	10	6	6	6	5	7.0

*Change in methodology in 2024: reporting late payments from public and private entities separately.

**The 2024 data on single bids is provisional and subject to revision. Please note that approximately 18% of the total data is currently missing, which may impact the accuracy and completeness of the information. Due to missing data, the EU average of direct awards data is calculated without Romania.

Sources: (1) ECFIN BCS, (2) Eurostat, (3) EIB IS, (4) Digital Decade Country reports, (5) Intrum Payment Report, (6) SAFE survey, (7) OECD, (8) up to 2023: Single Market and Competitiveness Scoreboard, 2024: Public procurement data space (PPDS).

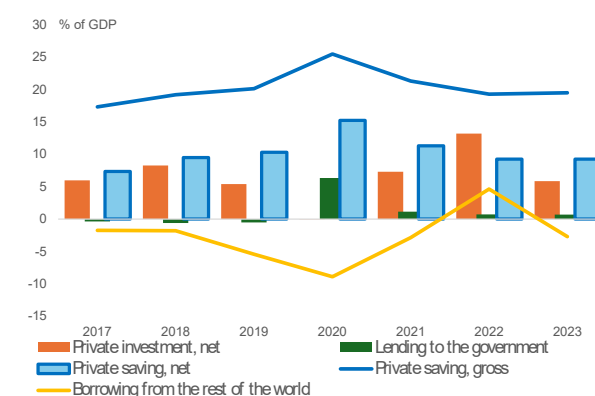
The Lithuanian financial sector is relatively small compared to other EU countries and concentration is high. Nevertheless, most performance indicators of banks operating in Lithuania are among the best across the EU. Moreover, the persistently low savings rate of Lithuanian households reduces the availability of funding for investment. Local businesses tend to use only a limited amount of external funding and for this they rely mainly on bank intermediation rather than on stock and bond markets. The underdeveloped capital markets reduce local investment opportunities and interest from institutional and retail investors. However, with its numerous policies to attract foreign investment and nurture homegrown start-ups, Lithuania is currently among the most start-up-friendly countries in the world. The participation of domestic institutional investors in providing funding for start-ups and venture capital investment is increasing and helps to diversify corporate financing. Recent policy initiatives also aim to boost the degree of retail participation.

Availability and use of domestic savings

The Lithuanian economy invests a part of its relatively high net savings abroad. In the last decade, the private savings ratio, net of fixed capital consumption, fluctuated around its ten-year average of 9.7% of GDP, reaching a maximum of 15.3% in 2020 (see Graph A5.1). The net private investment ratio, which measures the net contribution of the private sector to capital accumulation in the country, was a bit more volatile, exhibited a ten-year average of 6.1% of GDP and reached a maximum of 13.2% in 2022. At the same time, during the same period the government budget was in regular deficit that averaged 1% of GDP. Thus, the positive balance between net domestic savings and net investment, together with the government deficits, resulted in net lending by Lithuania to the rest of the world that averaged 2.6% of GDP, with a peak of 8.9%

in 2020. The swing in 2022 to net borrowing from the rest of the world is expected to be temporary, as it was driven by a massive increase in net energy imports and elevated energy prices. Lithuania experienced strong capital inflows during 2022 which largely occurred through accelerated FDI and portfolio investments.

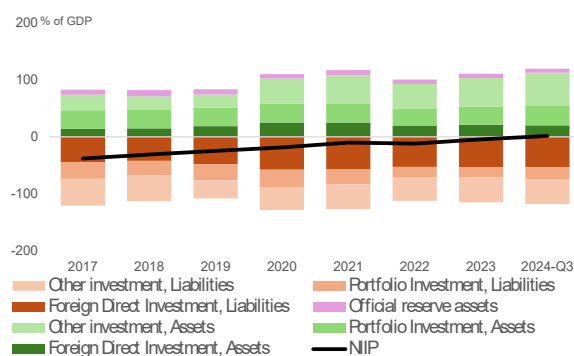
Graph A5.1: **Net savings-investment balance**



Source: AMECO.

The net international investment position turned positive in 2024. Between 2009 and 2023, the net international investment position (NIIP) has strengthened almost every year, reflecting an improvement in international competitiveness. As of Q3 2024, total assets on foreigners reached 119.2% of GDP, while liabilities to foreigners stood at 117.9% of GDP, resulting in a NIIP equivalent to 1.3% of GDP (see Graph A5.2). The accumulated net portfolio investment, which reached 14% of GDP as of Q3 2024, together with net other investments of 14.3% and accumulated foreign reserves of 7% of GDP counterbalanced a negative accumulated net foreign direct investment balance of 33%.

Graph A5.2: **International investment position**



Source: ECB.

Structure of the capital markets and size of the financial sector

Lithuanian capital markets remain relatively shallow, inactive and illiquid. The equity market is extremely small in terms of capitalisation (5.9 % of GDP vs an EU average of 69.3% as of end Q3-2024) and volumes traded. The liquidity of securities traded on Nasdaq Vilnius, AB is limited while the debt markets in Lithuania are dominated by government securities. Local businesses tend to rely for external funding on bank intermediation rather than attracting funding through stock and bond issues or from alternative sources. This results in few local investment opportunities, low interest from institutional and retail investors, and therefore few local opportunities to raise share capital. The lack of market activity by institutional investors reduces demand for corporate stocks and bonds. In terms of the international market, projects developed in Lithuania are of relatively small size, which makes them less attractive to international investors.

In May 2022 the Bank of Lithuania set out capital market development action guidelines to help the capital markets to grow. They set out concrete measures and recommendations that aim to make the capital markets more attractive for domestic and foreign investors, and to encourage businesses to obtain alternative financing by issuing

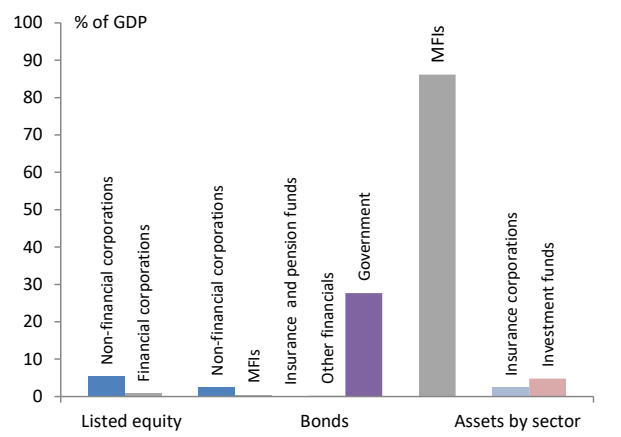
securities and allowing more securities to be listed on the stock exchange. There is also a need to tap into the unused potential of pension funds (currently 90% of assets are invested abroad), e.g. by providing a wider range of financial market instruments traded on the capital markets. Certain key measures have already been adopted but not all have fully matured yet. The Capital Market Council was established in January 2023, bringing together representatives of both the market and the public sector.

Lithuania's monetary financial sector is very small compared with the EU average and concentration is high. At the end of Q3-2024, banks' total assets were equivalent to 88% of GDP, significantly below the EU average of 248%. There is an ongoing concern about the lack of competition in Lithuania's banking sector. The top five MFIs represent more than 90% the sector, vs. an EU average of 54%. The banking sector of Lithuania is dominated by subsidiaries of large Scandinavian banks. The two largest banks, Swedbank AB ⁽⁷⁰⁾ and SEB Bankas (representing 35% resp. 26% of the total banking sector), are owned by their parent banks in Sweden. Revolut is the third largest bank with 18% of system-wide assets. The banks' rapid expansion since 2019, together with its business model based almost exclusively on non-resident EU depositors made the ECB assume direct supervision of Revolut Bank in early 2024. Another stake of 16% belongs to Luminor Bank with a headquarter in Estonia, owned by a US private equity fund and a Norwegian bank. Due to its integration with the Nordic and Baltic banking systems, the financial sector of Lithuania depends partly on developments in parent banks and their strategic decisions. Banks and other monetary financial institutions continue to account for the largest share (76%) of the

⁽⁷⁰⁾ In October 2021, the ownership of the subsidiary banks in Estonia, Latvia and Lithuania was placed in the holding company Swedbank Baltics AS which is wholly owned by Swedbank AB, and which is under the supervision of the European Central Bank.

Lithuanian financial market, a share that has remained largely stable over the last couple of years.

Graph A5.3: **Capital markets and financial intermediaries in Lithuania**



Source: ECB, EIOPA, AMECO.

The role of the non-bank financial sector in the economy is still considerably less important as compared to other euro area countries. Total assets of pension funds amounted to 11.5% of GDP at the end of 2024, vs. an EU average of 23.4% of GDP. The Lithuanian insurance sector is also very small, with a share of total assets in GDP of 2.5% as of Q3-2024 (vs. 54.8% for the EU on average). In 2023, assets of all types of non-bank financial institutions increased, especially of pension and investment funds. Assets managed by pension funds grew by 27%. This increase was driven by favourable conditions on the financial markets. Although the number of registered crypto-asset companies in Lithuania is relatively high compared to European peers, only few of them are profitable.

Resilience of the banking sector

Lithuania’s small banking sector remains resilient, with most performance indicators among the best across the EU. Lithuania’s banking sector has coped relatively well with the multiple shocks in recent years, from the pandemic crisis to Russia’s aggression against

Ukraine and the energy crisis. The sector’s resilience is bolstered by strong capitalisation and asset-quality metrics, with a capital adequacy ratio of 21.3% in Q3-2024, above the EU average of 20.1% (see Table A5.1). This ratio comes with a good level of high-quality loss-absorption capital, as the CET1 ratio amounted to 19.9% in Q3-2024, well above the EU average of 16.6%. Stress test results of the Bank of Lithuania show that, overall, the banking and central credit union sectors are well capitalised and resilient to potential shocks, although the three significant institutions (SEB Bankas, AB Šiaulių bankas, Swedbank AB) had better capital results compared to less significant institutions, which could face the need for additional capital in the event of an adverse scenario.

The liquidity and profitability ratios of Lithuanian banks are high, while funding risks remain very low. The loan-to-deposit ratio is the lowest of the EU (43.5% in Q3-2024 vs 106.7% on average for the EU) as domestic deposits exceed issued loans significantly. 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 amounted to 372.1% in Q3-2024, according to the EBA Risk dashboard, one of the highest levels across the EU. The accumulated significant excess liquidity and predominant share of loans with variable rates in the wake of higher key interest rates led to increasing profits for the banking sector, leading to a return-on-equity ratio of 19.8% at the end of Q3-2024, twice as high as the EU average. Moreover, with respect to total net operating income both the net fee and commission income as well as the net interest income are the highest of the EU (74.8%, resp. 99.8%). The cost-to-income ratio for banks operating in Lithuania was 47.8% in 2023, somewhat below the EU average of 52.6%. As most banks are profitable and their profits have been growing, the bank of Lithuania decided end of 2022 that it was time for credit

institutions to build up additional capital buffers. The 1% counter-cyclical buffer rate came into effect on 1 October 2023, bringing it back to pre-pandemic levels. In addition, the 1% capital requirement imposed on Revolut Bank UAB due to its increasing systemic importance was doubled to 2% and took effect on 1 July 2024. To address risks from the real estate market, the Bank of Lithuania introduced a sectoral systemic risk buffer of 2% of the amount of an institution's risk-weighted domestic exposures secured by residential real estate, effective from July 2022.

Given the high profitability of the banks, the authorities have extended the temporary windfall levy on banks. The temporary levy has applied in 2023 and 2024 and been extended until 2025. The so-called "solidarity contribution" of 60% is applied on the net interest income that exceeds the average of the previous four years by more than 50%. It applies to all credit institutions and existing loans—new loans are excluded. The funds of the temporary solidarity contribution are earmarked to finance Lithuania's military mobility and army transport infrastructure projects.

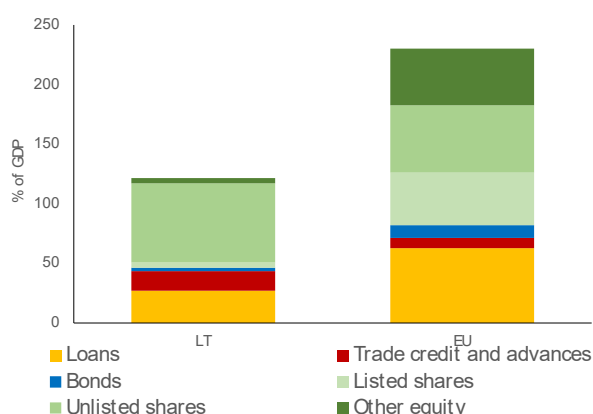
Banks' balance sheets show improved asset quality. As businesses have low leverage and households have accumulated liquidity buffers, the share of non-performing loans in banks remained low, despite the environment of high interest rates, and even fell to its lowest level since 2008 (0.7% at the end of Q3-2024), and well below the EU average of 1.9. With inflation easing sharply and real wage growth remaining strong, households' financial situation is gradually improving. Yet, banks' aggregate coverage ratio of NPLs by existing provisions remains short of the EU average by 8 percentage points, even though it increased from 30.2% in 2021 to 33.9 % in Q3-2024, improving the resilience of credit institutions in the event of a potential deterioration in loan quality.

Sources of business funding and the role of banks

Firms in Lithuania rely less than the EU average on funding from banks or capital markets. At the end of 2022, bank finance through loans constituted only 21.9% of all funding sources for Lithuanian non-financial corporations (NFCs), while listed shares and bonds represented only 6.5% of funding sources. The equivalent figures for the EU average are 27.2% and 23.8%, with the overall levels for Lithuania also substantially lower as a share of GDP (as the overall level of NFC funding was 167.4% in Lithuania and 230.3% of GDP for the EU average, see Graph 3.4). The market funding ratio ⁽⁷¹⁾ as of end 2023 was only 31.5%, compared to an EU average of 49.6%. According to the 2024 EIB Investment Survey, 69% of investment needs of Lithuanian firms are covered by internal funding, compared to an EU average of 66%. Only 54% of all Lithuanian firms use external finance that rely on bank finance, the lowest share in the EU (with the EU average at 81%. Moreover, the country has a high share of finance-constrained firms (13.7%).

⁽⁷¹⁾ i.e. the volume of corporate bonds and listed shares of NFCs relative to the volume of those two and bank loans to NFCs.

Graph A5.4: **Composition of NFC funding as % of GDP**



The sum of NFC liabilities only reflects the total for the NFC liabilities considered. Reference period 2023.

Source: Eurostat and FISMA E2 calculations.

At the same time, 26% of all Lithuanian firms 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 14%), suggesting that there is a financing gap relative to investment demand, especially for SMEs.

Credit growth recovered recently both for households and corporates. Credit growth has been on a general downward path since September 2022, both for households and non-financial corporations (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 8.8% in November 2024. For NFCs, annual credit growth recovered from 2.8% in August 2024 to reach 12.3% in November 2024. The recovery is expected to continue in 2025. Moreover, the bank lending survey conducted by the Lithuanian National Bank showed that, for the first time since mid-2022, corporate demand for loans rose in Q3-2024. Demand from companies was positively

influenced by capital investments and declining interest rates. All banks expect demand for new loans to continue to grow in all segments of corporate lending in the next quarter or to at least remain stable.

However, the ratio of bank loans to GDP is among the lowest in the euro area. The combined ratio of bank loans to households and businesses relative to GDP has been below its long-term trend in recent years (33.5% vs EU average of 74.5%). Overall, the indebtedness of businesses and households remained stable, as indicated by the 61.6% debt-to-GDP ratio.

Capital markets and the participation of retail investors

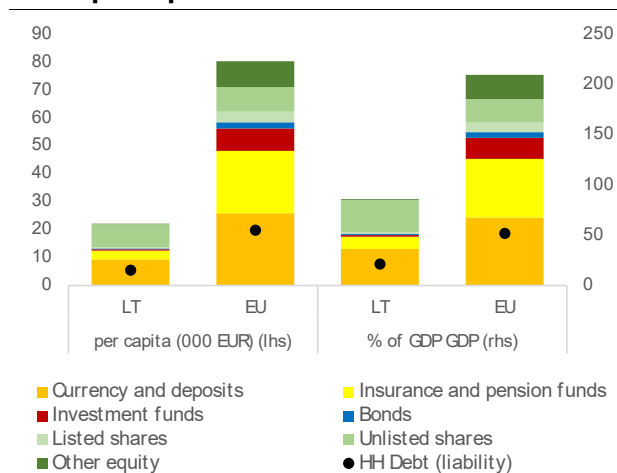
SMEs find it difficult to access and take advantage of Lithuania's capital markets. In the 2024 SAFE survey, 38% of SMEs indicated that internal funds (retained earnings or sale of assets) were relevant for them, compared to an EU average of 30% ⁽⁷²⁾. While the Nasdaq First North Market offers a trading facility with reduced reporting requirements, targeting primarily smaller cap issuances, SMEs and start-ups seeking to list on it face a significant challenge due to the mandatory biannual audit of their financial statements. Moreover, Lithuania cannot take advantage of this SME market because there are no established SME growth markets in Lithuania, nor in the other Baltic states. Work recently started on setting up an SME initial public offering (IPO) fund in the Baltic states, with the help of ALTUM in Latvia and ILTE in Lithuania.

The persistently low saving rate of Lithuanian households reduces the availability of credit for enterprise investments and suggests that the economy relies more on foreign savings. Moreover,

⁽⁷²⁾ Data and surveys - SAFE - European Commission, 2024, Results by country, T2o.

two-thirds of the population's savings are held in demand deposit bank accounts. Lithuanian households have relatively few financial assets, in particular regarding investment, insurance and pension funds. By contrast, they hold more unlisted shares compared to other EU countries. The share of households' financial assets held in pension and insurance funds or directly in financial investment instruments in total financial assets has risen from 13.5% in 2015 to 19.3% in 2023, but still falls substantially short of the EU average of 45.4%.

Graph A5.5: **Composition of household financial assets per capita and as % of GDP**



The sum of household assets only reflects the total for the household assets considered. Reference period 2023.

Source: Eurostat and FISMA E2 calculations.

Recent policy initiatives are aimed at promoting the level of retail participation.

The Ministry of Finance recently approved a financial education plan (2024-2028) with particular attention dedicated to challenges for consumers and retail investors and also covering SMEs. Moreover, in an effort to boost household investment in capital markets, a long-term investment product has been operational since the beginning of this year that offers an alternative to other tax-supported long-term savings products (i.e. pension funds and life insurance products). This investment and savings account allows Lithuanian residents to invest more conveniently in different financial products that will be subject to tax only on the profits withdrawn, rather than on all the investment

income intended for reinvestment. The initiatives also provide for a gradual phase-out of tax incentives related to long-term life insurance and third-pillar pension contributions, which will be applied over the next 10 years, and to contracts concluded by the end of 2024. Encouraging the build-up of universal funded supplementary pension schemes would positively contribute to (i) the sustainability and adequacy of pension benefits; (ii) investment in equity; (iii) access to finance; (iv) growth; and (v) innovation.

The role of domestic institutional investors

The investment portfolio of Lithuanian insurers is rather conservative. The Lithuanian insurance sector, which is small by EU standards (2.5% of assets-to-GDP vs an EU average of 54.8%), mainly invests in bonds, at 60% of total assets by end Q3-2024 (compared to 19% for the European Economic Area as a whole)⁽⁷³⁾, with another 6.6% held in cash and deposits. The bulk of investments consists of government debt securities, with nearly 95% of them being issued by EEA countries. The second-largest investment group, investments in bonds of other companies, decreased by 2.7 percentage points to 16.6% of proprietary assets investments, with three quarters of them invested in bonds of EEA countries. The share of investments in equity securities, including investments in collective investment undertakings dropped to 8.9%.

The domestic pension fund industry has a less conservative investment profile, with a greater focus on investment fund shares.

The assets of third-pillar pension funds equated to 15.5% of GDP and investment funds shares/units accounted for 82.6% of them as of end Q3-2024. Debt securities are the second

⁽⁷³⁾ Source: Bank of Lithuania, [Review of Lithuania's insurance market \(2024/Q1-Q3\)](#); EIOPA Insurance Statistics.

largest investment asset held by pension funds, at 12.6%, of which half is domestic, while equities represent only 2%. According to statistics, only 25% of Lithuanian pension assets under management are invested in Lithuania and only around 1% of that amount is invested in equity markets.

The participation of domestic institutional investors in providing funding for start-ups and venture capital investment is increasing.

Funds raised from pension funds have increased considerably, while capital is also being raised from less traditional sources such as general partners' commitments and endowment funds. Recent data show that pension funds in Lithuania accounted on average for 14% of private equity and venture capital funds raised over 2023, a figure that is in line with that for the other Baltic states and close to 20% shares for Nordic Member States ⁽⁷⁴⁾.

The depth of venture and growth capital

Lithuania has implemented numerous policies to attract 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 venture capital opportunities to support start-ups. Lithuania's regulatory environment is conducive to innovation and entrepreneurship. The government has taken steps to simplify licensing procedures, reduce bureaucracy and create a business-friendly atmosphere. This approach makes it easier for start-ups to navigate legal and regulatory requirements.

The start-up ecosystem has driven venture capital and private equity 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 7.1 times bigger between 2018 and 2023, against a Baltic growth average of 2.7 times and a European average of 2.9. Most investment went into Lithuanian companies operating in the consumer services sector, including fintech, ICT, games development, biotech and laser tech ⁽⁷⁵⁾. Lithuanian start-ups raised EUR 292 million in 2023, which was predominantly driven by early-stage ventures. According to the capital markets union (CMU) dashboard, Lithuania hovers around the EU average in terms of annual venture capital investments relative to GDP, with 0.23% over 2021-23. In terms of annual private equity investments relative to GDP the country lags behind the EU average (0.3% in 2023, vs the EU average of 0.6%) (see Innovation to Business Annex).

A significant proportion of the start-ups operate in the fintech industry, whose importance in Lithuania's financial system continues to grow.

The Lithuanian fintech sector's strength runs across lending, payments and digital banking. Lithuania ranks first in the EU for the number of fintech licences issued; more than half of market participants hold a licence for an electronic money institution, a payment institution or a specialised banking licence ⁽⁷⁶⁾. The majority of the market participants can offer digital wallets or issue prepaid cards on top of money transfers. In addition, there has been a significant increase in financial software service providers (payment software, lending software). Crowdfunding and peer-to-peer (P2P) lending platform operators are also actively entering the market, rapidly

⁽⁷⁴⁾ Source: [Closing the gaping hole in the capital market for EU start-ups – the role of pension funds – CEPS](#).

⁽⁷⁵⁾ The Lithuania startup ecosystem 2023, Dealroom, Feb 2024.

⁽⁷⁶⁾ Bank of Lithuania data for EMI, PI, SPB, CF, FB licences as of the end of 2023.

Table A5.1: **Financial indicators**

	2017	2018	2019	2020	2021	2022	2023	2024-Q3	EU	
Banking sector	Total assets of MFIs (% of GDP)	67.5	65.4	65.4	78.8	78.3	85.1	86.2	88.0	248.4
	Common Equity Tier 1 ratio	18.8	18.4	19.5	21.5	23.2	20.2	18.6	19.9	16.6
	Total capital adequacy ratio	19.1	18.6	19.9	21.9	23.5	20.4	19.9	21.3	20.1
	Overall NPL ratio (% of all loans)	3.2	2.6	1.7	2.2	1.2	0.9	0.8	0.7	1.9
	NPL (% loans to NFC-Non financial corporations)	5.0	4.1	2.9	3.5	1.7	1.5	1.4	1.3	3.5
	NPL (% loans to HH-Households)	3.7	3.0	2.1	1.8	1.0	0.8	1.2	1.2	2.2
	NPL-Non performing loans coverage ratio	30.8	26.1	30.7	31.7	30.2	35.8	35.5	33.9	42.1
	Return on Equity ¹	9.1	12.3	14.5	10.0	10.4	13.5	21.2	19.8	10.0
	Loans to NFCs (% of GDP)	19.6	18.7	17.4	14.8	15.4	15.2	14.5	14.8	30.0
	Loans to HHs (% of GDP)	21.1	21.0	21.1	22.0	21.6	20.2	19.7	19.8	44.5
Non-banks sector	NFC credit annual % growth	5.5	4.7	-0.8	-12.7	11.7	18.5	4.6	10.8	0.8
	HH credit annual % growth	7.6	8.6	7.2	6.5	10.7	11.3	6.6	7.8	0.7
	Stock market capitalisation (% of GDP)	9.2	7.3	7.5	9.0	9.1	7.1	6.2	5.9	69.3
	Initial public offerings (% of GDP)	0.04	0.19	0.03	3.30	0.00	0.00	0.00	-	0.05
	Market funding ratio	18.0	21.7	22.3	36.7	36.2	33.2	31.5	-	49.6
	Private equity (% of GDP)	0.01	0.15	0.67	0.14	0.64	0.37	0.31	-	0.41
	Venture capital (% of GDP)	0.01	0.01	0.01	0.03	0.08	0.11	0.04	-	0.05
	Financial literacy (composite)	-	-	-	-	-	-	43.5	-	45.5
	Bonds (as % of HH financial assets)	0.9	0.9	1.0	1.1	0.5	0.8	1.2	-	2.7
	Listed shares (as % of HH financial assets)	2.1	1.6	1.6	1.7	2.2	1.9	1.9	-	4.8
	Investment funds (as % of HH financial assets)	1.9	1.7	1.7	1.7	2.3	2.2	2.1	-	10.0
	Insurance/pension funds (as % of HH financial assets)	12.3	12.0	13.0	12.9	14.0	13.0	14.0	-	27.8
	Total assets of all insurers (% of GDP)	3.1	3.0	2.5	3.0	2.7	2.4	2.4	2.5	54.8
	Pension funds assets (% of GDP)	-	-	8.2	9.3	10.8	8.7	10.1	11.5	23.4
		1-3	4-10	11-17	18-24	25-27	Colours indicate performance ranking among 27 EU Member States.			

¹ Annualized data.

Credit growth and pension funds EU data refers to the EA average.

Source: ECB, ESTAT, EIOPA, [DG FISMA CMU Dashboard](#), AMECO.

increasing the volume of financing provided to businesses and households.

Financing the green transition

Sustainable finance in Lithuania is still in the initial stages of development. The average issuance over 2021-2023 of bonds with environmental, social, and governance objectives as a share of total bond issuance in Lithuania was the lowest of all EU Member States, after Malta and Bulgaria, where it was non-existent ⁽⁷⁷⁾. However, there have been recent positive examples of Lithuanian companies managing to offer investors sustainable and attractive investment projects, e.g. the Ignitis Group, which pays great attention to the development of renewable energy and the decarbonisation of energy. Since 2018, the public sector has also attempted to offer investors green investment

products. In 2019, Lithuania launched a project with the European Commission and the European Bank of Reconstruction and Development (EBRD) in the field of sustainable finance. It resulted in, among other things, the Lithuanian Green Finance Action Plan for 2023-2026 and the establishment of the Green Finance Institute in 2023.

Financial literacy

Financial literacy is getting nearer to the EU average, thanks to initiatives to promote financial education. Financial literacy is crucial to promote retail-investor participation in capital markets but also to familiarise SMEs with alternatives to bank financing. Financial education has been included in elementary schools since 2008 but the level of financial literacy still remains somewhat lower than the EU average. The 2023 Eurobarometer survey

⁽⁷⁷⁾ Source: AFME CMU Key Performance Indicators, Seventh Edition, November 2024.

(⁷⁸) shows that only 16% of Lithuanian citizens have a high level of financial literacy, 65% a medium level, and the remaining 19% a low level, compared to the EU average of 18% for high literacy, 64% for medium, and 18% for low.

The Lithuanian Ministry of Finance recently approved a public financial education plan (2024-2028). It focuses in particular on challenges for consumers and retail investors caused by rapid market development and digitalisation. The plan is therefore aimed at improving digital financial literacy levels and resilience against financial fraudsters. Educating children about finance at a young age creates a culture of understanding risk. The plan also covers SMEs, to increase their awareness of finance options in the capital markets as an alternative to bank financing, which is currently the dominant choice for SMEs.

(⁷⁸) Source: [Monitoring the level of financial literacy in the EU - July 2023 - Eurobarometer survey.](#)

Lithuania's institutional framework influences its competitiveness. Lithuania has made progress in improving the quality of legislation and in simplifying its regulatory framework through reforms to introduce the 'one-in, one-out' principle and to improve the e-citizen portal. While Lithuania ranks highly in digital public services, there is scope to improve mobile app availability and 5G coverage. Moreover, structural challenges in public service efficiency remain, such as regional disparities and cross-ministerial bottlenecks. The civil service has made progress with initiatives such as the Leadership Academy but lags behind in terms of lifelong learning. The justice system continues to perform efficiently.

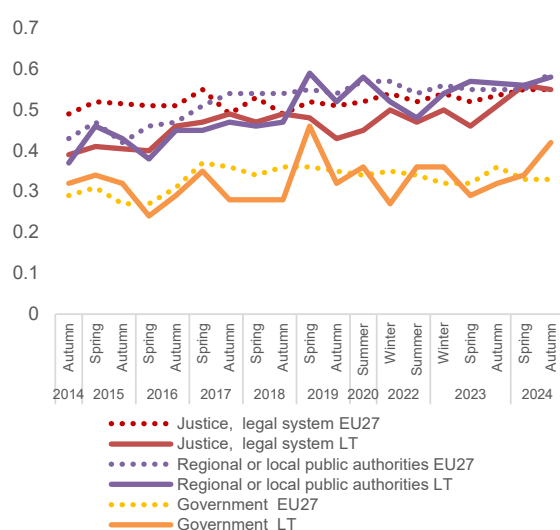
bureaucracy are key to further improving trust in the public administration ⁽⁷⁹⁾. The perceived quality of public administration has improved in both of Lithuania's regions and is now in line with the EU average ⁽⁸⁰⁾. Regional disparities in resource allocation however can lead to slower service delivery, particularly in smaller municipalities.

Quality of legislation and regulatory simplification

Performance in developing and evaluating legislation is above the EU average and has improved visibly since 2021. The use of regulatory tools like ex ante impact assessments, public consultations and reviews of existing regulations is stronger for primary laws than for subordinate regulations. However, there is scope for strengthening oversight and quality controls of regulatory impact assessments, as well as for systematic adoption of ex post evaluations of subordinate regulations (Graph A6.2). Lithuania still needs to address bottlenecks in cross-ministerial processes that slow down decision-making ⁽⁸¹⁾.

Public perceptions

Graph A6.1: **Trust in justice, regional / local authorities and in government**



(1) EU27 from 2019; EU28 before

Source: Standard Eurobarometer surveys

Trust in public institutions has shown a modest improvement. Trust in its justice institutions (55%, around the EU average) and regional/local authorities (58%, just below the EU average) surpasses trust in central government which remains above the EU average of 33% (Graph A6.1). According to citizens, greater transparency and lower

⁽⁷⁹⁾ [Understanding Europeans' views on reform needs - April 2023 - - Eurobarometer survey](#), Country Fact Sheet.

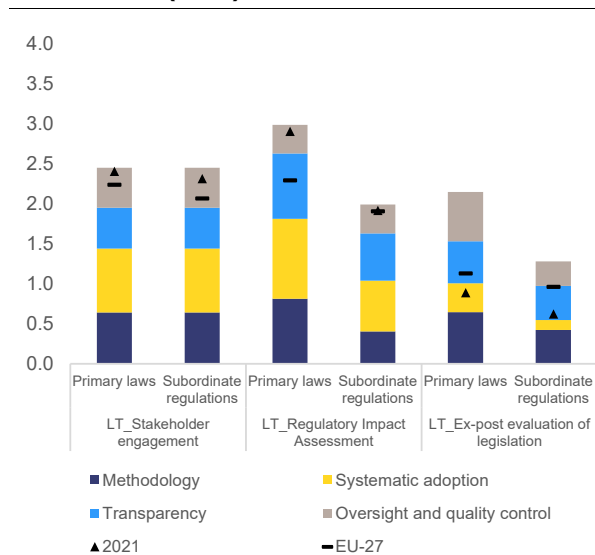
⁽⁸⁰⁾ [Inforegio - European Quality of Government Index](#)

⁽⁸¹⁾ [Enabling Inter-Municipal Shared Service Provision in Lithuania | OECD](#)

Table A6.1: **Lithuania. Selected indicators on administrative burden reduction and simplification**

Ex ante impact assessment of legislation		Ex post evaluation of legislation					
When developing new legislation, regulators are required to ...	Identify and assess the impacts of the baseline or 'do nothing' option.	<div><div></div></div>	Is required to consider the consistency of regulations and address areas of duplication.	<div><div></div></div>			
	Identify and assess the impacts of alternative non-regulatory options.	<div><div></div></div>	Is required to contain an assessment of administrative burdens.	<div><div></div></div>			
	Quantify administrative burdens of new regulations.	<div><div></div></div>	Is required to contain an assessment of substantive compliance costs.	<div><div></div></div>			
	Quantify substantial costs of compliance of new regulations.	<div><div></div></div>	Compares the impact of the existing regulation to alternative options.	<div><div></div></div>			
	Assess macroeconomic costs of new regulations.	<div><div></div></div>	Periodic ex post evaluation of existing regulations is mandatory.	<div><div></div></div>			
	Assess the level of compliance.	<div><div></div></div>	Government uses stock-flow linkage rules when introducing new regulations (e.g., one-in one-out).	<div><div></div></div>			
	Identify and assess potential enforcement mechanisms.	<div><div></div></div>	A standing body has published an in-depth review of specific regulatory areas in the last 3 years.	<div><div></div></div>			
		In the last 5 years, public stocktakes have invited businesses and citizens to assess the effectiveness, efficiency, and burdens of legislation.	<div><div></div></div>				
<div><div></div> Yes / For all primary laws</div>		<div><div></div> For major primary laws</div>		<div><div></div> For some primary laws</div>		<div><div></div> No / Never</div>	

(1) This table presents a subset of iREG indicators focusing on regulatory costs. The indicators refer to primary legislation. **Source:** OECD (2025), Regulatory Policy Outlook 2025 [<https://doi.org/10.1787/56b60e39-en>] and Better Regulation across the European Union 2025 (forthcoming).

Graph A6.2: **Indicators of Regulatory Policy and Governance (iREG)**

Source: OECD (2025), Regulatory Policy Outlook 2025 and Better Regulation across the European Union 2025 (forthcoming).

There is room to further strengthen its mechanisms for simplifying regulation. The Government's report on administrative burden and regulatory costs for 2024 indicates a

reduction in the administrative burden for companies of EUR 6.26 million but an increase in compliance costs of EUR 68.84 million, albeit stemming from a single legal act ⁽⁸²⁾. Further efforts to simplify procedures, such as the digital transformation of public services, are ongoing but require greater coordination between ministries. Moreover, while ex post evaluations of legislation are required to evaluate administrative burdens and substantive compliance costs, this requirement applies to some (and not all) primary laws. Other practices, like conducting in depth reviews of specific regulatory areas and public stocktakes of legislation, could further enhance the abovementioned simplification mechanisms (Table A6.1).

⁽⁸²⁾ Ministry of Economy and Innovation, Monitoring Administrative Burden and Compliance Costs, 2024, available at: [link](#)

Social dialogue

Social partners in Lithuania have a formal role in policy discussions, but poor information sharing limits their impact. The tripartite social dialogue system in Lithuania is relatively well established, with the Tripartite Council as its main institution, operating in the areas of labour, social, and economic policies. Social partners are typically given the opportunity to participate in other forums, engaging in discussions on proposed new legislation or amendments to existing laws. However, they frequently express concerns about the poor quality of shared information and the often extremely tight deadlines for submitting comments. This limits their ability to contribute meaningfully, particularly when consultations cover a broad scope ⁽⁸³⁾.

Lithuania is strengthening collective bargaining agreements in the private sector. Collective bargaining coverage in Lithuania remains relatively low, standing at 26.6% in 2021 ⁽⁸⁴⁾. A significant gap exists between the public and private sectors, with the latter largely comprising small and micro-enterprises without trade unions. The ESF+ supports capacity building for social partners, allocating over EUR 1.65 million in the 2021–2027 programming period, with a particular focus on expanding collective agreement coverage in the private sector.

Digital public services

Lithuania performs well on the digitalisation of its public services (Table A6.2). It ranks above the EU average in terms of digital public

services for citizens (86.6%) and businesses (95.9%). Lithuania also have made improvement in the access to e-health records in the past years. The country had an overall e-health maturity score of 95.4 in 2023, which is also above the EU average (79.1).

The proportion of e-government users is high (80.7%, EU average: 75.0%). Furthermore, 66.8% of the Lithuanians used eID for private purposes during 2023, while 60.4% used it to access public services. Both figures stand well above the EU average (41.1% and 35.7%, respectively) ⁽⁸⁵⁾, reflecting the effort of the national authorities to implement electronic identification in various use cases. Lithuania has not yet set up and notified eID schemes for legal persons under the eIDAS Regulation ⁽⁸⁶⁾. This means that Lithuanian businesses cannot authenticate themselves to access public services provided by other Member States, including those enabled by the Once-Only Technical System, part of the EU Single Digital Gateway ⁽⁸⁷⁾.

Lithuania is advancing towards seamless, automated exchange of authentic documents and data across the EU. It has developed the necessary infrastructure and is beginning the process of connecting the first authorities to the Once-Only Technical System ⁽⁸⁸⁾.

⁽⁸³⁾ For an analysis of the involvement of Lithuania's social partners at national level in the European Semester and the Recovery and Resilience Facility, see Eurofound (2025), [National-level social governance of the European Semester and the Recovery and Resilience Facility](#).

⁽⁸⁴⁾ Source: [OECD Data](#)

⁽⁸⁵⁾ European Commission. [Digital Decade 2024: Country reports](#)

⁽⁸⁶⁾ European Commission, [eIDAS Dashboard](#).

⁽⁸⁷⁾ European Commission, [The Once Only Principle System: A breakthrough for the EU's Digital Single Market](#)

⁽⁸⁸⁾ European Commission, [Once-Only Technical System Acceleratormeter](#)

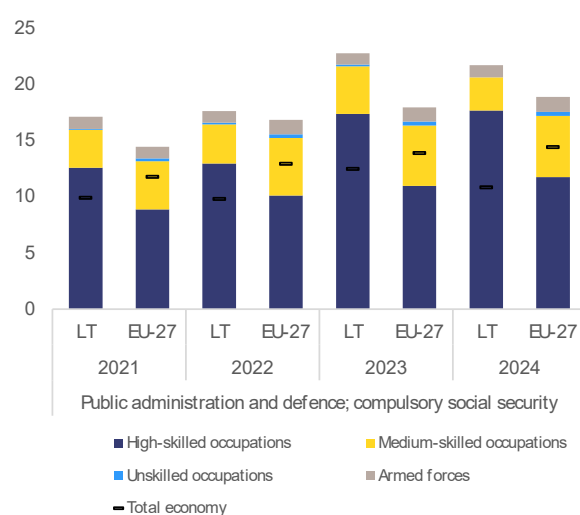
Table A6.2: **Digital Decade targets monitored through the Digital Economy and Society Index**

		Lithuania			EU-27	Digital Decade target by 2030
		2022	2023	2024	2024	EU-27
Digitalisation of public services						
1	Digital public services for citizens Score (0 to 100)	82 2021	84 2022	87 2023	79 2023	100 2030
2	Digital public services for businesses Score (0 to 100)	93 2021	94 2022	96 2023	85 2023	100 2030
3	Access to e-health records Score (0 to 100)	na 2021	92 2022	95 2023	79 2023	100 2030

Source: Digital Economy and Society Index

Under its recovery and resilience plan, Lithuania has set up a National Data Lake, which by late 2024 already contained 637 datasets (including 238 high-value datasets) from 189 organisations via the Lithuanian Open Data Portal. As a result, public sector data management has become less fragmented ⁽⁸⁹⁾. Other notable reforms include the digitalisation of public procurement systems and improvements to citizen-oriented platforms such as the e-citizen portal.

AI principles for the public sector were adopted by parliament in 2024. They provide for transparency, accountability, and fairness, and lay down the basis for AI uptake by the public sector ⁽⁹⁰⁾.

Graph A6.3: **Participation rate of 25-64 year olds in adult learning (%) by occupation**

Source: European Commission, based on the Labour Force Survey

Civil service

Lithuania continues to have a well-educated civil service. The share of public administration employees with higher education qualifications (79.8%) and of those pursuing adult learning (21.8% points to a relatively high-skilled workforce (Graph A6.3). In 2024, 70% of government employees were under the age of 50. This indicates a relatively young civil service within the EU. The proportion of women in senior civil service posts was 60.4% (above the

⁽⁸⁹⁾ Open Data Portal, Duomenų rinkinių būsenos, 2025, available at: [link](#)

⁽⁹⁰⁾ <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/b2d05cc006bd11ef8e4be9fad87afaf59>

EU-27 average)⁽⁹¹⁾, with the overall trend pointing to a slight narrowing of the gender gap. In 2024, 70% of government employees were under the age of 50. This indicates a relatively young civil service.

Lithuania has initiated significant civil service reforms to modernise structures, further improve skills and address demographic challenges. In 2024, with the support of the Recovery and Resilience Facility, it established the Leadership Academy, a centralised skills development system for civil service leaders with an e-learning platform and 18-modules. To comply with the milestones laid down by the plan, Lithuania will need to ensure uptake and a broad roll-out.

Integrity

Businesses consider corruption to be a problem when doing businesses. In Lithuania, 62% of companies consider that corruption is widespread (but below the EU average of 64%), while 28% consider that corruption is a problem when doing business (EU average 36%)⁽⁹²⁾. Moreover, 39% of companies believe that people and businesses caught for bribing a senior official are appropriately punished (EU average 31%)⁽⁹³⁾. Overall, the investigations and prosecutions in relation to corruption offences are conducted efficiently, including in high-level corruption cases⁽⁹⁴⁾. However, the OECD has issued several recommendations regarding the investigation and prosecution of foreign bribery cases⁽⁹⁵⁾, which are currently

being addressed by the authorities through a dedicated action plan.

Public procurement continues to be an area at high risk of corruption in Lithuania, and efforts continue to address it. 34% of companies (EU average 27%) think that corruption has prevented them from winning a public tender or a public procurement contract in practice in the last three years⁽⁹⁶⁾. In 2023, the Public Procurement Office implemented a project on increasing the number of suppliers in public procurement, focusing on training for suppliers strengthening their competences. Healthcare, local government, environmental protection, territorial planning, and construction supervision also remain high-risk areas for corruption in Lithuania⁽⁹⁷⁾.

Lithuania has made good progress with the implementation of its public register for lobbyists. Like most Member States, Lithuania has a lobby register in place. Since the Law on lobbying activities was amended in 2021, the number of registered lobbyists has nearly tripled — from 122 lobbyists in December 2020 to 330 lobbyists in August 2023. The majority of declared lobbying activities relate to the Law on Pharmacy and legislation related to trade in marketplaces, lotteries, electronic communications, and the regulation on tobacco products⁽⁹⁸⁾. The continued implementation of the register can help to ensure a level playing field between companies in access to policymakers.

Justice

The justice system is continuing to perform efficiently. In 2023, the disposition time in civil

⁽⁹¹⁾ European Institute for Gender Equality (EIGE), 'Gender Statistics Database', available at: [link](#)

⁽⁹²⁾ Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

⁽⁹³⁾ Ibid.

⁽⁹⁴⁾ See the 2024 country-specific chapter for Lithuania of the Rule of Law Report, pp. 13-14.

⁽⁹⁵⁾ Ibid., pp. 13-14.

⁽⁹⁶⁾ Flash Eurobarometer 543 on businesses' attitudes towards corruption in the EU (2024).

⁽⁹⁷⁾ See the 2024 country-specific chapter for Lithuania of the Rule of Law Report, p. 18.

⁽⁹⁸⁾ Ibid., pp. 17-18.

and commercial cases at first instance was the lowest in the EU (120 days), while it decreased at second instance (from 72 days in 2022 to 71 days in 2023) and at third instance (from 451 days in 2022 to 329 days in 2023). The disposition time of administrative cases was also the lowest in the EU, having further decreased (from 79 days in 2022 to 64 days in 2023). The use of digital tools in the justice system is widespread. Moreover, there has been significant progress in providing adequate resources for the justice system, including as regards the level of remuneration for prosecutors and court staff, while the expenditure on law courts in Lithuania continues to be one of the lowest in the EU. As regards judicial independence, no systemic deficiencies have been reported ⁽⁹⁹⁾.

⁽⁹⁹⁾ For more detailed analysis of the performance of the justice system in Lithuania, see the upcoming 2025 EU Justice Scoreboard and the 2024 Rule of Law Report.

Lithuania faces significant challenges regarding its clean industry transition and climate mitigation: The country has modest net-zero technology manufacturing and is heavily reliant on imported critical raw materials. Energy efficiency and circular material use rates remain below EU averages, and there is an urgent need to address rising greenhouse gas emissions from road transport and buildings. This annex reviews the areas in need of urgent attention in Lithuania's clean industry transition and climate mitigation, looking at different dimensions.

Strategic autonomy and technology for the green transition

Net zero industry

Lithuania's manufacturing across all Net-Zero technologies remains modest but with important development potential in the batterie sector⁽¹⁰⁰⁾. Lithuania's manufacturing capacity amounts to between 450 and 500 MW/year (2-3% of EU capacity) for solar PV.

Lithuania's regulatory framework is focusing on high-level policy, such as the National Energy Independence Strategy (NENS) and its National Energy and Climate Action Plan. Related measures within the NENS Implementation Plan notably include supporting the production of electricity storage technologies as well as attracting investors in the production of electric car batteries. Additionally, an ambitious green procurement policy and the existence of relevant sandboxes can foster the scale of innovative net zero technologies.

⁽¹⁰⁰⁾ European Commission: Directorate-General for Energy, The net-zero manufacturing industry landscape across the Member 2025, <https://data.europa.eu/doi/10.2833/2181110>

Incentives schemes supporting investment and skills in Net-Zero technologies have been put in place. Through the RRF funded "Billion for business scheme" (EUR 850 million), SMEs and large companies can apply to receive loans for projects that support investments in Net-Zero technologies. Two skill programmes are implemented, providing apprenticeship and vocational training for the green transition.

Transformation of the car industry

The demand for EVs could be improved by continuing to expand the charging grid. In 2024 around 8% of newly registered passenger cars were battery electric vehicles. While this roughly constitutes a twelve-fold increase since 2019⁽¹⁰¹⁾, it still represents a value below the EU average of 14.5%. While catch-up speed is remarkable, it is essential

that the expansion of the charging grid keeps up. Overall, however, with 27,000 newly registered passenger cars in 2024 the market is relatively small in Lithuania⁽¹⁰²⁾.

Critical raw materials

The country is dependent on the import of critical raw materials, but diversification is sufficient and market size low. Lithuania has no extraction sites of critical raw materials in its territory. Hence, industrial sectors which are using them have to rely solely on imports. Lithuanian industries import phosphorous products mainly from South Africa, Algeria and Senegal, Platinum products from Kazakhstan and Copper from South Africa. Due to a high diversification of countries of origin, Lithuanian imports of raw materials show to be less

⁽¹⁰¹⁾ Eurostat.

⁽¹⁰²⁾ [Newly registered electric cars by country | European Environment Agency's home page.](#)



concentrated than the rest of the EU ⁽¹⁰³⁾. With a yearly gross operating surplus of around EUR 90 million, the manufacturing industries which are using raw materials are comparably small (relative to an overall gross operating surplus of the economy of above EUR 2 billion)⁽¹⁰⁴⁾.

The reuse and recycling rate for end-of-life vehicles is above the EU average (94.5 % vs. 88.1% in 2021).

Climate mitigation

Industry decarbonisation

Lithuania's manufacturing sector is relatively GHG emissions intensive, with a major share of emissions coming from industry processes and product use. With 18 %, the share of industry in Lithuania's total greenhouse gas emissions is below the EU average of 21 % ⁽¹⁰⁵⁾. With 360 g CO₂eq per euro of GVA, the greenhouse gas emissions intensity of Lithuania's manufacturing production is about a third higher than the EU total (270 g/€). Since 2017, the GHG intensity of Lithuania's manufacturing production improved by 36 %, much more than the EU on average (20 %). Nearly two thirds of Lithuania's manufacturing GHG emissions – 65 % in 2023 – come from industrial processes and product use, the remainder being energy related. In the EU as a whole, these shares are 42:58.

⁽¹⁰³⁾ [Economic resilience | Single Market Scoreboard](#).

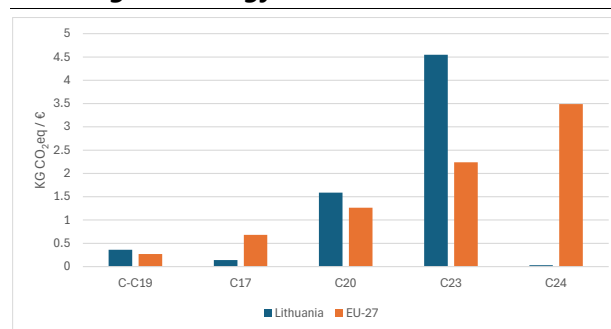
⁽¹⁰⁴⁾ Source: Eurostat.

⁽¹⁰⁵⁾ In 2023. Manufacturing includes all divisions of the "C" section of the NACE Rev. 2 statistical classification of economic activities. In the remainder of this section, unless indicated otherwise, data on manufacturing refer to the divisions of the NACE section C excluding division C19 (manufacture of coke and refined petroleum products), and the year 2022. The source of all data in this section is Eurostat; data following the UNFCCC Common Reporting Framework (CRF) are from the European Environment Agency (EEA), republished by Eurostat.

Recent years saw major improvements in the GHG emissions intensity of manufacturing in Lithuania, related to processes and product use in particular ⁽¹⁰⁶⁾.

Between 2017 and 2022, the intensity of manufacturing in Lithuania with regard to industry process and product use related GHG emissions declined by 45 %, the third highest improvement in the EU and much above the average of 23 %. In the same period, the GHG emissions intensity of manufacturing production related to energy use improved by 19 %, slightly above the EU average (16 %). Between 2017 and 2022, the share of electricity and renewables in the final energy consumption of Lithuania's manufacturing sector increased by 8 percentage points, to 46.6 %, the fourth largest increase in the EU. The energy intensity of manufacturing production declined by nearly one third, from 1.7 GWh per euro of gross value added in 2017 to 1.2 GWh/€.

Graph A7.1: **GHG emission intensity of manufacturing and energy-intensive sectors, 2022**



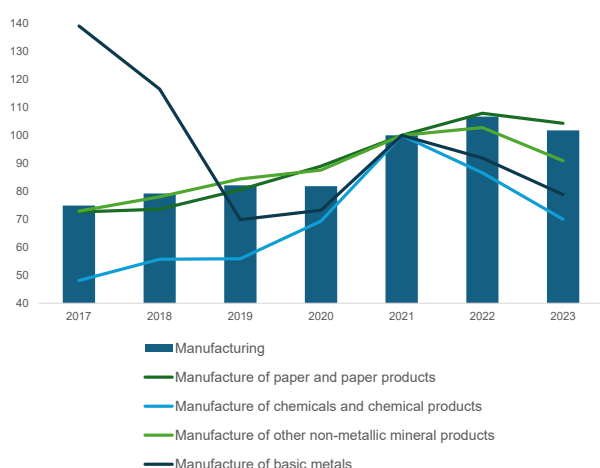
Source: Eurostat.

Among Lithuania's energy-intensive industries, the manufacture of paper

⁽¹⁰⁶⁾ For the GHG emissions intensity of GVA related to energy use and industrial processes and product use respectively, GHG emissions are from inventory data in line with the UNFCCC Common Reporting Format (CRF), notably referring to the source sectors CRF1.A.2 – fuel combustion in manufacturing industries and construction and CRF2 – industrial processes and product use. The CRF1.A.2 data broadly correspond to the NACE C and E sectors, excluding C-19. GVA data (in the denominator for both intensities) are aligned with this sectoral coverage. Therefore, they are not fully consistent with the data referred to in other part of this section.

chemicals is particularly greenhouse gas emissions intensive. Energy-intensive industries ⁽¹⁰⁷⁾ account for 17 % of Lithuania's manufacturing gross value added (2022). Among these, the manufacture of chemicals and chemical products has a very high GHG emissions intensity in EU comparison, 11 kg CO₂eq per euro of GVA. The manufacture of paper and paper products in Lithuania has elevated levels of GHG emissions intensity too. After a peak in 2022, production in several energy-intensive sectors has declined in 2023 more than in manufacturing overall (see graph A5.2).

Graph A7.2: **Manufacturing industry production: total and selected sectors, index (2021 = 100), 2017-2023**



Source: Eurostat

Reduction of emissions in the effort sharing sectors

Lithuania is projected to reach its effort sharing target if it adopts and implements the planned additional climate mitigation

⁽¹⁰⁷⁾Notably, the manufacture of paper and paper products (NACE division C17), of chemicals and chemical products (C20), "other" non-metallic mineral products (C23; this division includes manufacturing activities related to a single substance of mineral origin, such as glass, ceramic products, tiles, and cement and plaster), and basic metals (C24). To date, these industries are energy-intensive – i.e. consuming much energy both on site and/or in the form of purchased electricity – and greenhouse gas emissions intensive, in various combinations.

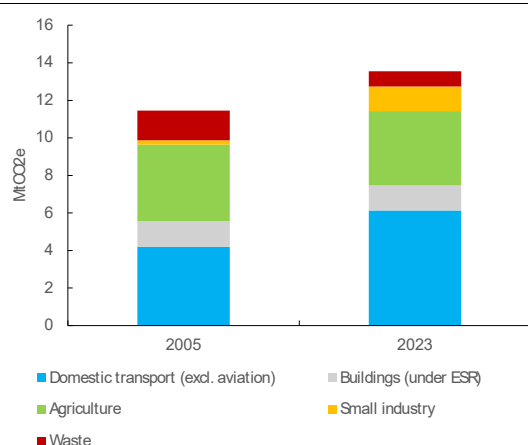
measures ⁽¹⁰⁸⁾. In 2023, GHG emissions from Lithuania's effort sharing sectors are expected to have been 3.8 % above those of 2005. By 2030, current policies are projected to reduce them by 17.5 % relative to 2005 levels; additional policies considered in Lithuania's final updated NECP are projected to imply reductions by a further 3.8 percentage points. Hence Lithuania is projected to overachieve its effort sharing target, -21 %, by 0.3 percentage points upon adoption and implementation of those measures ⁽¹⁰⁹⁾.

Swift action on decarbonising transport and buildings appears particularly exigent in Lithuania. Between 2005 and 2023, greenhouse gas emissions from road transport increased by 47 % in Lithuania, while they decreased by 5 % in the EU overall. From buildings, they decreased by 3 %, much less than the 33 % seen in the EU overall. Speeding up climate mitigation in these sectors would help protect households, businesses and transport users in Lithuania from the impact of carbon pricing.

⁽¹⁰⁸⁾ The national greenhouse gas emission reduction target is set out in Regulation (EU) 2023/857 (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).

⁽¹⁰⁹⁾ The effort sharing emissions for 2023 are based on approximated inventory data. The final data will be established in 2027 after a comprehensive review. Projections on the impact of current policies ("with existing measures", WEM) and additional policies ("with additional measures", WAM) as per Lithuania's final updated NECP.

Graph A7.3: **Greenhouse gas emissions in the effort sharing sectors, 2005 and 2023**



Source: European Environment Agency.

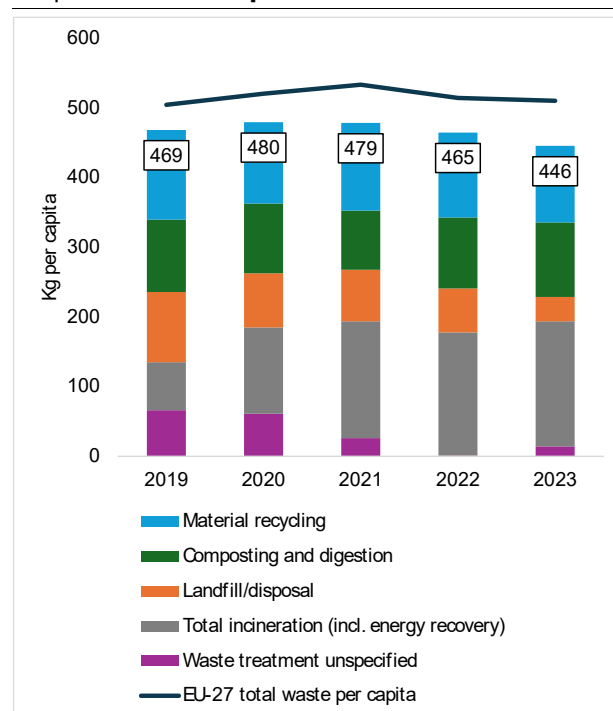
Sustainable industry

Circular economy transition

Lithuania faces challenges transitioning towards a circular economy, needing to boost its low circular material use rate, fully implement its circular economy policy framework, and adopt upstream circularity measures. With 3.9% in 2023, Lithuania's circular material use was three times below the EU average and among five lowest rates in the EU. Resource productivity, too, was considerably below the EU average in 2023, with EUR 1.21 per kg of material consumed, despite slightly improving since 2020. Lithuania adopted the Guidelines for Lithuania's transition to a circular economy by 2035 as one of the reforms in the Recovery and Resilience Plan. Green public procurement is mandatory and minimum environmental criteria have been laid down for 32 product groups. There is a need to promote the use of reusable, environmentally friendly materials in production. This includes adopting "safe by design" technological solutions, implementing eco-design principles, developing innovative circular business models and promoting industrial symbiosis.

While Lithuania has made progress with its waste management system, a lot remains to be done to reduce higher material footprint per capita compared to the EU average. With 446 kg in 2023, Lithuania produces less waste per capita than the EU-27 average, 511 kg. At the same time, with a recycling rate of 48.4 % in 2022, Lithuania is at risk of missing the 2025 targets for the preparing for re-use and the recycling of municipal waste (55%) and for the recycling of all packaging waste. In 2022, with 44 %, its recycling rate for plastic packaging although showing a downward trend was above the EU average of 41%. In 2022, 81.3 % of construction and demolition waste was recycled, excluding backfilling, above the EU average of 79.8%. At the same time, the material footprint of 23 tonnes per capita is considerably higher than the EU-27 average of 14 tonnes per person.

Graph A7.4: **Municipal waste treatment**



Source: Eurostat

Current investments into the circularity transition have been insufficient. Lithuania is estimated to need total additional investments worth at least EUR 122 million per year for the circular economy transition, including waste management. Of the circular economy gap,

EUR 26 million relates to recent initiatives, such as the eco-design for sustainable products, packaging and packaging waste, labelling and digital tools, critical raw materials recycling, and measures proposed under the amendment of the Waste Framework Directive, and EUR 73 million constitutes further investment need to unlock Lithuania's circular economy potential ⁽¹¹⁰⁾.

Zero pollution industry

Lithuania matches the EU average in industrial air emission intensity but faces challenges with air pollutant reductions. In 2022, air emission intensity from industry in Lithuania was on par with the EU average at 0.06 grams per euro. Lithuania struggles with fulfilling its air pollutant emission reduction commitments. According to the inventories submitted in 2024, there were exceedances for 3 pollutants: nitrogen oxides, non-methane volatile organic compounds and ammonia. The costs of industrial air emissions are estimated at EUR 1.4 million ⁽¹¹¹⁾. In Lithuania, environmental noise is a new cause of concern causing ischaemic heart disease, stroke, interrupted sleep, cognitive impairment and stress. To meet pollution prevention and control objective and address related health and economic costs, Lithuania requires an additional EUR 378 million per year (0.57% of GDP), primarily for clean air and noise ⁽¹¹²⁾.

⁽¹¹⁰⁾European Commission, DG Environment, *Environmental investment needs & gaps assessment programme, 2025 update*. Expressed in 2022 prices.

⁽¹¹¹⁾2019 value according to the value of statistical life methodology; source: EEA, 2024, *The costs to health and the environment from industrial air pollution in Europe – 2024 update*, [Link](#).

⁽¹¹²⁾European Commission, DG Environment, *Environmental investment needs & gaps assessment programme, 2025 update*. Expressed in 2022 prices.

Table A7.1: Key clean industry and climate mitigation indicators: Lithuania

Strategic autonomy and technology for the green transition				Lithuania				EU-27			
Net zero industry											
Operational manufacturing capacity 2023	50 (c), 400-450 (m)			- Electrolyzer, MW			-				
- Solar PV (c: cell, w: wafer, m: module), MW				- battery, MWh			-				
- Wind (b: blade, t: turbine, n: nacelle), MW	-										
Automotive industry transformation	2017	2018	2019	2020	2021	2022	2023		2018	2021	
Motorisation rate (passenger cars per 1000 inhabitants), %	480	509	533	557	574	578	589	↗	539	561	
New zero-emission vehicles, electricity motor, %	0.23	0.65	0.68	1.17	4.53	6.25	8.23	↗	1.03	8.96	
Critical raw materials	2017	2018	2019	2020	2021	2022	2023		2018	2021	
Material import dependency, %		41.4	40.5	36.7	37.9	36.8	34.2	↘	24.2	22.6	
Climate mitigation				Lithuania				Trend		EU-27	
Industry decarbonisation	2017	2018	2019	2020	2021	2022	2023		2017	2022	
GHG emissions intensity of manufacturing production, kg/€	0.57	0.51	0.52	0.52	0.45	0.36		↘	0.34	0.27	
Share of energy-related emissions in industrial GHG emissions	72.7	73.7	69.6	70.5	71.1	68.5	65.4	↘	44.8	42.5	
Energy-related GHG emissions intensity of manufacturing and construction, kg/€	119.0	119.0	117.2	106.0	104.9	96.8	-	↘	158.4	132.9	
Share of electricity and renewables in final energy consumption in manufacturing, %	38.8	38.8	39.5	44.2	42.7	46.6	49.0	↗	43.3	44.2	
Energy intensity of manufacturing, GWh/€	1.68	1.66	1.61	1.45	1.42	1.15	1.13	↘	1.29	1.09	
Share of energy-intensive industries in manufacturing production						16.4				7.3	
GHG emissions intensity of production [...], kg/€											
- paper and paper products (NACE C17)	0.32	0.27	0.26	0.18	0.17	0.14	-	-	0.73	0.68	
- chemicals and chemical products (NACE C20)	4.54	3.47	3.48	2.61	1.96	1.59	-	-	1.25	1.26	
- other non-metallic mineral products (NACE C23)	3.39	3.62	3.92	3.65	3.82	4.55	-	-	2.53	2.24	
- basic metals (NACE C24)	0.20	0.22	0.33	0.07	0.03	0.03	-	-	2.79	3.49	
Reduction of effort sharing emissions		2018	2019	2020	2021	2022	2023		2018	2023	
GHG emission reductions relative to base year, %					9.0	6.2	3.8				
- domestic road transport		44.8	49.9	46.4	46.1	43.5	46.5	↗	1.4	5.2	
- buildings		11.7	6.5	0.3	13.4	11.7	-2.7	↘	21.4	32.9	
	2005				2021	2022	2023	Target	WEM	WAM	
Effort sharing: GHG emissions, Mt; target, gap, %	13.1				14.2	13.9	13.6	-21.0	-3.5	0.3	
Sustainable industry				Lithuania				Trend		EU-27	
Circular economy transition		2018	2019	2020	2021	2022	2023		2018	2021	
Material footprint, tonnes per person		20.1	20.4	21.7	23.2	22.2	23.0	↗	14.7	15.0	
Circular material use rate, %		4.3	3.9	4.0	4.1	4.0	3.9	↘	11.6	11.1	
Resource productivity, €/kg		0.9	0.9	0.9	1.0	1.2	1.2	↗	2.1	2.3	
Zero pollution industry											
Years of life lost due to PM2.5, per 100,000 inhabitants		783	727	532	734	742	-	↗	702	571	
Air pollution damage cost intensity, per thousand € of GVA					19.0					27.5	
Water pollution intensity, kg weighted by human factors per bn € GVA						0.0				0.9	

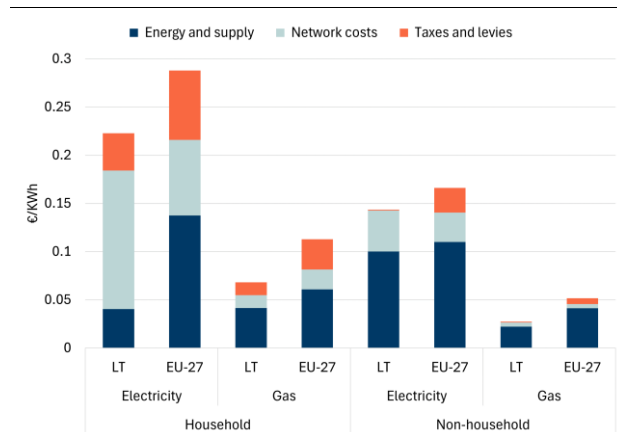
Source: **Net zero industry:** European Commission: [The net-zero manufacturing industry landscape across Member States: final report](#), 2025. **Automotive industry transformation:** Eurostat. **Critical raw materials:** Eurostat. **Climate mitigation:** See footnotes in the "climate mitigation" section; reduction of effort sharing emissions: [EEA greenhouse gases data viewer](#); European Commission, [Climate Action Progress Report](#), 2024. **Sustainable industry:** Years of life lost due to PM2.5: Eurostat and EEA, [Harm to human health from air pollution in Europe: burden of disease status](#), 2024. Air pollution damage: EEA, [EU large industry air pollution damage costs intensity](#), 2024. Emissions covered: As, benzene, Cd, Cr, Hg, NH3, Ni, NMVOC, NOX, Pb, dioxins, PM10, PAH, SOX. Water pollution intensity: EEA, [EU large industry water pollution intensity](#), 2024. Releases into water covered from cadmium, lead, mercury, nickel. Other indicators: Eurostat.

This annex outlines the progress made and the ongoing challenges faced in enhancing energy competitiveness and affordability, while advancing the transition to net zero. It examines the measures and targets proposed in the final (draft) updates to the national energy and climate plans (NECPs) for 2030.

Lithuania is showing considerable progress towards deploying renewables, speeding up permitting and ensuring electricity interconnectivity. Challenges remain significant vis-à-vis energy prices, renovation of buildings and energy efficiency as a whole.

Energy prices and costs

Graph A8.1: Retail energy price components for household and non-household consumers, 2024



(i) For household consumers, consumption band is DC for electricity and D2 for gas. Taxes and levies are shown including VAT.

(ii) For non-household consumers, consumption band is ID for electricity and I4 for gas. Taxes and levies are shown excluding VAT and recoverable charges, as these are typically recovered by businesses.

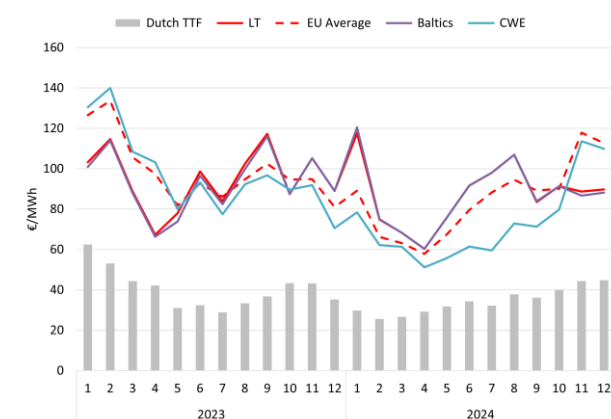
Source: Eurostat

Lithuania's retail energy prices dropped in 2024 and remained well below EU average.

In 2024, the price structure of Lithuania followed a major reallocation. The energy and supply component of household prices, which were 22.5% lower than the EU average in 2024, represents only 18.1% of the retail price, compared to 59.7% in 2023. At the same time, the network cost component surged, as it represented in 2024 64.5% of the electricity retail price, against 26% in 2023. Gas retail prices for non-household consumers in

Lithuania dropped 59.5% between 2024 and 2023, and are the lowest in the EU, 47% below the EU average.

Graph A8.2: Monthly average day-ahead wholesale electricity prices and European benchmark natural gas prices (Dutch TTF)



(i) the Title Transfer Facility (TTF) is a virtual trading point for natural gas in the Netherlands. It serves as the primary benchmark for European natural gas prices.

(ii) Baltics and CWE respectively provide average prices in the Baltic market (Estonia, Latvia, and Lithuania) and central-western European market (Belgium, France, Germany, Luxembourg, the Netherlands, and Austria).

Source: S&P Platts and ENTSO-E

In 2024, average wholesale electricity prices in Lithuania stood at 87.34 EUR/MWh⁽¹¹³⁾, on a par with the other Baltic states and slightly above the EU average of 84.7 EUR/MWh. While prices in Lithuania declined early in the year amid falling natural gas costs, they surged during the spring/summer, diverging from Central Western European (CWE) markets. Prolonged and warmer summer heatwaves in the region led to higher consumption (+6% in June-August 2024 vs same period in 2023), while a strained net importing position and limited non-fossil flexibility exacerbated the supply-demand gap. Though this gap was partially covered by increased hydro pumped storage and wind generation (respectively +37%⁽¹¹⁴⁾ and +19% in June-August 2024 vs same period in 2023), costly natural gas-fired generation was ramped

⁽¹¹³⁾Fraunhofer (ENTSO-E data).

⁽¹¹⁴⁾ENTSO-E.

up (+13%) during peak demand hours to cover the remaining needs. Consequently, and more so than in 2023, these conditions drove concentrated price spikes in the evening hours (18h-21h), when solar output declined and demand remained high, especially in the summer. On the other hand, average daytime hourly prices throughout the year were lower compared to 2023, likely owing to the uptake of solar output in Lithuania (+104% in 2024) and in neighbouring markets.

Prices in the Baltics then stabilised in the winter, supported by stronger wind generation compared to 2023, particularly from Lithuania, while Central Western European markets faced strong price spikes due to considerable fluctuations in the generation of low renewables.

Flexibility and electricity grids

The Baltic states, including Lithuania, have successfully, as of 9 February 2025, connected to the Central Europe synchronous area and desynchronised from the BRELL system. With 39.21% in 2024, Lithuania has surpassed the EU-wide interconnectivity target of 15%. Lithuania is part of the Baltic⁽¹¹⁵⁾ capacity calculation region (CCR). Member States should ensure that a minimum of 70% of technical cross-border capacity is available for trading. The general trend in this CCR is that direct current bidding zone borders generally meet the 70% capacity requirement, with reductions only occurring during maintenance of individual direct current links. To increase cross-border trade capacity, Lithuania is planning to reinforce the internal electricity grid. Individual figures on Lithuanian cross-border capacity made available for trade will be available after the synchronisation.

⁽¹¹⁵⁾Finland, Sweden, Estonia, Latvia, Lithuania and Poland are part of the Baltic CCR. A CCR is a group of countries which calculate cross-border electricity flows together.

Desynchronisation from the Russian and Belarussian system, where the electricity frequency was centrally controlled by Russia, enables better transmission system interconnectivity and market integration in the region, allowing Baltic electricity systems to operate under common and transparent European rules.

Another important step is fostering the development of renewable energy in Lithuania. Infrastructure installed for the synchronisation will improve the ability of transmission grids to support a higher share of renewable sources in overall electricity generation. Finalising the Harmony Link project⁽¹¹⁶⁾ and strengthening the existing interconnectivity levels with Latvia are essential aspects of developing Lithuania's renewable energy potential.

In the first Union list of projects of common interest and projects of mutual interest, Lithuania has one hydrogen project (currently known as the Nordic-Baltic Hydrogen Corridor) and one CO₂ project (currently known as the CCS Baltic Consortium), which are planned to be commissioned by the end of 2029 and 2030, respectively.

In 2024 Lithuania purchased the floating storage regasification unit at the Klaipeda LNG terminal after the lease contract expired that year. This infrastructure has been crucial in ensuring security of supply in the Baltics amid a full ban on Russian energy imports.

Lithuania's permitting process functions well and balances regulatory requirements with practical implementation. The efficiency of the permitting process has resulted in successful implementation of energy projects

⁽¹¹⁶⁾The Harmony Link project aims to complement the existing LitPol Link and expand the capacity between the Baltic electrical grids and the Continental Europe Synchronous Area.

that have led Lithuania to desynchronise from the post-Soviet energy system. 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 with project promoters to streamline coordination and make sure that the projects benefit from a special status (project of national significance or project of special national significance). This shortens specific stages of the permitting procedure.

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). However, the current plans for developing the network of transmission system operators suggest that grid development is not yet aligned with the national policy targets for wind and solar energy.

Lithuania has taken steps to support non-fossil flexibility. The operational electricity storage capacity reported is around 200 MW, which was funded under the Lithuanian recovery and resilience plan. Lithuania has taken steps to promote electricity storage, with further measures set to increase balancing capacity to 55% of renewable energy sources (RES) by 2030. Additionally, it is building the fifth synchronous unit of the Kruonis pumped storage power plant, due to be completed by 2026. This is in order to be able to participate effectively, with a potential of 1 010 MW, in the ancillary services market. Lithuania's regulatory framework does not pose 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. 58% of household consumers had smart meters in 2023, which marks significant progress from 12.3% in 2022. All households consuming more than 1 000 kWh of electricity per year will be equipped with smart meters by the end of 2026.

Consumer empowerment in the electricity market is significant, with a continuously growing number of prosumers, and more energy communities finding their place in the energy system. Due to a favourable regulatory framework, the number of prosumers continues to grow. In 2024 it reached 124 000 (40% increase compared to 2023), with a total generation power of 1.4 GW. Household consumers in Lithuania have access to dynamic-price contracts, but their uptake remains low (less than 2% of all contracts). The predominant contract types are 'market-based fixed price, fixed term' (60%) contracts and regulated-price (28%) contracts, indicating a strong consumer preference for stable pricing.

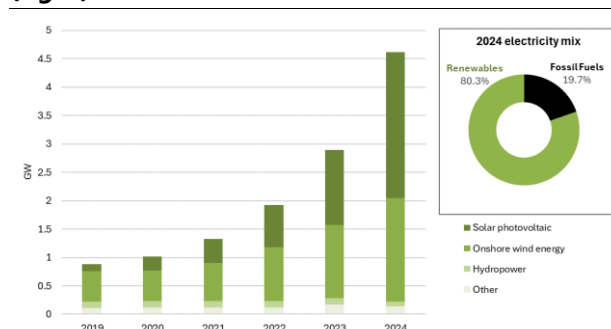
Lithuania further developed the legal framework for energy communities by updating definitions, making comprehensive recommendations for renewable and citizen energy communities, and putting in place dedicated support and investment schemes. As a result, the number of registered energy communities has increased significantly, with 18 registered in 2024, up from just 3 the previous year.

In 2023, electricity accounted for 16.5% of Lithuania's final energy consumption, below the EU average of 22.9%, and this share has remained largely stagnant in the last decade. When it comes to households, electricity accounts for 17.7% of final energy consumption, while in industry it represents 32.3% (see also Annex 7). For the transport sector, this share remains negligible at 0.4%. Further progress in electrification across sectors is required for cost effectively decarbonising the economy and bringing the benefits of affordable renewable generation to consumers.

Renewables and long-term contracts

In 2024, Lithuania installed renewables capacity strikingly increased. Lithuania has set ambitious targets for renewables in its final updated NECP, including trajectories for capacity additions in the next few years. The installations in 2024 are in line with this trajectory. Lithuania's total installed capacity surged from 2 894 MW in 2023, to 4 618 MW in 2024, an increase of 60%. Lithuania installed 544 MW of wind energy and 1243 MW of solar photovoltaics, an increase of 42% and 93% respectively compared to total installed capacity in 2023.

Graph A8.3: **Lithuania's installed renewable capacity (left) and electricity generation mix (right)**



"Other" includes renewable municipal waste, solid biofuels, liquid biofuels, and biogas.

Source: IRENA, Ember

In 2024, the proportion of renewable energy in Lithuanian electricity generation reached 80% (mostly supplied by wind), marking a slight decrease from 84% in 2023⁽¹¹⁷⁾. In the EU, RES accounted for 47% of the overall electricity generated in 2024. This level of renewable energy brings Lithuania into the group of leading EU countries in terms of renewable energy penetration. From 2026 to 2030, 3 816 MW of new wind and 936 MW of new solar capacities are expected to be deployed.

Lithuania has made some progress to speed up RES permitting but further steps would be beneficial. The government has introduced measures to align the national with the EU framework. Environmental impact assessment requirements for renewable energy projects are streamlined and integrated into a joint procedure, hence cutting red tape for developers.

However, permitting procedures are still split between different administrative bodies and, while authorities help to guide developers to the necessary institutions with their queries, this does not reflect the one-stop-shop approach that is promoted as a best practice across EU Member States. Investments in administrative and human resources as well as new technologies (e.g. geospatial data management) would also be useful to limit future bottlenecks.

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 support. The related tender was published in November 2024. However, by the end of 2024, no new schedule on the expected allocation of support for renewables had been released on the Union renewables development platform.

Interest in power purchase agreements (PPAs) in Lithuania is growing but the number of transactions remains limited. In 2023, two PPA transactions were concluded: one PPA between Aquila Clean Energy and Eesti Energia covering 1.8 TWh from a new wind farm, and one PPA between Svyturys-Utenos Alus (SUA, part of the Carlsberg Group) and Green Genius covering two solar-plus-storage power plants that will meet the energy requirements of Svyturys-Utenos (first hybrid PPA in Lithuania). In 2024, 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.

⁽¹¹⁷⁾ Yearly electricity data, Ember.

Energy efficiency

Lithuania has made some progress towards reaching the 2030 EU energy efficiency targets. This progress concerns FEC, but not PEC: in 2023, its primary energy consumption (PEC) was 6.34 Mtoe, a 0.5% increase compared to 2022; in 2023, its final energy consumption (FEC) was 5.3 Mtoe, a 1.4% decrease compared to 2022. Also, compared to 2022, FEC decreased in industry by 5.8%, in the residential sector by 2.8% and in services by 2.3%, but increased in transport by 2.0%. Under the recast Energy Efficiency Directive (Directive (EU) 2023/1791), it would be beneficial if Lithuania tried to reach a PEC of 5.4 Mtoe and a FEC of 4.4 Mtoe by 2030.

According to the national energy and climate progress report (NECPR) for 2023, Lithuania achieved new annual energy savings of 177 ktoe/year. The top four measures were higher excise duties and taxes on fuel consumption, agreements with energy suppliers on consumer education and consulting, SPI (services in the public interest) relief for industrial enterprises and replacing boilers with more efficient technologies.

Lithuania has not notified the Commission of its comprehensive heating and cooling assessment identifying potential for the application of high-efficiency cogeneration and efficient district heating and cooling in line with Article 25(1) of the Energy Efficiency Directive. There is no estimated completion date for this.

Lithuania's efforts in building renovation still face significant challenges in contributing meaningfully to its 2030 energy consumption reduction target for buildings. Although the residential sector's final energy consumption fell between 2022 and 2023, from a medium-term perspective, between 2018 and 2022, **residential final energy consumption (FEC) rose by 1%**. This contrasts with Lithuania's long-term renovation strategy goal of achieving a 15% reduction in building

energy consumption by 2030. Preliminary data from 2023 suggest that the trend has not been corrected and this figure will continue to increase.

In 2022, **heating and cooling** continued to dominate residential FEC, accounting for 80% of the total. Sales of heat pumps reached 28 950 units in 2023, a 15% increase compared to 2022, when 25 130 units were sold. **Electricity in Lithuania was 3.4 times more expensive than gas in the first half of 2024**, which means that end users save energy but pay more if they chose a heat pump for heating.

Lithuania's national financing framework mobilising investments in energy efficiency is mostly composed of grants and subsidies. In 2024, Lithuania continued to implement the planned energy efficiency financing schemes, especially under the Recovery and Resilience Fund, the Modernisation Fund, the Cohesion Fund and also provided technical support for the modernisation of apartment buildings. Lithuania established a national energy efficiency fund as laid down in Article 30 of Directive (EU) 2023/1791. This will help Lithuania to deliver the energy-efficiency national contributions to the EU target, by including the use of financial instruments within the fund.

Security of supply and diversification

Lithuania banned imports and purchases of Russian natural gas back in 2022. Natural gas demand in the country was reduced by 30% between August 2022 and July 2024, well above the 15% EU target. Security of supply is still well ensured by gas and electricity infrastructure.

Between 2022 and 2023, Lithuania's energy mix saw a rise in the share of renewables from 28.5% to 30.2%. Oil and petroleum products remained the dominant source, increasing from 46.9% to 47.8%. Natural gas consumption

decreased slightly from 20.3% to 19.1%. Solid fossil fuels, non-renewable waste and peat continued to fall, with solid fossil fuels dropping from 2.5% to 1.5%, non-renewable waste from 1.4% to 1.1%, and peat from 0.4% to 0.2%.

Fossil fuel subsidies

In 2023, environmentally harmful⁽¹¹⁸⁾ fossil fuel subsidies without a planned phase-out before 2030 represented 0.47%⁽¹¹⁹⁾ of Lithuania's GDP⁽¹²⁰⁾ (EU weighted average of 0.49%). Tax measures accounted for 99.9% of this volume, while direct grants represented 0.1%. Fossil fuel subsidies without a planned phase-out before 2030 and which do not specifically address, in a targeted way, energy poverty nor genuine energy security concerns included a reduced excise tax on natural gas used for heating in businesses and households, an reduced excise tax on gasoil for fishing and agriculture and a reduced VAT rate for heating residential spaces. Additionally, Lithuania's 2023 Effective Carbon Rate⁽¹²¹⁾ averaged EUR 61.8 per tonne of CO₂, below the EU weighted mean of EUR 84.80⁽¹²²⁾.

⁽¹¹⁸⁾ Direct fossil fuel subsidies that incentivise maintaining or increasing in the availability of fossil fuels and/or use of fossil fuels.

⁽¹¹⁹⁾ Numerator is based on volumes disclosed by the Lithuanian authorities via the 2025 NECPR reporting. For all Member States, it includes public R&D expenditures for fossil fuels as reported by the IEA (Energy Technology RD&D Budgets) and excludes, for methodological consistency, excise tax exemption on kerosene consumed in intra-EU27 air traffic.

⁽¹²⁰⁾ 2023 Gross Domestic Product at market prices, Eurostat.

⁽¹²¹⁾ 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.

⁽¹²²⁾ OECD (2024), Pricing Greenhouse Gas Emissions 2024

Table A8.1: Key Energy Indicators

	Lithuania				EU			
	2021	2022	2023	2024	2021	2022	2023	2024
Household consumer - Electricity retail price (EUR/kWh)	0.1405	0.1957	0.2362	0.2229	0.2314	0.2649	0.2877	0.2879
Energy & supply [%]	35.9%	54.2%	59.7%	18.1%	36.6%	54.3%	55.6%	47.8%
Network costs	39.6%	27.5%	26.0%	64.5%	26.7%	25.3%	24.8%	27.2%
Taxes and levies including VAT	24.4%	18.2%	14.4%	17.4%	36.7%	20.3%	19.6%	25.0%
VAT	17.3%	17.4%	17.4%	17.4%	14.5%	13.4%	13.8%	14.6%
Household consumer - Gas retail price	0.0341	0.0868	0.1687	0.0682	0.0684	0.0948	0.1121	0.1128
Energy & supply	50.4%	70.5%	73.9%	61.0%	43.7%	61.0%	64.5%	53.9%
Network costs	24.3%	10.4%	8.7%	19.5%	22.5%	17.3%	17.1%	18.3%
Taxes and levies including VAT	25.2%	19.1%	17.4%	19.5%	33.8%	21.7%	18.4%	27.8%
VAT	16.4%	17.3%	17.4%	17.3%	15.5%	11.6%	10.2%	13.6%
Non-household consumer - Electricity retail price	0.1105	0.2020	0.1484	0.1435	0.1242	0.1895	0.1971	0.1661
Energy & supply	50.3%	66.9%	68.1%	57.7%	43.0%	66.5%	63.0%	55.8%
Network costs	24.3%	14.9%	17.2%	24.5%	15.8%	10.7%	11.9%	15.5%
Taxes and levies excluding VAT	9.7%	1.3%	-3.1%	0.6%	30.4%	9.9%	11.2%	15.4%
Non-household consumer - Gas retail price	0.0434	0.0975	0.0677	0.0274	0.0328	0.0722	0.0672	0.0517
Energy & supply	70.7%	79.5%	71.9%	67.2%	66.2%	77.3%	77.3%	68.7%
Network costs	8.4%	2.4%	9.5%	12.7%	7.7%	3.8%	5.3%	7.1%
Taxes and levies excluding VAT	4.4%	0.9%	1.5%	3.3%	12.5%	6.1%	7.3%	11.6%
Wholesale electricity price (EUR/MWh)	90.2	229.2	94.6	87.1	111.0	233.2	99.1	84.7
Dutch TTF (EUR/MWh)	n/a	n/a	n/a	n/a	46.9	123.1	40.5	34.4
	2017	2018	2019	2020	2021	2022	2023	2024
Gross Electricity Production (GWh)	4,187	3,511	3,972	5,518	5,079	4,783	5,979	-
Combustible Fuels	1,324	1,089	1,210	2,550	2,240	1,845	1,741	-
Nuclear	-	-	-	-	-	-	-	-
Hydro	1,181	960	948	1,080	1,094	1,021	989	-
Wind	1,364	1,144	1,499	1,552	1,362	1,512	2,536	-
Solar	68	87	91	129	191	342	688	-
Geothermal	-	-	-	-	-	-	-	-
Other Sources	250	232	223	207	193	63	24	-
Gross Electricity Production [%]								
Combustible Fuels	31.6%	31.0%	30.5%	46.2%	44.1%	38.6%	29.1%	-
Nuclear	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Hydro	28.2%	27.3%	23.9%	19.6%	21.5%	21.3%	16.5%	-
Wind	32.6%	32.6%	37.8%	28.1%	26.8%	31.6%	42.4%	-
Solar	1.6%	2.5%	2.3%	2.3%	3.8%	7.2%	11.5%	-
Geothermal	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-
Other Sources	6.0%	6.6%	5.6%	3.7%	3.8%	1.3%	0.4%	-
Net Imports of Electricity (GWh)	8,677	9,633	9,344	7,909	9,044	8,568	6,930	-
As a % of electricity available for final consumption	79.2%	85.4%	81.9%	70.9%	75.7%	74.8%	62.6%	-
Electricity Interconnection [%]	88.3%	80.9%	86.5%	77.0%	81.4%	69.2%	72.4%	41.0%
Share of renewable energy consumption - by sector [%]								
Electricity	18.3%	18.4%	18.8%	20.2%	21.3%	26.5%	36.5%	-
Heating and cooling	46.5%	46.0%	47.4%	50.4%	48.6%	51.5%	53.6%	-
Transport	4.3%	4.3%	4.0%	5.5%	6.5%	6.7%	7.2%	-
Overall	26.0%	24.7%	25.5%	26.8%	28.2%	29.6%	31.9%	-
	2020	2021	2022	2023	2020	2021	2022	2023
Import Dependency [%]	74.9%	73.3%	72.4%	68.0%	57.5%	55.5%	62.5%	58.3%
of Solid fossil fuels	87.9%	91.9%	127.8%	89.9%	35.8%	37.2%	45.9%	40.8%
of Oil and petroleum products	102.7%	101.7%	98.8%	96.2%	96.8%	91.7%	97.8%	94.5%
of Natural Gas	98.9%	100.8%	101.2%	96.0%	83.6%	83.6%	97.6%	90.0%
Dependency from Russian Fossil Fuels [%]								
of Natural Gas	41.8%	36.6%	7.9%	0.0%	41.0%	40.9%	20.7%	9.3%
of Crude Oil	72.6%	79.9%	17.3%	0.0%	25.7%	25.2%	18.4%	3.0%
of Hard Coal	100.0%	100.0%	72.8%	0.0%	49.1%	47.4%	21.5%	1.0%
	2017	2018	2019	2020	2021	2022	2023	
Gas Consumption (in bcm)	2.3	2.1	2.2	2.4	2.3	1.5	1.5	
Gas Consumption year-on-year change [%]	5.0%	-7.5%	4.4%	6.1%	-4.2%	-32.4%	-3.1%	
Gas Imports - by type (in bcm)	2.5	2.3	2.7	2.9	2.4	3.5	3.3	
Gas imports - pipeline	1.3	1.3	1.2	1.2	0.9	0.3	0.1	
Gas imports - LNG	1.2	1.0	1.6	1.7	1.5	3.3	3.2	
Gas Imports - by main source supplier [%]								
Norway	35.3%	43.2%	53.7%	37.5%	10.5%	25.2%	45.5%	
United States	7.2%	0.0%	3.0%	20.7%	38.6%	66.9%	45.4%	
Russia	53.7%	56.8%	43.3%	41.8%	36.6%	7.9%	0.0%	

Source: Eurostat, ENTSO-E, S&P Platts

Lithuania faces deteriorating water quality and biodiversity loss, which has an impact on climate resilience and sectors reliant on ecosystem services, alongside a sharp decline in farmland bird populations. Despite a rich natural heritage, two thirds of Lithuania's protected habitats have an unfavourable conservation status, impacting climate adaptation, while biodiversity loss threatens ecosystem resilience. Lithuania faces several water challenges, such as surface water pollution. Meanwhile, Lithuania's sustainable land-use sector is on track to exceed its 2030 carbon removal targets.

Climate adaptation and preparedness

Lithuania is experiencing more frequent and longer periods of extreme weather events, such as drought, extreme heat and heatwaves, and heavy rainfall causing floods, as well as slow-onset changes such as a general temperature rise. 2023 saw over 32% of the territory affected by drought, while climate-related economic losses amounted to EUR 466 million. Agriculture and forestry are key sectors affected, with a high likelihood of facing hazards and vulnerability. Climate change poses risks to energy systems, human health (from extreme temperatures), urban infrastructure (from heavy precipitation) and ecosystems (through biodiversity loss). The secondary effects include the spread of pests and diseases that can have detrimental effects on agriculture, forestry and human health⁽¹²³⁾. Between 2012 and 2020, of the 19 Member States reporting, Lithuania reported the second highest number of locally transmitted cases of tick-borne encephalitis, suggesting that the local climate is already suitable for ticks⁽¹²⁴⁾.

⁽¹²³⁾EEA, 2024, *European Climate Risk Assessment*.

⁽¹²⁴⁾ Van Heuverswyn et al., 2023, *Spatiotemporal spread of tick-borne encephalitis in the EU/EEA, 2012 to 2020*, [Link](#).

In 2021, Lithuania enhanced its climate goals for up to 2050 under the National Climate Change Management Agenda, focusing on adaptation, resilience and vulnerability reduction, with efforts coordinated by the Ministry of the Environment and implemented through cross-sector policies. In 2021, Lithuania updated its national climate targets and goals under the National Climate Change Management Agenda, which sets targets and objectives for Lithuania's climate change management policy up to 2030, 2040 and, in the longer term, up to 2050⁽¹²⁵⁾. The goals of the climate change adaptation policy are to strengthen adaptive capacity, increase resilience and reduce vulnerability to the impacts of climate change, and to contribute to sustainable development and ensure adequate adaptation responses. The implementation of the agenda is coordinated by the Ministry of the Environment. The agenda's objectives are implemented through cross-sector policies, such as the National Progress Plan for 2021-2030, the National Sustainable Development Programme and specific economic sectors' development programmes or short-term planning documents. Lithuania has been focusing on disaster risk assessments, primarily under civil protection and disaster management policies.

Progress has also been made at sub-national level. In 2023, Lithuania began a municipal climate-adaptation project that includes climate projections, vulnerability assessment, adaptation planning and staff training. Lithuania is updating its climate-adaptation efforts, addressing vulnerabilities in various sectors, maintaining stable governance and fostering collaboration, but there is room for improvement in addressing barriers and nature-based solutions. At sub-national level, municipalities that are signatories to the EU Covenant of Mayors cover 49% of the total

⁽¹²⁵⁾Seimas of the Republic of Lithuania, 2021, *National Climate Change Management Agenda*, [Link](#).



population, which is slightly higher than the EU average of 46%.

of the gap is for implementing the different aspects the Water Framework Directive.

Water resilience

Despite Lithuania's abundant water resources and generally good groundwater quality, significant ecological and chemical deterioration of surface waters, pollution challenges and a EUR 259 million annual investment gap for water management, threaten the country's climate resilience and ecological balance. Lithuania has abundant water resources and groundwater quality is reported as good. The water exploitation index plus (WEI+) is low: it reached 0.4 in 2022 compared to an EU average of 4.5, showing a decreasing trend over the last few years. Nevertheless, there has been a deterioration in the ecological status of surface water bodies, and a steep reduction in surface water bodies with good chemical status. Lakes, rivers and coastal waters in Lithuania are polluted, with 36.4% achieving good ecological status, due to agricultural runoff, urban pollution and nutrient flows contributing to the Baltic Sea's eutrophication. Saline intrusions, probably caused by rising sea levels and over-abstraction of water, are also impacting groundwater quality. Furthermore, the widespread use of individual wastewater systems in rural areas has raised concerns about untreated and unmonitored waste water. 94% of all surface water bodies are reported as having 'unknown' chemical status due to the lack of information on the amounts of hazardous substances released into the water. The specific sources of pollution hampering the good chemical status of waterbodies remain unidentified, and their proper monitoring is essential to tackle the pollution issue and increase Lithuania's water resilience. As shown in Graph A9.2, the investment gap for water protection and water management is EUR 259 million per year by 2027. Roughly 30% of the gap can be attributed to unaddressed financing needs in wastewater management while the larger part

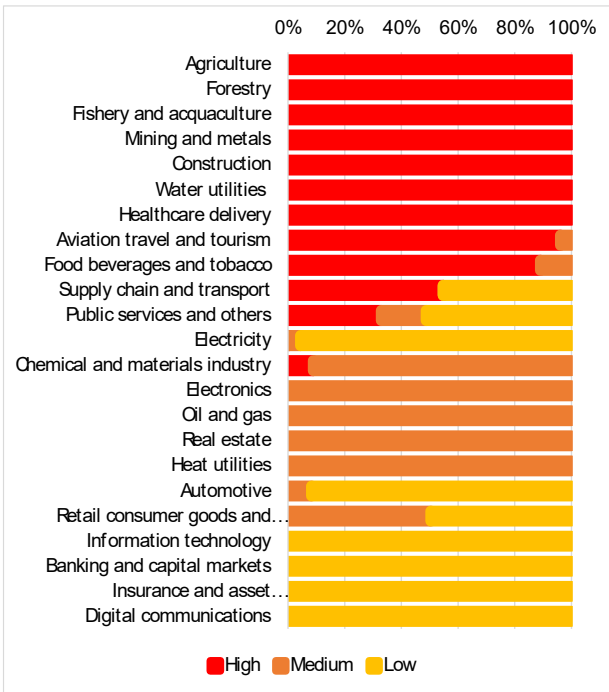
Biodiversity and ecosystems

The state of nature and ecosystems in Lithuania affects the country's climate resilience. Lithuania is home to 54 types of natural habitat and 106 species of EU importance. However, according to the latest available data covering the reporting period 2013-2018, only 22.2% of the country's protected habitats have a good status, though that is higher than the EU average of 14.7%. Similarly, the conservation status of species, with 36.7% reported as having a good status, is above the EU average of 27%. Despite some positive trends, the number of habitats and species with bad conservation status has increased. Having two thirds of protected habitats with unfavourable conservation status impacts Lithuania's climate resilience, as the loss of biodiversity impairs ecosystems' ability to provide services that help mitigate the effects of climate change, such as regulating water cycles, maintaining soil health and sequestering carbon. The common farmland bird index shows a sharp decline since 2019, decreasing from 61.7 to 45.2, a value significantly below the EU-27 average of 68.2. It is also the lowest value among all reported Member States and indicates a significant deterioration in population abundance and diversity of common farmland bird species.

Nature degradation creates significant risks to Lithuania's economy and competitiveness, as its economy is highly dependent on ecosystem services. 41% of Lithuania's economy is directly and highly dependent on the provision of ecosystem services. Though this value is slightly below the EU-27 average of 44%, it still means that failure to maintain ecosystems' capacity to deliver services could entail significant costs or even stop production. Several sectors, such as agriculture, forestry, fisheries and aquaculture,

construction, water utilities and healthcare (see Graph A9.1), are particularly dependent on ecosystem services, with 100% of the gross value added of these sectors directly dependent on those services. Lithuania's supply chain dependency on ecosystem services is high for 25% of its gross value added, showing a higher level of dependency than the EU-27 average of 22%. Protecting and restoring key ecosystems would ensure that the long-term competitiveness of these economic sectors is preserved.

Graph A9.1: **Direct dependency(1) on ecosystem services(2) of the gross value added generated by economic sector in 2022**



(1) Dependency based on the sector's own operations, excluding value chain operations within countries and across international value chains. A high dependency indicates a high potential exposure to nature-related shocks or deteriorating trends, which means that the disruption of an ecosystem service could cause production failure and severe financial loss.

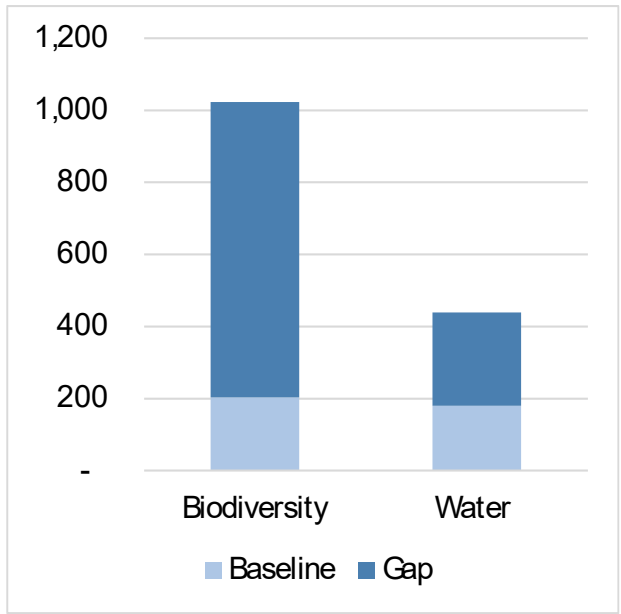
(2) Ecosystem services are the contributions of ecosystems to the benefits that are used in economic and other human activity, including provisioning services (e.g. biomass provisioning or water supply), regulating and maintenance services (e.g. soil quality regulation or pollination), and cultural services (e.g. recreational activities).

Source: Hirschbuehl et al., 2025, *The EU economy's dependency on nature*, [Link](#).

Targeted action on nature protection and restoration is needed to meet Lithuania's nature restoration targets.

In 2022, Lithuania had 17.8% of its territory covered by protected land area, below the EU-27 average of 26.1%. Lithuania needs to restore up to 4 576 km² of habitats listed in Annex I to the Habitats Directive, corresponding to up to 7% of its territory ⁽¹²⁶⁾. Lithuania needs EUR 1 billion of investment per year to effectively conserve and restore its natural capital, mitigate the impacts of climate change and preserve the country's rich biodiversity (see Graph A7.2). The current level of financing for biodiversity and ecosystem conservation in Lithuania is around EUR 203 million per year. The gap of EUR 820 million is substantial, half of Lithuania's total environmental investment shortfall, putting at risk the country's commitment to global biodiversity agreements and undermining its long-term economic and social development.

Graph A9.2: **Investment needs and gaps in EUR million, in 2022 constant prices**



Source: European Commission, DG Environment, Environmental investment needs & gaps assessment programme, 2025 update.

⁽¹²⁶⁾ European Commission (2022), Impact assessment accompanying the proposal for a Regulation on nature restoration.

Sustainable agriculture and land use

Lithuania's carbon removals are on track to meet its 2030 target for land use, land-use change and forestry (LULUCF). Over the last ten years, Lithuania's land-use sector has maintained a consistent level of carbon removals. To meet its 2030 LULUCF target, additional carbon removals of -0.6 million tonnes of CO₂ equivalent (CO₂eq) are needed ⁽¹²⁷⁾. The latest available projections show a surplus compared to the target of -0.3 million tonnes of CO₂eq for 2030 ⁽¹²⁸⁾. Lithuania is therefore on track to meet its 2030 target.

Lithuania's agriculture is still a significant source of greenhouse gas emissions and continues to have an impact on air, water and soils. In 2022, agriculture was responsible for a total of 4.1 million tonnes of CO₂eq, accounting for around 21% of the country's total emissions (excluding LULUCF). This includes 2.2 million tonnes of CO₂eq from livestock. Another big source of agricultural GHG emissions are drained organic soils. Drained peatlands make up 6% of Lithuania's agricultural land (compared to the EU average of 3%) but account for 53% of the country's agricultural emissions (including LULUCF), significantly higher than the EU average of 25% ⁽¹²⁹⁾. Lithuania's utilised agricultural area (UAA) decreased by 2.7% from 3 million hectares in 2014 to 2.9 million hectares in 2023. The country's nitrogen balance in 2021 was 42.7 kg of nitrogen per hectare of UAA. The analysis of Lithuania's third river basin management plans identified nutrients from agriculture as an significant pressure for surface water, affecting its good status. As the livestock density decreased to the index level of 0.25 in 2020, i.e. exactly three times less than

the EU average of 0.75, ammonia emissions have shown a slight decreasing trend as well, with a reduction of 1.6% between 2018 and 2022. During 2017-2022, pesticides with levels exceeding thresholds were detected in 9% of Lithuania's surface waters. Lithuania's agriculture sector faces the need to balance productivity with environmental conservation. While there are negative impacts associated with traditional farming practices, efforts are underway to transition to more sustainable and environmentally friendly systems.

The Common Agricultural Policy (CAP) Strategic Plan of Lithuania dedicates approximately 27% of its budget to a wide range of measures addressing environmental and climate-related challenges in the agriculture sector. Around 40% of UAA is to receive CAP support to improve and protect soil quality, e.g. by including leguminous crops in crop rotation. 25% of UAA will be supported to protect water quality by reducing the use of fertilisers and pesticides. Furthermore, the plan supports sustainable farming practices and encourages the expansion of the area covered by organic farming. The area under organic farming in Lithuania is expected to increase by half, reaching almost 13% by 2028. Other support possibilities cover, for example, investments in conservation and restoration of habitats, and sustainable management of water resources ⁽¹³⁰⁾.

⁽¹²⁷⁾ National LULUCF targets of the Member States in line with Regulation (EU) 2023/839.

⁽¹²⁸⁾ Climate Action Progress Report 2024 COM/2024/498.

⁽¹²⁹⁾ Heinrich-Böll-Stiftung, 2023, *Peatland Atlas*, [Link](#).

⁽¹³⁰⁾ Lithuania – CAP Strategic Plan, [Link](#).

Table A9.1: Key indicators tracking progress on climate adaptation, resilience and environment

Climate adaptation and preparedness:								EU-27	
	Lithuania							2018	2021
Drought impact on ecosystems [area impacted by drought as % of total]	2018	2019	2020	2021	2022	2023		6.77	2.76
	15.5	50.24	3.39	2.08	0.02	32.04			
Forest-fire burnt area ⁽¹⁾ [ha, annual average 2006-2023]	32	32	32	32	32	32			
Economic losses from extreme events [EUR million at constant 2022 prices]	-	-	-	-	1	466		24 142	62 981
Insurance protection gap ⁽²⁾ [composite score between 0 and 4]	-	-	-	-	1.00	1.00			
Heat-related mortality ⁽³⁾ [number of deaths per 100 000 inhabitants in 2013-2022]	117	117	117	117	117				
Sub-national climate adaptation action [% of population covered by the EU Covenant of Mayors for Climate & Energy]	49	49	50	51	50	49		41	44

Water resilience:								EU-27	
	Lithuania							2018	2021
Water Exploitation Index Plus, WEI+ ⁽⁴⁾ [total water consumption as % of renewable freshwater resources]	2018	2019	2020	2021	2022	2023		4.5	4.5
	0.4	0.5	0.9	0.6	0.4	-			
Water consumption [million m ³]	98	97	138	123	105	-			
Ecological/quantitative status of water bodies ⁽⁵⁾ [% of water bodies failing to achieve good status]									
Surface water bodies	-	-	-	64%	-	-		-	59%
Groundwater bodies	-	-	-	0%	-	-		-	93%

Biodiversity and ecosystems:								EU-27	
	Lithuania							2018	2021
Conservation status of habitats ⁽⁶⁾ [% of habitats having a good conservation status]	2018	2019	2020	2021	2022	2023		14.7	-
	22.2	-	-	-	-	-			
Common farmland bird index 2000=100	58.5	61.7	50.9	46.4	45.2	-		72.2	74.4
Protected areas [% of protected land areas]	-	-	-	17	18	-		-	26

Sustainable agriculture and land use:								EU-27	
	Lithuania							2018	2021
Bioeconomy's added value ⁽⁷⁾ [EUR million]	2018	2019	2020	2021	2022	2023		634 378	716 124
	3 322	3 611	4 083	4 505					
Landscape features [% of agricultural land covered with landscape features]	-	-	-	-	4	-			
Food waste [kg per capita]	-	-	137	139	-	-			
Area under organic farming [% of total UAA]	8.1	8.1	8.0	8.9	9.3			7.99	-
Nitrogen balance [kg of nitrogen per ha of UAA]	43.5	40.8	33.7	42.7	-	-			
Nitrates in groundwater ⁽⁸⁾ [mgNO ₃ /l]	-	-	-	-	-	-			
Net greenhouse gas removals from LULUCF ⁽⁹⁾ [kt CO ₂ -eq]	- 5 717	- 5 903	- 6 073	- 5 501	- 6 356	-		- 256 077	- 240 984

(1) The data show the average for the timespan 2006-2023 based on EFFIS - European Forest Fire Information System.

(2) Scale: 0 (no protection gap) – 4 (very high gap). EIOPA, 2024, Dashboard on insurance protection gap for natural catastrophes.

(3) van Daalen, K. R. et al., 2024, The 2024 Europe report of the Lancet Countdown on health and climate change: unprecedented warming demands unprecedented action. The Lancet Public Health.

(4) This indicator 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.

(5) European Commission, 2024, seventh 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).

(6) For this indicator, the EU average includes figures for the UK under the previous configuration, EU-28.

(7) European Commission, 2023, EU Bioeconomy Monitoring System dashboards.

(8) Nitrates 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 sets a limit of 50 mg NO₃/L to avoid threats to human health.

(9) Net removals are expressed in negative figures, net emissions in positive figures. Reported data are from the 2024 greenhouse gas inventory submission. 2030 value of net greenhouse gas removals as in Regulation (EU) 2023/839 – Annex IIa.

Source: Eurostat, EEA.

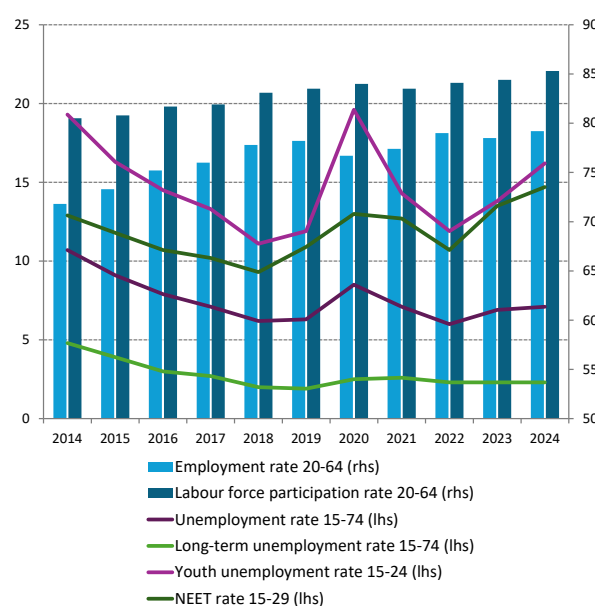
Lithuania's labour market is recovering, but further progress could be hindered by the remaining structural challenges. The economic slowdown, with GDP growth falling from 2.5% in 2022 to 0.3% in 2023, had an adverse effect on recruitment, with the employment rate falling from 79% in 2022 to 78.5% in 2023 (EU: 75.3%). However, in 2024, the GDP grew by 2.7% and the employment rate rebounded, reaching 79.2%, only 1.5 percentage points (pps) short of Lithuania's 2030 target of 80.7%. The country still faces structural challenges that hinder the economy's competitiveness and potential economic growth, such as stagnating productivity, labour shortages, skills mismatches and an underperforming Active Labour Market Policy (ALMP) system. Other factors include demographic change and underrepresentation of certain groups in the labour market, particularly young people, the low-skilled and persons with disabilities. As Lithuania works towards its 2030 employment target, the main challenges include harnessing the potential of underrepresented groups, including through increased coverage of ALMP measures, addressing skills mismatches and labour shortages, and enhancing labour productivity.

Unemployment rate rose amid a strong growth of the labour force in 2023 and 2024. The labour force continued to grow in 2023 and 2024, driven by migration from non-EU countries, primarily Ukraine. Rising minimum wage and changes in the tax-system⁽¹³¹⁾ may have also contributed to a rise in the activity rate (20-64), which increased in both 2023 and 2024, reaching 85.3% in 2024 (EU: 80.4%) and reflecting the addition of 51 000 people to the labour force compared to 2022. At the same time, the inactive population (20-

⁽¹³¹⁾ While the minimum wage grew from EUR 607 in January 2020 to EUR 1 038 in 2025 (net EUR 777), the non-taxable income threshold (for those earning up to the amount of the minimum wage) more than doubled from EUR 350 in January 2020 to EUR 747 in 2024.

64) continued to fall, reaching 14.7% in Q4 2024. As a result, the labour market struggled to absorb new entrants and the unemployment rate (15-74) rose to 6.9% in 2023, up from 6% in 2022, and to 7.1% in 2024 (EU: 5.9%). Young people and low-skilled people were among those particularly negatively affected.

Graph A10.1: Key labour market indicators



Source: Eurostat [fsi_emp_a], [une_rt_a], [une_ltu_a], [edat_lfse_20], EU LFS.

The labour market situation of young people (15-24) further deteriorated in 2024, marked by low employment and increasing unemployment rates. The economic downturn of 2023 has disproportionately affected youth employment. The employment rate of those aged 15-24 was well below the EU average in 2024 (30.8% vs 35%). Low-skilled youth remain particularly vulnerable, with an employment rate of just 4.3% in 2024⁽¹³²⁾, more than four times below the EU average of 19.7%. Moreover, the youth unemployment rate (15-24) rose from 11.9% in 2022 to 13.8% in 2023 and surged further to 16.2% in 2024, surpassing the EU average of 14.9%. The youth unemployment rate increased significantly for

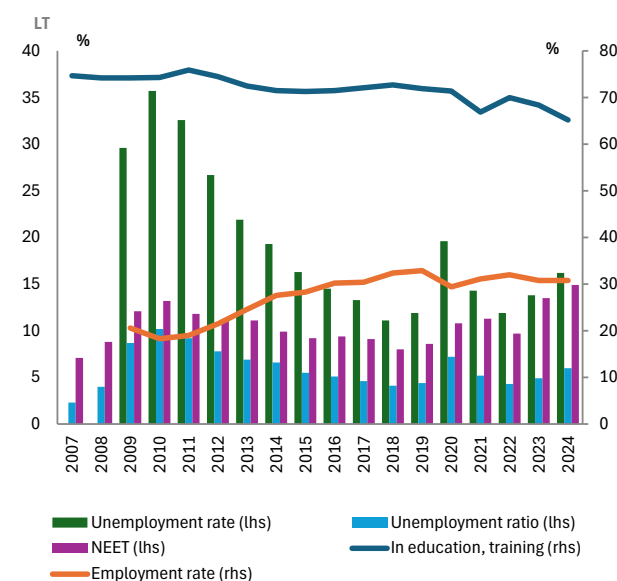
⁽¹³²⁾ Eurostat indicates low reliability of 2024 data for Lithuania



young females (by 6.2 pps to 16.4% vs EU 14.6%), while having decreased for young males (by 1.2 pps to 16% vs EU 15.1%) ⁽¹³³⁾.

The difficulties faced by young people in transitioning to employment are further underscored by the rising share of young people not in employment, education or training (NEETs). The share of NEETs increased for the second consecutive year, reaching 14.7% in 2024 and surpassing the EU average of 11%. While the rate of unemployed NEETs remained relatively stable at 4.5% (up from 3.8% in 2022 and 4% in 2023), the proportion of inactive NEETs increased to 9.5% in 2023 and 10.1% in 2024 (from 6.9% in 2022) and was one of the highest among the Member States (EU: 6.9%). The increase in the NEET rate was also driven by a rise in early leaving from education and training, which rose from 4.8% in 2022 to 6.4% in 2023 and 8.4% in 2024, albeit still below the EU average of 9.3%. The new government's programme includes commitments to further promote access to employment through the Youth Guarantee, supported by the European Social Fund Plus (ESF+), to expand careers counselling, especially in rural areas, and to further improve access to benefits, services and housing for young families. However, further targeted efforts would be beneficial to tackle the problem of growing numbers of NEETs and unemployed young people.

Graph A10.2: **Youth labour market outcomes (15-24 years)**



Source: Eurostat, LFS [edat_lfse_18, lfsi_emp_a, une_rt_a, lfsi_act_a, edat_lfse_20]

Vulnerable groups, such as low-qualified adults, face persistent barriers to labour market integration, while the coverage of ALMP measures remains limited.

Employment outcomes in Lithuania are closely tied to educational attainment. The employment rate for people with at most lower-secondary education continued to lag behind the EU average in 2024 (53.1% vs 58.7%). The unemployment rate of the low-skilled remained significantly above the EU average in 2024 (17.2% vs 11.6%), and around one third of newly registered unemployed were low-skilled, with no professional qualifications. Despite these structural challenges, less than 5% of all registered unemployed people in 2023 took part in ALMP measures, reportedly due to various factors limiting their interest to participate, including a lack of motivation due to debts, addictions or health problems, a lack of suitable and tailored support for learning or other employability enhancing offers, underdeveloped public services including public transport and long commute times, especially in the remote areas, caring responsibilities and other reasons. Public expenditure on ALMPs was just 0.13% of GDP in 2023, even less than before the pandemic. According to national data the funding for

⁽¹³³⁾ Eurostat indicates low reliability of this data for 2024.

ALMPs increased in 2024 compared to 2022, however, much of this increase was due to European Social Fund Plus (ESF+) funds absorption. Lithuania has allocated EUR 272 million of ESF+ inter alia for tailored ALMP measures to groups of unemployed, such as the low-skilled, youth, long-term unemployed and elderly. These measures are expected to enable over 54 000 people to become more employable. However, given the number of the registered unemployed in Lithuania was close to 162 thousand in March 2025, it would be beneficial to consider increasing the coverage of ALMP measures, including through better tailoring them to individual needs and addressing other reasons limiting participation incentives to further strengthen activation and integration of disadvantaged groups into the labour market.

The disability employment gap remains among the highest in the EU. After a slight decrease in 2023, the disability employment gap increased substantially in 2024, reaching 39.9 pps in 2024, well above the EU average of 24 pps. The gap is significantly higher for men than for women (46 pps vs 32.8 pps), a trend observed since 2018. While national statistics on employment and unemployment rates for people with disabilities differ, they consistently indicate significant challenges in integration of people with disabilities into work. Only 46.5% of people with disabilities (15-64) were active in the labour market in Lithuania in 2024, below the EU average of 55.5%. Furthermore, 46.4% of young persons with disabilities (15-29) were NEETs, with a disability gap of 33.5 pps (vs 19.8 pps in the EU), further underscoring challenges related to their transition into the workforce. There is a strong correlation between low employment rates among people with disabilities and high poverty rates (see Annex 11). To address these issues, Lithuania has launched reforms to encourage people with disabilities to participate in an open labour market. These measures remain at an early stage and have not yet brought about a noticeable increase in employment of people with disabilities. Further efforts, such as

expanding targeted ALMP measures and enhancing cooperation with employers, could be beneficial to improve labour market outcomes for people with disabilities.

Rapid ageing and declining birth rates pose long-term challenges to the size of the working-age population. The working-age population (15-64) in Lithuania is projected to decline by 42.4% by 2070, compared to 15.4% in the EU. While the population decline has stalled recently, Lithuania experienced a net loss of more than 600 000 residents between 2003 (a year before joining the EU) and 2021. A labour force increased by almost 80 000 people between 2021 and 2024, mainly driven by increased immigration from non-EU countries, including Belarus and Ukraine. However, the number of non-EU nationals started to fall in the second half of 2024 due to stricter entry requirements and other control measures ⁽¹³⁴⁾. The largest recorded decrease was among Ukrainians from 86 353 to 68 166, and Belarusians, from 62 167 to 59 399 ⁽¹³⁵⁾. In addition, Lithuania further reduced the quota of non-EU workers from 40 000 to 25 000 in 2025, which could further slow labour force growth. The projected decrease in working-age population risks exacerbating labour shortages and skills mismatches, underscoring the urgency of activating and better integrating underrepresented groups and those outside the labour market to enter work. To maintain a robust workforce in key sectors and bolster Lithuania's competitiveness, it would be beneficial to expand the coverage of the targeted ALMP measures, improve upskilling and reskilling, develop a coherent talent attraction and migrant integration policy and increase productivity.

⁽¹³⁴⁾ This does not apply to people who are not protected under the Temporary Protection Directive – this Directive mainly applies to Ukrainians who have arrived since 24 February 2022, but not those who arrived before then, or immigrants from other non-EU countries, such as Belarus

⁽¹³⁵⁾ [Ministry of Interior of Lithuania](#)

Persistent labour shortages and skills mismatches in certain sectors hinder potential productivity gains. While still lower than the EU average (2.7%), the job vacancy rate in Lithuania has been hovering around 1.8-2% over 2021-2024, mainly due to labour shortages in public administration, health, transport and finance. At the same time, labour market slack, reflecting the unmet need for labour, increased slightly in 2024 (10.3%), but remained below the EU average (11.7%). Increasing labour market slack, together with persistently high labour shortages in some sectors, may indicate problems with matching efficiency in the Lithuanian labour market, which is further underscored by low coverage of the ALMP measures. The macroeconomic skills mismatch ⁽¹³⁶⁾ increased slightly in 2024 (21%), in contrast with most Member States, remaining above the EU average of 19.6%.

Wages have grown rapidly over recent years, but labour productivity growth has been slower, posing risks to competitiveness. Nominal wages increased by more than 11% in 2022 and 2023 and by 8.6% in 2024. Real wages have also grown rapidly since 2023, by 7.7% in 2024, and are projected to continue growing, albeit more slowly, supported by robust nominal wage growth and rapid disinflation (inflation fell sharply from 8.7% in 2023 to 0.9% in 2024⁽¹³⁷⁾). The statutory minimum wage increased by more than 26% between January 2022 and July 2024. Although wages are still catching up compared to the EU average⁽¹³⁸⁾, their rapid growth, coupled with stagnating export market shares in 2023 and a drop in labour productivity, risks undermining Lithuania's competitiveness. Labour productivity decreased in 2022 and 2023 by 2.3

and 1.1 pps respectively, then slightly increased by 0.4pps in 2024 ⁽¹³⁹⁾, with significant regional disparities (Annex 17). Given the projected decline in working-age population, it would be beneficial to increase efforts to foster labour productivity. As part of efforts to transpose the Minimum Wage Directive, Lithuania has changed its mechanism for setting the minimum wage, adding labour productivity to the criteria.

The labour tax wedge ⁽¹⁴⁰⁾ has fallen, particularly for low-income earners, but a high unemployment trap for some income levels indicates that some people are deterred from entering work. In 2024, Lithuania's labour tax wedge was lower than the EU average for single people earning below and above the average wage. Second earners at 67% of the average wage whose spouses earn the average wage face a tax wedge that is lower than the EU average and equal to that of single people at the same wage level (see Annex 2). The employment rate of women is high (78.5% vs 70.8% in the EU in 2024) and the prevalence of part-time employment among women is low (7.5% vs 27.9% in the EU), suggesting that tax-related disincentives for second earners to work or increase earnings are limited. However, the short-term financial disincentives for those receiving unemployment benefits to go back to paid work (the unemployment trap) were among the highest in the EU, especially for single people taking up jobs at 67% and 100% of the average wage, and particularly during the first three months of receiving unemployment benefit. The tax-reform package to which Lithuania committed in the RRP, along with the planned RRP reform of unemployment insurance, could address these issues but have stalled in Parliament.

⁽¹³⁶⁾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

⁽¹³⁷⁾[European Economic Forecast. Autumn 2024](#)

⁽¹³⁸⁾The average full-time adjusted salary in Lithuania in 2023 was EUR 27 178 vs EU average of EUR 37 863.

⁽¹³⁹⁾Commission autumn 2024 economic forecast.

⁽¹⁴⁰⁾ Labour **tax wedge** is the difference between the employer's labour costs and the employee's net take-home pay, including any cash benefits from government welfare programmes.

The workforce is adapting to the green and digital transitions, with a growing need for skilled workers in emerging sectors. In 2023, employment in the country's energy-intensive industries accounted for 1.9% of total employment (EU: 3.5%), while jobs in the green economy have expanded rapidly. Between 2016 and 2021, employment in the environmental goods and services sector grew by 33.2%, reaching 3.8% of total employment in 2022 (EU: 3.3%). In 2024, the job-vacancy rate in construction, a key sector for the green transition, was significantly lower than the EU average (1.8% vs 3.1%). However, labour shortages were quite pronounced in the field of water management and supply, with the vacancy rate of 2.3% vs EU 1.6% in 2024. The greenhouse gas emission intensity of Lithuania's workforce has improved slightly, decreasing from 14.4 tonnes per worker in 2015 to 13.9 tonnes in 2023 (EU: 12.3 tonnes).

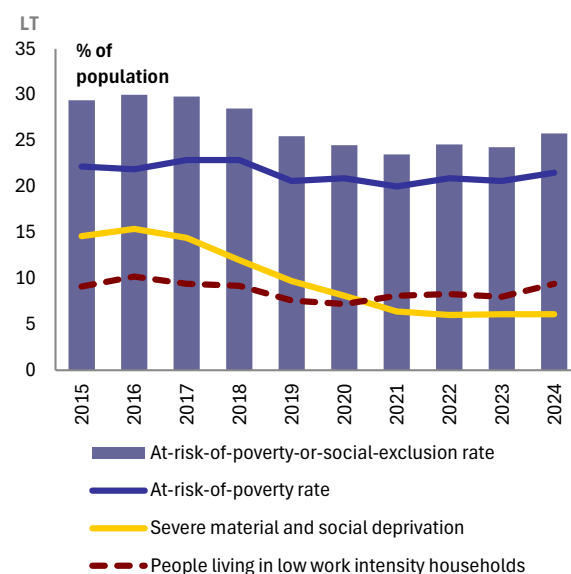
The ICT sector has also expanded, benefiting from the relocation of many Belarussian ICT workers and companies in 2020, with 5.3% of ICT specialists in total employment in 2024 (EU: 5%). The proportion of working-age population (25-64) with basic digital skills was close to the EU average in 2023 (64.1% vs 64.7%). Under its RRP, Lithuania has introduced a learning and entrepreneurship support scheme that supports both the unemployed and the employed seeking to obtain high value-added qualifications and skills and helps entrepreneurs to create jobs relevant for green and digital transition. According to the RRP, by Q2 2026 19 350 participants will obtain skills and qualifications in high value-added areas (10 000 of whom in digital skills), and 1 325 participants will be supported for job creation (of whom 673 for jobs to support the digital transition and 652 for jobs to support the green transition and circular economy). This, together with the reform on adult learning (see Annex 12), is expected to boost the digital skills of the workforce.

Lithuania continues to face challenges linked to persistently high levels of inequality and poverty risks, particularly for older people, unemployed people and persons with disabilities. The capacity of the social protection system is limited due to continuous underfunding and gaps in access by certain groups. An ageing population also exerts additional pressure on the social security systems, particularly pension system and long-term care, posing risks for Lithuania's sustainable and inclusive growth and prosperity. To achieve the 2030 poverty reduction target, it would be beneficial for Lithuania to implement the delayed reforms under the recovery and resilience plan (RRP) as soon as possible, and to address high levels of income inequality, old-age poverty and its gender gap, poverty of the unemployed and persons with disabilities. Addressing these challenges will contribute to inclusive growth and competitiveness.

Poverty and social exclusion remain high, despite long-term convergence and recovery from the COVID-19 pandemic. Following several years of decline, the rate of people at-risk-of-poverty or social exclusion (AROPE) rose by 1.1 pps to 24.6% in 2022 and to 25.8%⁽¹⁴¹⁾ in 2024. While the severe material and social deprivation rate in 2024 is 9.3 pps lower than in 2016 and stands at 6.1%, below the EU average of 6.4%, the at-risk-of-poverty rate (AROP) only fell by 0.4 pps in the same period. Therefore, the AROPE in 2024 remains among the highest in the EU, 4.8 pps above the EU average of 21.0%, mainly driven by high AROP rate of 21.5% (EU: 16.2%). Among the factors behind persistently high poverty rates are low spending on social protection, low adequacy of pensions, social benefits and minimum income support, coverage gaps, lack of access to quality education, employment support, health and social services, especially in rural areas and for disadvantaged groups.

⁽¹⁴¹⁾Eurostat data for 2024 for Lithuania are provisional

Graph A11.1: AROPE and its components



Source: Eurostat, EU-SILC [ilc_peps01n, ilc_li02, ilc_md11, ilc_vhl11n]

Sustained efforts are needed to reach the national poverty reduction target by 2030.

The number of persons AROPE, after having dropped to 661 000 in 2021 (from 712 000 in 2019), started to increase again as of 2022. In 2024, it has surpassed the 2019 levels, reaching 744 000 AROPE persons. Several factors may have contributed to the rise, such as record high inflation in 2022 (18.9%)⁽¹⁴²⁾, specifics of the indexation mechanisms of certain social benefits⁽¹⁴³⁾ and the sharp rise in median income⁽¹⁴⁴⁾, which raised the poverty threshold

⁽¹⁴²⁾ It eroded much of the value of increases in the non-taxable amount of income, the minimum wage, pensions and social benefits in 2021 and 2022 - Estimations performed by the European Commission, Joint Research Centre, based on the EUROMOD model, I6.o+.

⁽¹⁴³⁾ E.g. a delay in indexation of the cash social assistance benefits, as the State Supported Income amount used for calculation of the benefit relies on the amount of minimum consumption basket of the previous year. I.e. the current amount of State Supported Income (EUR 221) for 2025 is approx. 50% of the minimum consumption needs amount of 2024 (EUR 446). Accordingly, there is at least one year (de facto – two years) delay in indexation of the amount of cash social assistance, which in case of high inflation (as it was in 2022 and 2023) could particularly affect the recipients.

⁽¹⁴⁴⁾ JRC Estimations performed by the European Commission, Joint Research Centre, based on the EUROMOD model, I6.o+.



from EUR 483 in 2021 to EUR 564 in 2023 and EUR 615 in 2024. Furthermore, the depth of poverty increased by 2.7 pps in 2024, compared to 2022, meaning that the gap between the median income of persons AROP and the poverty threshold increased to 25.5% (EU: 22.8%). Therefore, to get back on track to achieve the 2030 national target of lifting 223 000 people out of poverty or social exclusion, next steps could include measures to address monetary poverty, which is the main driver behind high AROPE rate, and which is particularly acute for certain vulnerable groups, as described below.

Income inequality remains among the highest in the EU. Gross market incomes in Lithuania are among the most unequally distributed in the EU - in 2024, the income of the top 20% exceeded that of the bottom 20% by 6.54 times (EU: 4.66), showing an increase from 6.32 in 2023. The income gap is particularly high in the lower quintiles - the S50/S20 group, with the income of the middle-income earners being 2.61 times higher than of the lowest-income earners (EU: 2.18), also due in part to a steep rise in minimum wages. At the same time, the ability of tax-benefit mechanism to reduce income inequality lags behind the EU average, including due to the limited progressivity of the taxation system (Annex 2), and low adequacy of pensions and social benefits. In its RRP, Lithuania set out plans to a reform to increase the adequacy of the minimum income system, as well as to adopt the tax reform that would include increasing the effectiveness of personal income taxation and social insurance contributions in reducing income inequality and poverty. However, the adoption of these reforms has been delayed. While the Government Programme Implementation Plan hints at some measures that are related to the reforms mentioned above, their shape and content is still in the making.

Older people continue to face significant poverty risks, with women being particularly affected. More than one-third of the people

aged sixty-five and over are people at-risk-of-poverty or social exclusion, which is more than double the EU average in 2024 (39.1% vs 19.4%). Older people who are single are particularly affected, with an AROPE rate of 55.9% in 2024 (EU: 30%); however, the rate has improved from 59.3% in 2023. High AROPE rates for this group are primarily driven by high monetary poverty, with the AROP rate at 36.9% in 2024 (EU: 16.8%), and considerably higher for women (41.9%) compared to men (27.5%). The gender gap in old-age poverty can be attributed to a combination of factors, including gender pay gap, impact of informal care provision on women's careers and their longer life expectancy at sixty-five (twenty years vs fifteen years for men), which translates into a larger share of older single women. The low adequacy of pensions is a significant determinant, with an aggregate replacement ratio for pensions among the lowest in the EU (0.38 vs EU 0.61). Although the old-age social insurance pension increased on average by 12% from EUR 483 in 2022 to EUR 539 in 2023, it remained below the AROP threshold of EUR 615 in 2024 (income reference year 2023) and the median relative income of older people remained at 63% of the income of those aged under sixty-four, among the lowest in the EU (EU: 90%.) These challenges are likely to be exacerbated by the rapid ageing of the Lithuanian population. The old-age dependency ratio is projected to increase from 0.31 in 2023 to 0.67 in 2070⁽¹⁴⁵⁾. A very high share of out-of-pocket health spending (31.8% vs EU average 14.3%), with nearly half of all out-of-pocket payments being for outpatient pharmaceuticals, also has a negative impact on older people. The government has already announced its intentions to improve the pension indexation mechanism and reform the second pillar of pension accumulation system.

⁽¹⁴⁵⁾https://doi.org/10.2908/PROJ_23NDBI.

The **old-age dependency ratio** is the ratio of the number of older people at an age when they are generally economically inactive (i.e. aged 65 and over), compared to the number of people of working age (i.e. 15-64 years old).

In addition, it would be beneficial if Lithuania considered specific measures to address the old-age poverty gender gap.

Poverty and social exclusion risks are also influenced by employment status and show considerable regional disparities. The AROPE rate of persons in rural areas (33.6% vs 21.3% in the EU) and in towns and suburbs (26.9% vs 20.3% in the EU) was higher than in the cities (17.9% vs 21.4% in the EU) in 2024, also because of the higher prevalence of unemployment outside the cities (see Annex 10), and limited access to public services in the rural areas. Rural regions, especially those bordering Belarus and Russia, are among those with the highest AROP rates. The AROP rate for the unemployed remains among the highest in the EU (59.5% in 2024 vs EU: 48.8%). Furthermore, the poverty rate of the low-skilled in 2024 was 33.2% (EU: 28.7%) while around a third of the newly registered unemployed were low-skilled (see Annex 10). While the coverage of unemployment benefits for standard employees is higher than the EU average, the majority of the self-employed are not covered by unemployment insurance. The RRP reform aiming to broaden the unemployment insurance coverage to self-employed and ease the conditions for accessing the unemployment benefits has been delayed, and there is no clarity if the new Government will pursue it.

Poverty is particularly acute among persons with disabilities. Persons with disabilities face the highest AROPE rate in the EU (45.8% vs 28.8% in the EU). It is mainly driven by the AROP rate that is also the highest in the EU (38.2% vs 20.7% in the EU in 2024). This also reflects the low employment rates of people with disabilities, with the disability employment gap in Lithuania being among the highest in the EU (see Annex 10), which is further hindering Lithuania's inclusive growth and competitiveness. At the same time, Lithuania allocated 3.7% of its GDP to sickness and disability payments and measures, the fourth highest in the EU and had similar disability prevalence rates (27.4% of Lithuania's total

population in 2023 vs. 26.8% in the EU). Such a situation signals low efficiency of social protection spending on sickness and disability policies. Recent reforms on the disability assessment (as of 2024) and on the participation of persons with disabilities in an open labour market (as of 2023), along with other efforts aim to address these issues. With a budget of more than EUR 175 million, European Social Fund Plus (ESF+) programmes will, in addition to comprehensive family services for at least 75 000 persons, and community services for at least 5 400 vulnerable children, support deinstitutionalisation of at least 3 300 persons with disabilities through the transition from institutional care to family and community-based services. While it remains unclear whether measures addressing low adequacy of disability benefits will be included in the scope of the planned RRP reform on improving minimum income adequacy, it would be beneficial for Lithuania to consider targeted measures to address this.

The risk of poverty or social exclusion among children continues to fall. Since 2015, the AROPE rate for children fell by 13.2 pps, reaching 21.7% in 2023 (EU: 24.8%). However, in 2024 it increased to 22.8% (EU: 24.2%). Lithuania has not set a separate target for reducing the number of children at-risk-of-poverty or social exclusion. To mitigate the impact of poverty on children, it is implementing the European Child Guarantee (ECG) under its 2023 action plan. The 2024 implementation report claims relative progress in some areas, e.g. early childhood education and care, while more effort in areas such as housing would be beneficial. The implementation of the ECG is supported by ca EUR 99 million in ESF+ funding, which significantly exceeds the requirement for Lithuania to allocate at least 5% of the ESF+ funds to fight child poverty.

Energy poverty and underdeveloped public transport system pose challenges to the fair green transition. Energy prices surged by 56%

in 2022 compared to 2021 and dropped by only 4% in 2023, prompting ad hoc government measures to cushion the impact on households and businesses. Despite these interventions, the share of population unable to keep their homes adequately warm was almost double the EU average in 2024 (18% vs 9.2%), and particularly high for people at-risk-of-poverty (33.8%). The country's reliance on district heating systems, which often use inefficient infrastructure, exacerbates these challenges. Furthermore, the housing stock is dominated by multi-apartment buildings that are energy inefficient and suffer from persistent quality gaps. Around eight out of ten homes were built before 1993 and have been poorly maintained. Around three-quarters of multi-family households, and most single-family households have a very low energy efficiency rating, and less than 2% have a high energy efficiency rating⁽¹⁴⁶⁾. The public transport usage is the lowest in the EU, with only 7.1% of land travel done by public transport in 2022 (EU: 16.6%). The Lithuanian RRP includes the investments needed to accelerate the renovation of multi-apartment buildings through financial support to households, as well as to support the use of clean transport vehicles by the public and private sectors. However, Lithuania would benefit from a more robust national strategy, alongside clearer definitions and methodologies for energy and transport poverty, to ensure that vulnerable households receive the support they need to cope with energy and transport costs. A current TSI project aiming to help Lithuania implement the Social Climate Fund should provide more clarity on the concepts of energy and transport poverty and measures for vulnerable households to address it.

The social protection system presents adequacy and coverage gaps. In 2023,

expenditure on social protection benefits amounting to 16.2% of GDP was among the lowest in the EU (EU: 26.8%)⁽¹⁴⁷⁾. The impact of social transfers (excluding pensions) on poverty reduction was substantially below the EU average in 2024 (25.9% vs 34.4%), having dropped from 2023 levels (29.9% vs EU 34.7%). Access to adequate social protection for the self-employed, comprising 9.9% of total employment in 2023, remains a challenge. More than 80% lack unemployment benefits coverage and only 45.4% of unemployed (at-risk-of-poverty before social transfers) receive any sort of social benefits (EU:52.4%). Tackling the structural issues of poverty, social exclusion, and income inequality is essential for promoting sustainable, inclusive growth and long-term competitiveness in Lithuania. To achieve this, it would be beneficial for the country to implement the reforms outlined in the RRP as well as to explore ways to enhance social spending and improve its targeting to those most in need.

The long-term care system remains fragmented and lacks adequate financing, homecare and staff. Lithuania has high long-term care (LTC) needs, with the share of people over sixty-five with severe difficulties in performing personal care activities and/or household activities being above the EU average (34.8% vs 26.6% in 2019). However, public spending on LTC in 2022 was below the EU average (1% of GDP vs 1.7% of GDP), concentrating on residential care (55.7%) and cash benefits (38%). To address the very limited share earmarked to homecare (6.4%), Lithuania uses EUR 11 millions of RRP funds to equip 90 mobile LTC teams, establish 10 day care centres and train 1 000 homecare specialists by 2026, and will further support the development of out-patient LTC services with ca EUR 70 million from European Social Fund Plus. Shortage of LTC formal workers exacerbates funding related

⁽¹⁴⁶⁾ OECD report on affordable housing policy actions in Lithuania - https://www.oecd.org/en/publications/policy-actions-for-affordable-housing-in-lithuania_ca16ff6d-en.html.

⁽¹⁴⁷⁾ Eurostat. The general government expenditure (COFOG) on social protection was also lower than the EU average – 13.5% of GDP vs 19.4% in the EU.

challenges with 1.1 employed LTC worker per 100 individuals aged sixty-five and above in 2023 (EU: 3.2). An estimated 90% of people with LTC needs use informal carers, well above the 70% in the EU, while less than 5% of people with LTC needs in Lithuania receive only formal care and the remainder use a combination of the two. However, the social protection of the informal carers remains limited. Given the rapid ageing of population, it would be beneficial for Lithuania to step up efforts to address these issues in LTC provision.

House prices have increased strongly over the last decade but have slowed down recently. House prices have more than doubled since 2015. They rose by 9.7% in 2024 in 2023, after having increased by 19% and 9.8% in 2022 and 2023, respectively, but are still estimated to not be overvalued. Real estate sales and building permits have fallen since 2021, adjusting to the higher interest rate environment of the last two years.

Overall housing affordability has deteriorated over recent years, and the quality of housing remains low. The standardised house price-to-income ratio has increased by 6% since 2015. However, while house prices grew less than household income between 2015 and 2020, they have grown more strongly since then and the standardised house price-to-income ratio has increased by 10% since 2020. Considering the cost of mortgages, the borrowing capacity of households remained broadly stable over the last decade. While the rental market is very small, the ratio of new rents to incomes decreased over the last decade. The overcrowding rate rose each year from 21.1% in 2020 to 26.3% in 2024 (vs EU: 16.9%), mirroring the growth trend in house prices. The overcrowding rate was especially high in cities (30.9% vs EU 20.3%), where the real estate price growth was most pronounced. However, the housing cost overburden rate (6.2% vs EU 8.2%) and the housing cost as a share of disposable household income (15.5% vs EU 19.2%) remained below the EU average in 2024,

mostly due to a high share of property ownership (87.4% in 2024, vs 68.4% in the EU)⁽¹⁴⁸⁾. The quality of housing remains low - the share of population having neither a bath, nor a shower in their household amounted to 5.4% in 2023 (vs EU 1.7% in 2020).

In response to these challenges and following the OECD recommendations on affordable housing policy options in 2023, Lithuania has recently assigned the Ministry of Environment with the task to govern the area of housing affordability. In addition, public consultations were launched in December 2024 to assess the housing affordability situation in the country in detail. Nevertheless, Lithuania would benefit from more intensity in developing the affordable housing policy, given the sharp rise in real estate prices is likely to continue putting pressure on housing affordability.

⁽¹⁴⁸⁾ Statistics Eurostat.

Skills development in Lithuania is hindered by a lack of equity in general education, teacher shortages, the low attractiveness and labour market relevance of vocational education and training (VET) and higher education, and low levels of adult learning, which all hamper the country's innovation capacity and competitiveness. At the age of 15, around one in four students lacks basic skills with socio-economic status and school location remaining strong predictors of students' achievement. Despite measures, teacher shortages remain a challenge. To respond to falling enrolments, quality concerns and the weak labour market relevance of higher education, measures are under way to improve the overall quality and to consolidate some colleges with results to be seen. Although labour and skills shortages persist, the labour market relevance of VET and higher education remains low, as does the share of adults engaged in learning activities. The new individual learning accounts (ILA) platform⁽¹⁴⁹⁾ aims to address this, but the areas for improvement are already visible. These and other weaknesses in skills development and human capital formation, together with a projected decline in the working-age population (see Annex 10), hinder Lithuania's potential for productivity growth and competitiveness.

The legal entitlement for universal preschool access is gradually extended, but accessibility challenges remain. In 2023, 96.2% of children between the age of three and the start of compulsory primary education were enrolled in early childhood education and care (ECEC) (EU: 94.6%). 36.9%⁽¹⁵⁰⁾ of under 3-year-olds participated in childcare in 2024 (EU: 39.2%); however, national data show a constant increase and a participation rate of 43.5%. Very low participation rates in rural areas, where the share of disadvantaged children is higher,

remains a challenge⁽¹⁵¹⁾. By September 2025, all two-year-old children will have the right to access ECEC. However, infrastructural limitations and shortages of teachers and staff may hinder successful implementation and effective access to quality ECEC⁽¹⁵²⁾. By 2027, at least 70% of children in rural areas between the ages of two and five should participate in ECEC⁽¹⁵³⁾.

Around one in four students lacks minimum basic skills in mathematics, reading and science, putting more complex skills development at risk. According to the 2022 OECD Programme for International Student Assessment (PISA) results, one in four Lithuanian 15-year-olds lacks basic skills in mathematics (27.8% vs EU: 29.5%) and reading (24.9% vs EU: 26.2%), the same for one in five students in science (21.8% vs EU: 24.2%). While in most EU Member States the underachievement rate has increased significantly since 2012, in Lithuania it has remained stable for reading and mathematics and has only increased for science (5.7 pps vs 7.4 pps in the EU). The share of top performers is limited and unchanged since 2012, with 7.2% in mathematics (EU: 7.9%), 5.5% in science (EU: 6.9%) and 4.7% in reading (EU: 6.5%)⁽¹⁵⁴⁾, which might hinder future innovation potential.

Equity and urban-rural disparities are persistent challenges in the education system. The underachievement rate in mathematics is around four times higher among disadvantaged students than among their advantaged peers: 46.5% (EU: 48%) and 11% (EU: 10.9%), respectively. Top performance levels in mathematics are at 1.9% among disadvantaged students (EU: 1.8%) compared

⁽¹⁵¹⁾ [Rodiklių duomenų bazė - Oficialiosios statistikos portalas.](#)

⁽¹⁵²⁾ Ministry of Education, Science and Sport (2022a). Ikimokyklinio ugdymo infrastruktūros plėtros Lietuvos savivaldybėse galimybių studija.

⁽¹⁵³⁾ [Agreement on National Education Policy \(2021-2030\) - Švietimo, mokslo ir sporto ministerija.](#)

⁽¹⁵⁴⁾ OECD (2023), PISA 2022 Results (Volume I): The State of Learning and Equity in Education.

⁽¹⁴⁹⁾ [Lifelong learning platform.](#)

⁽¹⁵⁰⁾ Eurostat provisional data

with 16.3% (EU: 18.4%) among advantaged students. Additionally, a very high urban-rural achievement gap can be observed between mean PISA scores in all three areas tested. Students in urban schools achieve on average 71 score points more in mathematics than their peers in rural areas, above the EU average gap of 46 score points. The underlying factors include high regional disparities, with 29.8% of people being at risk of poverty or social exclusion in rural areas compared to 17.6% in urban areas. The school network has become inefficient with a high number of small schools concentrated in rural areas that are associated with weaker outcomes and higher costs per student ⁽¹⁵⁵⁾. Schools with low student numbers also pose a challenge to the efficient use of teaching staff, contributing to teacher shortages and part-time positions on offer, resulting in lower salaries and a need for teachers to combine working in several locations.

Various measures are under way to tackle the longstanding issue of an urban-rural achievement gap. The RRP includes the Millenium Schools programme to provide children with better access to high-quality schools regardless of their background. At least 80% of Lithuanian municipalities are involved across the country. Between 2020 and 2023, the number of schools in the country fell from 978 to 928. However, the network is not yet sufficiently rationalised, and too many schools are exempt from the reorganisation requirements (250 schools in 2023) ⁽¹⁵⁶⁾. As part of the RRP, since 2023-2024, Lithuania started implementing a new, competence-based curriculum. The successful implementation and a plan to improve equity through the curricula

will be important to raise students' educational outcomes ⁽¹⁵⁷⁾.

The attractiveness and labour market relevance of VET remain low, hindering competitiveness. The share of learners enrolled in medium-level (ISCED level 3-4) vocational programmes (36.2% in 2023) is significantly below the EU average (52.4%). This is mainly due to the stigma around VET, which is still widely regarded as a 'second chance' system for pupils with lower-than-average general education results. Furthermore, although medium-level VET enrolments in STEM fields (50.3% of all medium-level VET pupils) exceed the EU average of 36.3% in 2023, the overall enrolment rates have decreased almost twice compared to the 2017 levels. This increases the risk of labour and skills shortages in the sectors most susceptible to changes in the supply of VET graduates, such as construction and transport. Furthermore, the employment rate of recent VET graduates (aged 20-34) in 2023 was below the EU average (76.6% vs 80%)⁽¹⁵⁸⁾ as was their exposure to work-based learning (59.5% vs 65.3%), indicating structural issues related to the quality and labour market relevance of VET. These challenges are further underscored by the rising share of young people (15-29) neither in employment nor in education or training (NEETs) (see Annex 10). To tackle these issues, Lithuania's RRP contains reforms, including drafting new and updating existing VET programmes in close consultation with social partners, as well as investments in professional competences of VET teachers and increased participation in apprenticeships. Lithuania is also pursuing a Technical Support Instrument (TSI) project to improve the evaluation and quality assurance of VET. To make VET more attractive and flexible, 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)

⁽¹⁵⁵⁾H. Blöchliger, R. Tusz (2020). Regional Development in Lithuania: A tale of two economies. OECD Economics Department Working Papers No 1650.

⁽¹⁵⁶⁾National Audit Office (2024), Švietimui skirtų asignavimų panaudojimas Nr. VAE-4.

⁽¹⁵⁷⁾[OECD Skills Strategy Lithuania | OECD](#).

⁽¹⁵⁸⁾[Eurostat](#).

can enrol in experimental VET programmes ⁽¹⁵⁹⁾.

Although measures are being implemented to attract and train teachers, shortages persist.

In 2022, 39.8% of general education teachers were 55 years or older, the highest rate in the EU (EU: 24.8%). Teacher shortages risk worsening in the coming years. including due to low prestige of the profession, low wages, excessive workload, uncertainty about ongoing changes in education, challenging relationships with children and parents and unmotivated people choosing pedagogical studies ⁽¹⁶⁰⁾. The average salary of teachers working full-time stood at 112% of the national average wage in 2023, followed by two further increases in 2024 to reach the 130% national target. However, large salaries discrepancies remain due to an inefficient school network where small rural schools are usually unable to offer full-time work schedules. Providing flexible pathways for skilled individuals into teaching, recognising skills and work experience gained in compensation schemes, financing trainings of working teachers to acquire additional qualifications, providing needs-based professional development opportunities, and improving the quality of initial teacher education by equipping educators with teaching methods aligned with the new general curricula are measures which could be further strengthened ⁽¹⁶¹⁾. Enhancing induction and mentoring programmes, educators' professional cooperation, and targeted financial incentives in disadvantaged schools could also help.

Student enrolment numbers in tertiary education are on a continuous decline due to demographic trends, while labour market relevance remains a challenge. Between 2017

and 2022, the number of students enrolled in tertiary education fell by 17.3%, in line with demographic trends. The share of 25-34-year-olds with a tertiary qualification remains one of the highest in the EU (58.2% vs EU: 44.2%, 2023). While 89.5% of recent tertiary graduates (20-34) were employed in 2023, only 47% of college graduates are employed in positions matched with their level of education ⁽¹⁶²⁾. The gender gap among young graduates remains one of the widest, with women significantly outnumbering men in tertiary attainment by 18.4 pps (EU: 11.2 pps in 2024). The RRP incentivises higher education institutions to internationalise their profile and attract and integrate foreign students.

Tertiary enrolments are declining disproportionately in some STEM fields.

To increase achievement and interest in STEM subjects, a Science, Technology, Engineering, Arts, Mathematics (STEAM) education strategic plan for 2023-2030⁽¹⁶³⁾ has been put in place. By 2024, seven regional STEAM open access centres and three methodological centres were running. Tertiary enrolments in some STEM fields declined, making up 25.0% of all tertiary enrolments in 2023, down from 27.3% in 2017. The decline is driven by decreasing enrolments in engineering, manufacturing and construction, contributing to shortages on the labour market. Enrolments in ICT are slowly increasing, up from 4.1% to 7.2% between 2017 and 2023, while the share of women among ICT students remains low at 16.9%. The supply of ICT graduates falls short of labour market demand ⁽¹⁶⁴⁾. The number of students enrolling in pedagogical studies and choosing STEM specialisations remains insufficient,

⁽¹⁵⁹⁾ [CEDEFOP 2023 - VET system description in Lithuania.](#)

⁽¹⁶⁰⁾ Valstybės kontrolės (2023). [Vertinimo ataskaita. Pedagogų poreikio užtikrinimo vertinimas. 2023 rugsėjo 6 d. Nr. VRE-5. State control \(2023\).](#)

⁽¹⁶¹⁾ OECD (2021). *OECD Skills Strategy Lithuania.*

⁽¹⁶²⁾ Ministry of Education, Science and Sport, (2023). Kolegijų tinklo stiprinimas: stiprės koleginės studijos, reikalavimai studentams priklausys nuo pasirinktų studijų Press release, 14 June 2023.

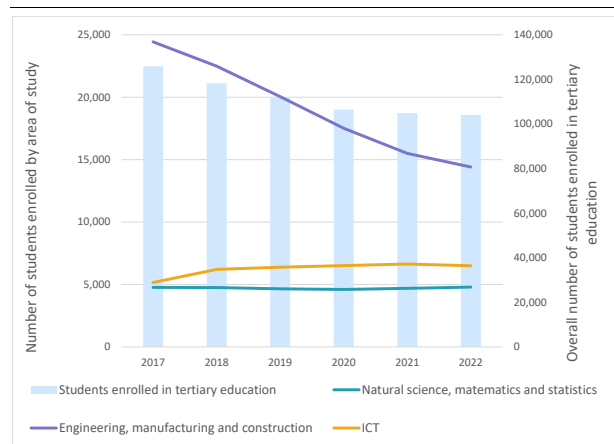
⁽¹⁶³⁾ Ministry of Education, Science and Sport, (2023). [2023-2030 metų STEAM ugdymo stiprinimo planas.](#)

⁽¹⁶⁴⁾ [Job Creation and Local Economic Development 2024 - Country Notes: Lithuania | OECD.](#)

contributing to teacher shortages in STEM subjects.

To respond to quality concerns, labour market relevance and declining enrolment in colleges, the mergers of some colleges is under way, although there are concerns about efficiency gains. As part of the process to rationalise the higher education landscape incentivised by the RRF, the government approved five college mergers. However, as three of the five mergers were not recommended by the independent body's review, the Centre for Quality Assessment in Higher Education (SKVC), potential efficiency gains remain to be seen. As of 2028, colleges will be assessed according to new evaluation criteria on their applied research capacity, the minimum number of students enrolled, labour market relevance and teaching staff. Since 2024, higher education institutions must apply the same minimum requirements to applicants for state-funded and non-state-funded study places. An attempt was also made to strengthen the social dimension of higher education by reserving 1 300 places for students from vulnerable socio-economic backgrounds. In addition, Lithuania observes increasing accessibility to higher education for individuals from the lowest-income households. Among this group, the proportion of individuals aged 25-29 who obtained higher education in 2023 was 51.3%, steadily rising from 37.1% in 2022 and 33.2% in 2021.

Graph A12.1: Trends in the number of students enrolled in tertiary education and in STEM fields (ISCED 5-8)



Source: Eurostat: educ_uoe_enrt03

The link between skills forecasting and skills development remains weak. Skills shortages are cited by 59% of small and medium-sized enterprises (SMEs) in Lithuania as hindering general business activities⁽¹⁶⁵⁾. With the working-age population projected to decline and persistent skills shortages, there is a growing need for a smooth interaction between skills forecasting and skills development. However, skills forecasting is currently fragmented across multiple institutions and levels, limiting the translation of its results into skills development. To determine the number and allocation of state-financed VET places, the Ministry of Education, Science and Sport relies on input from other ministries and social partners; however, their capacity to provide constructive input also varies significantly. The Skills Strategy, adopted in 2021, aims to, among other things, strengthen the governance of skills policies, and EUR 64 million from the European Social Fund Plus (ESF+) has been allocated to further support its implementation.

There is scope to improve green competencies and skills development across the education system. Eighth grade students demonstrate some specific knowledge and understanding of the concepts and systems

⁽¹⁶⁵⁾Eurobarometer survey.

underpinning sustainability, but a more critical perspective could be further developed ⁽¹⁶⁶⁾. The RRP includes measures to develop green skills, such as creating new and updating existing VET programmes by experts and in consultation with social partners, and to support the reskilling and upskilling in high added-value areas, including green skills and qualifications to the green transition ⁽¹⁶⁷⁾. However, a recently introduced ILA platform does not prioritise acquiring green skills.

As part of the broader need for upskilling and reskilling the current workforce, the development of green skills is essential for Lithuania's green transition. In 2024, labour shortages were reported in several occupations requiring specific skills related to the green transition, including garbage and recycling collectors, incinerator and water treatment plant operators and building structure cleaners. Although the country's economy is not very energy intensive, the need for reskilling the workforce is also mentioned in Lithuania's just transition plan, namely in the oil-refining, cement and fertiliser manufacturing plants, where more than 4 000 jobs could be directly impacted by the green transition. Participation rates of workers in the energy-intensive sectors in education and training have dropped for 4.1pps in 2024 (to 8.3% in the last four weeks) after a considerable increase in the preceding two years. . 68% of Lithuanian people believe that they have the necessary skills to contribute to the green transition (EU: 54%) ⁽¹⁶⁸⁾.

The general population's levels of digital skills have improved but remain below the EU average. In 2023, 52.9% of the population had at least a basic or above basic level of digital skills (EU: 55.6%), up from 48.8% in 2021. This gap is more pronounced among older people, with only 63% of individuals aged 65-74 having used the internet in 2023. The RRP is

funding digital education infrastructure in schools and aims to tackle gaps in digital skills with reforms and investments in a lifelong learning platform where digital skills and related upskilling programmes are considered a priority and funded accordingly.

While participation in adult learning remains low, the new ILA platform is the first major step to improve it, contributing to Lithuania's human capital formation and competitiveness. In 2022, participation in adult learning stood at 27.4%, well below the EU average of 39.5% ⁽¹⁶⁹⁾, and it remains far (26.3 pps) from the 2030 national skills target of 53.7%. Only a slight improvement (2.4 pps) was recorded compared to 2016. Participation was particularly low among men, older people, low-skilled and people outside the labour force and in rural areas. The newly introduced ILA platform offers a single point for all adult learning information and a credit of up to EUR 500 to eligible adults to cover their training costs. More than 15 000 individuals have already completed courses via the platform, and Lithuania estimates that over 100 000 will be able to improve their competences up to 2030 (including via ESF+ funding). However, to maximise the re- and upskilling effect of the ILA platform it remains important to grant supported access to the vulnerable who are currently not eligible to ILA credit, along with shortening of the 5-year term for ILA credit to allow for faster turnover. In addition, addressing concerns over quality and labour market relevance of some programs in the ILA platform, increasing employer participation and strengthening the involvement of social partners in the decision-making process will be key for its success.

⁽¹⁶⁶⁾ 2022 International Civic and Citizenship Study (ICCS).

⁽¹⁶⁷⁾ The ESF+ provides funding for green skills and jobs.

⁽¹⁶⁸⁾ Special Eurobarometer 527.

⁽¹⁶⁹⁾ From the Adult Education Survey 2022, special extraction excluding guided-on-the-job training.

Table A13.1: Social Scoreboard for Lithuania

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, 2024)			8,4	
		Share of individuals who have basic or above basic overall digital skills (% of the population aged 16-74, 2023)			52,9	
		Young people not in employment, education or training (% of the population aged 15-29, 2024)			14,7	
		Gender employment gap (percentage points, population aged 20-64, 2024)			1,4	
		Income quintile ratio (\$80/\$20, 2024)			6,54	
Dynamic labour markets and fair working conditions		Employment rate (% of the population aged 20-64, 2024)			79,2	
		Unemployment rate (% of the active population aged 15-74, 2024)			7,1	
		Long term unemployment (% of the active population aged 15-74, 2024)			2,3	
		Gross disposable household income (GDHI) per capita growth (index, 2008=100, 2023)			140,6	
Social protection and inclusion		At risk of poverty or social exclusion (AROPE) rate (% of the total population, 2024)			25,8	
		At risk of poverty or social exclusion (AROPE) rate for children (% of the population aged 0-17, 2024)			22,8	
		Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP, 2024)			25,9	
		Disability employment gap (percentage points, population aged 20-64, 2024)			39,9	
		Housing cost overburden (% of the total population, 2024)			6,2	
		Children aged less than 3 years in formal childcare (% of the under 3-years-old population, 2024)			36,9	
		Self-reported unmet need for medical care (% of the population aged 16+, 2024)			4,3	
Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

(1) Update of 5 May 2025. 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 2025 for details on the methodology (<https://employment-social-affairs.ec.europa.eu/joint-employment-report-2025-0>).

Source: Eurostat



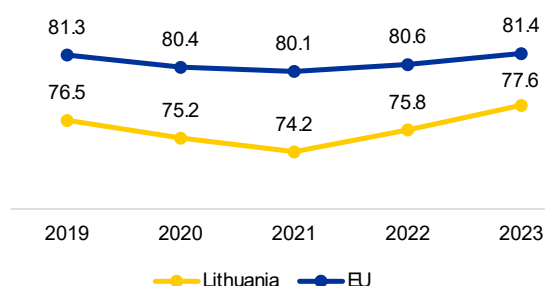
ANNEX 14: HEALTH AND HEALTH SYSTEMS

Lithuania's health system faces challenges that need be addressed if the country is to improve the health of its population and social fairness, while boosting the competitiveness of its economy. Key challenges include: (i) low life expectancy, linked to high treatable and preventable mortality; (ii) limited access to care; (iii) suboptimal cost-effectiveness and funding of the health system; (iv) insufficient focus on disease prevention; and (v) shortages of health workers.

Life expectancy at birth in Lithuania rebounded above its pre-COVID-19 level but was still among the lowest in the EU in 2023.

There is also a striking gender gap, with women expected to live 9 years longer than men. That said, women can only expect to live about 4.1 years longer than men in good health. Treatable mortality is one of the highest in the EU, with little improvement since 2018, suggesting shortcomings in the effectiveness of the health system. Mortality due to circulatory diseases ('cardiovascular diseases') is high, due in part to behavioural and environmental risk factors, but decreased in 2022. While suicide rates were among the highest in the EU in 2022, they have decreased by around 50% since 2013. Improving mental health is one of the priorities of Lithuania's 2022-2030 health protection and promotion development strategy.

Graph A14.1: Life expectancy at birth, years

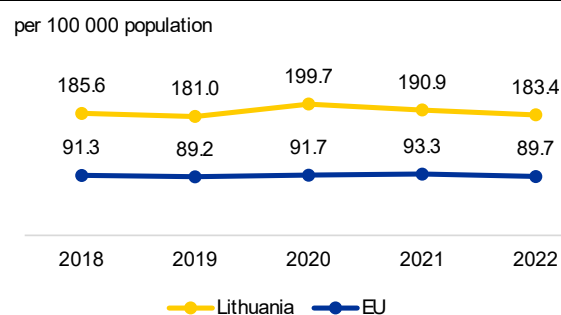


Source: Eurostat (demo_mlexpec)

The weak health outcomes negatively impact Lithuania's workforce, productivity and competitiveness. In Lithuania, mortality at

working age as a proportion of total mortality is significantly higher than the EU average, exacerbating the effects of population ageing on a shrinking labour force. Between 2022 and 2040, Lithuania's working age population is forecast to shrink by 1.0% every year as a result of lower birth rates (EU-level projection: 0.3%). The number of potential productive life years lost due to non-communicable diseases such as cancer and cardiovascular diseases is considerably higher in Lithuania than the EU average (1 893 per 100 000 population vs 1 017) ⁽¹⁷⁰⁾.

Graph A14.2: Treatable mortality



Age-standardised death rate (mortality that could be avoided through optimal quality healthcare)

Source: Eurostat (hlth_cd_apr)

Health expenditure in Lithuania remains low, as does the share of health spending covered by public funds. In 2022, health spending per inhabitant was lower than the EU average and around two thirds of it was publicly funded. The largest share of health spending per inhabitant goes towards outpatient care (around 35% of total health expenditure), followed by retail pharmaceuticals and medical devices (26%), and inpatient care (26%). On average, Lithuania allocated 0.28% of GDP to capital spending in the health sector between 2016 and 2022, which was lower than the EU average of 0.48% ⁽¹⁷¹⁾. This could account for the low availability of key diagnostic technologies (medical

⁽¹⁷⁰⁾ Update to 2022 data of analysis presented by Health at a Glance: Europe 2016 - © OECD 2016.

⁽¹⁷¹⁾ OECD/European Commission, see Health at a Glance Europe 2018, 2020, 2022 and 2024.

imaging). The number of hospital beds in 2022 was slightly higher than the EU average but has decreased since 2019. The share of out-of-pocket health spending in Lithuania (31.8%) is among the highest in the EU (EU average: 14.3%). Nearly half of all out-of-pocket payments are for outpatient pharmaceuticals ⁽¹⁷²⁾. Lithuania received a country-specific recommendation in 2024 to provide adequate financing for healthcare (see Annex 16). The 2025 budget for the Compulsory Health Insurance Fund has increased by 14% compared to 2024, with key priorities such as expanding reimbursable health services and improving access to medicines. Under the Lithuanian recovery and resilience plan (RRP), around EUR 269 million is planned for health reforms and supporting investments. In addition to the RRP, significant funding for healthcare (EUR 475 million) is being used under the EU cohesion policy in 2021-2027. These funds aim, in particular, to improve the health infrastructure and the accessibility, quality and resilience of health services.

As regards public health, Lithuania has scope to step up its efforts on disease prevention. The share of total spending on health directed at prevention was lower than the EU average in 2022 and had decreased compared to 2021. Lithuania has one of the EU's lowest daily consumption levels of fresh fruit, and a high prevalence of overweight and obesity among adults. Despite a reduction between 2010 and 2022, alcohol consumption remains high ⁽¹⁷³⁾. Preventable mortality was among the highest in the EU in 2022 (309.2 deaths per 100 000 population). Starting in 2025, breast cancer screening will be expanded to women aged 45-74, and reforms will be implemented for the early diagnosis and treatment of several types of cancer. Lithuania participates in the EU4Health-funded joint

actions PreventNCD and JACARDI that aim to reduce the burden of cancer and other non-communicable diseases, and cardiovascular diseases and diabetes, respectively.

There are challenges with access to healthcare and high unmet needs for medical care in Lithuania. In 2024, the proportion of the population reporting unmet needs for medical care was above the EU average (4.3% vs 2.5%). Such unmet needs are mainly due to waiting lists. Lithuania received a country-specific recommendation in 2024 to strengthen primary care, expand preventive care and address regional disparities. In July 2024, the government extended the pilot shuttle service for patients who cannot use their own means of transport or public transport for health, social or economic reasons across the entire territory. The main objective of this patient-centred scheme is to increase access to healthcare services. Lithuania also initiated primary care reforms in mid-2023, including the creation of a new type of provider (municipal health centres) that offers primary and secondary care services, and a new 'care coordinator' role. Since January 2025, primary care providers are obliged to remain open for 12 hours each weekday. Urgent ambulatory care for specific acute conditions must also be provided within 24 hours in urgent care units or hospital emergency departments. In addition, Lithuania is involved in the EU4Health-funded CIRCE joint action which aims to extend six selected best practices in primary care to other EU countries ⁽¹⁷⁴⁾. Despite its efforts, Lithuania is facing significant challenges in implementing healthcare reforms.

⁽¹⁷²⁾ OECD/European Commission (2024), [Health at a Glance: Europe 2024: State of Health in the EU Cycle](#), pp. 186-187.

⁽¹⁷³⁾ [Health at a Glance: Europe 2024](#), Chapter 4.

⁽¹⁷⁴⁾ [Home | CIRCE-JA](#).

Table A14.1: Key health indicators

	2019	2020	2021	2022	2023	EU average* (latest year)
Cancer mortality per 100 000 population	271.5	276.5	259.4	261.5	n.a.	234.7 (2022)
Mortality due to circulatory diseases per 100 000 population	731.7	793.5	800.7	784.5	n.a.	336.4 (2022)
Current expenditure on health, purchasing power standards, per capita	1 910	2 023	2 318	2 318	n.a.	3 684.6 (2022)
Public share of health expenditure, % of current health expenditure	66.4	70.2	68.8	66.5	66.5	81.3 (2022)
Spending on prevention, % of current health expenditure	2.7	3.9	5.6	4.7	n.a.	5.5 (2022)
Available hospital beds per 100 000 population**	537	515	518	485	n.a.	444 (2022)
Doctors per 1 000 population*	4.6	4.5	4.5	4.4	n.a.	4.2 (2022)*
Nurses per 1 000 population*	7.7	7.8	7.9	7.5	n.a.	7.6 (2022)*
Mortality at working age (20-64 years), % of total mortality	22.4	22.4	21.9	21.2	22.2	14.3 (2023)
Number of patents (pharma / biotech / medical technology)	7	9	1	1	1	29 (2023)***
Total consumption of antibacterials for systemic use, daily defined dose per 1 000 inhabitants****	16.3	14.2	14.1	18.5	18.7	20.0 (2023)

*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 2022 (or latest 2021) data except for Luxembourg (2017). 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 France and Slovakia (professionally active) and Greece (hospital only). **Available hospital beds' covers somatic care, not psychiatric care. ***The EU median is used for patents.

Source: Eurostat database; European Patent Office; ****European Centre for Disease Prevention and Control (ECDC) for 2023.

Lithuania faces shortages of health professionals, which hampers the provision of healthcare.

In 2022, the density of doctors in Lithuania was slightly above the EU average. However, doctors are unevenly distributed across the country, with the biggest concentrations in the Vilnius and Kaunas districts. The density of nurses in Lithuania is similar to the EU average but the nurse-to-doctor ratio was only 1.7 in 2022 compared to an EU average of 2.2. However, a shortage of 4 643 nurses is projected for 2032 in view of the growing demand for care ⁽¹⁷⁵⁾. Lithuania had one of the highest shares of nursing personnel aged 55-64 (37.9%) in the EU and a low share of nursing personnel aged 25-34 years (10.6%). A long-term health workforce action plan is being implemented, with a focus on attracting and retaining health professionals, especially in the regions. The competences of nurses and midwives have expanded since 2024, allowing them to cover a wider range of consultations. These measures are expected to reduce pressure on family doctors and improve access to care for patients. Since January 2025, the salaries of employees working in public health care institutions have increased by an average of

10%, and a new platform to monitor health workforce competences has been established with support from the RRP. In addition, Lithuania participates in the EU4Health-funded HEROES joint action through which EU countries share expertise on health workforce planning ⁽¹⁷⁶⁾.

The Lithuanian health system's potential to drive innovation and foster industrial development in the EU medical sector remains largely untapped. Lithuania is among the EU countries that report the lowest public spending on health research and development. This is reflected in the low number of European patents granted in the combined areas of pharmaceuticals, biotechnologies and medical devices ⁽¹⁷⁷⁾. Clinical trial activity in Lithuania is also limited ⁽¹⁷⁸⁾.

Lithuania has a good uptake of e-health and overall health system digitalisation. For instance, in 2024, the share of people accessing their personal health records online in Lithuania was double the EU average (54.4% vs 27.7%). Furthermore, the share of the population using online health services

⁽¹⁷⁵⁾ Government's Centre for Strategic Analysis (2023), [STRATA](#).

⁽¹⁷⁶⁾ [JA HEROES | Health Workforce Planning Project](#).

⁽¹⁷⁷⁾ European Patent Office, [Data to download | epo.org](#).

⁽¹⁷⁸⁾ EMA (2024), [Monitoring the European clinical trials environment](#), p. 9.

(excluding phone) instead of in-person consultations increased steadily, from 9.3% in 2020 to 22.5% in 2024. Planned investments under the RRP aim to boost the digital transformation of the healthcare sector in Lithuania. Measures focus on: (i) increasing the use of e-health by healthcare institutions; (ii) digitalising emergency functions; (iii) further uptake of telemedicine; and (iv) developing a national digital health eco-system. The aim is to improve the accessibility, quality and resource efficiency of health services and to promote a digitally integrated healthcare system.



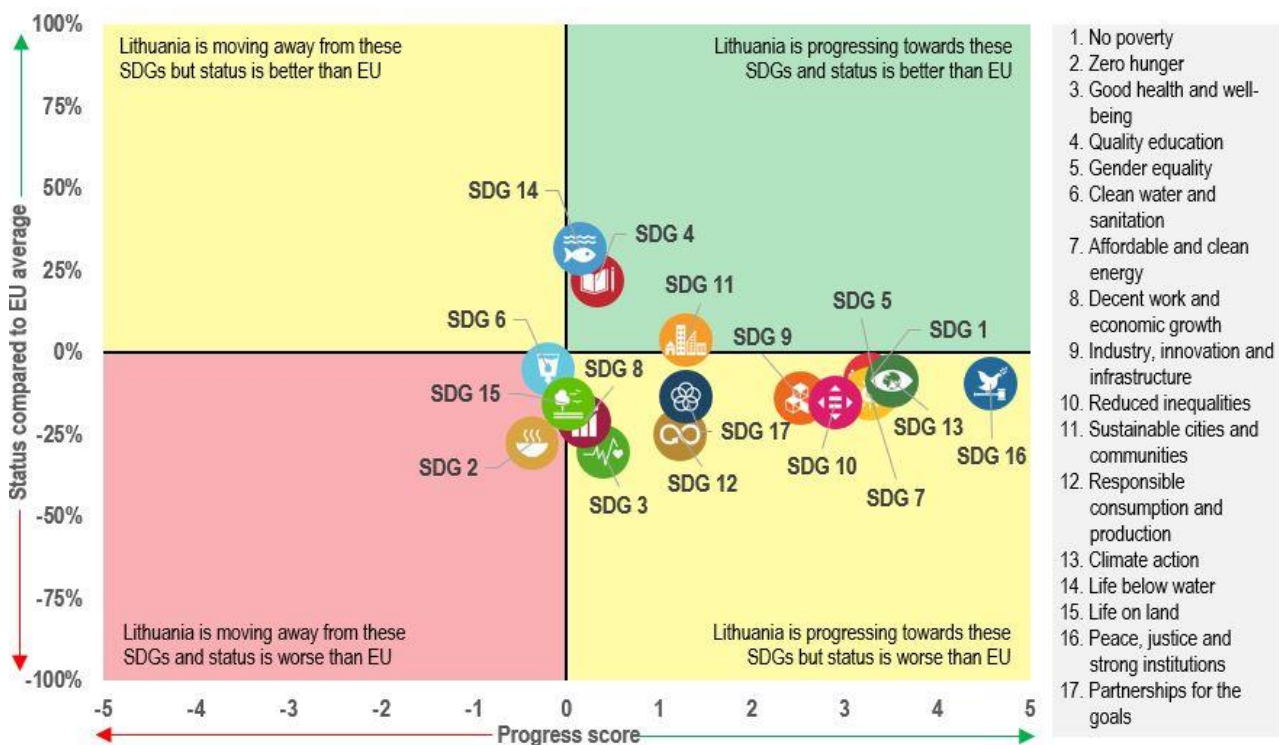
This Annex assesses Lithuania's progress on the Sustainable Development Goals (SDGs) along the dimensions of competitiveness, sustainability, social fairness and macroeconomic stability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. 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.

related to competitiveness. The share of households with a high-speed internet connection (SDG 9) in 2023 (78.1%) is around the EU average (78.8%). Lithuania has slowly improved gross domestic expenditure on R&D, which rose from 0.9% of GDP in 2017 to 1.05% of GDP in 2023, but it remains below the EU average of 2.24%. The country is also still lagging some way behind on patent applications to the European Patent Office, with 26 applications per million inhabitants in 2024 (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.

Lithuania still needs to improve on SDGs 9

While Lithuania performs well on several of

Graph A15.1: Progress towards the SDGs in Lithuania



For detailed datasets on the various SDGs, see the annual Eurostat report '[Sustainable development in the European Union](#)'; for details on extensive country-specific data on the short-term progress of Member States: [Key findings – Sustainable development indicators – Eurostat \(europa.eu\)](#). 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 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 28 April 2025. Data refer mainly to the period 2018-2023 or 2019-2024. Data on SDGs may vary across the report and its annexes due to different cut-off dates.

the SDGs related to sustainability (SDGs 11, 14), it needs to catch up with the EU average on others (SDGs 2, 6, 7, 9, 11, 13) and it is moving away from the target on SDG 15. On SDG 13 (Climate Action), the share of renewable energy in gross final energy consumption increased from 26% in 2017 to 31.9% in 2023, above the EU average of 24.6% in 2023. Meanwhile, net greenhouse gas emissions fell to 4.4% in 2023, remaining significantly below the EU average of 6.8%. However, the average CO₂ emissions per km from new passenger cars, although lower at 129.9 g in 2023, was materially above the EU average of 107.6 g in 2023. On SDG 15 (Life on land), Lithuania is moving away from the goals. In particular, the share of phosphate in rivers increased from 0.064 mg PO₄ per litre in 2016 to 0.159 in 2022 (EU average: 0.074 in 2022). The drought impact on ecosystems doubled between 2018 (15.5%) and 2023 (32%) and is well above the EU average of 3.6% in 2023.

On SDG 7 (Affordable and clean energy), Lithuania has achieved significant progress in its share of renewable energy in total energy consumption, which increased from 26% in 2017 to 31.9% in 2023 and is well above the EU average (24.5% in 2023). Similarly, progress was made on other energy indicators, including energy productivity (from 4.6% in 2017 to 6% in 2023), though this is still significantly below the EU average (9.8%) in 2023. The Lithuanian RRP includes investments in solar and wind energy capacity to provide additional security of supply and flexibility to accommodate renewable energy sources in the grid. Lithuania is below the EU average on SDG 6 (Clean water and sanitation) and SDG 11 (Sustainable cities and communities). On SDG 6 (Clean water and sanitation), Lithuania's share of population without a bath, shower or indoor flushing toilet decreased from 10.6% in 2015 to 4.5% in 2023 but remained significantly above the EU average of 1.5% (2020).

On SDG 11 (Sustainable cities and communities), the rate of the population under severe housing deprivation fell from

8.9% in 2015 to 4% in 2023 and now equals the EU average of. On SDG 12 (Responsible consumption and production), Lithuania is moving away from the goals and is worse than the EU average. In particular, its material footprint increased from 20.3 tonnes in 2017 to 23 tonnes in 2023 (EU average: 14.2 tonnes in 2023). Its waste generation needs further improvement, as the circular material use rate decreased from 4.5% in 2017 to 3.9% in 2023 (EU average: 11.8% in 2023).

Lithuania is performing well on two SDGs related to social fairness (SDGs 4 and 5), but still needs to catch up on several others (SDGs 1, 3, 7, 8, 10), and it is moving away from the target for SDG 2. Regarding Lithuania's performance on SDG 4 (Quality education), significant efforts have been made to catch up to the EU average regarding participation in childhood education, which increased from 88.1% in 2016 to 96.2% in 2023 (EU average: 94.6% in 2023), while further efforts are needed to reach the EU average on adult learning, up from 6.6% in 2018 to 9.8% in 2024 (EU average: 13.3% in 2024). On the negative side, there is a significant increase in early leavers from education – from 4% in 2019 to 8.4% in 2024 in Lithuania, while in the EU, a decrease was recorded – from 10.1% in 2019 to 9.3%.

Lithuania reduced the risk of poverty or social exclusion (SDG 1) from 29.8% in 2017 to 24.3% in 2023 but is still above the EU average of 21.3%. The urban-rural gap for the risk of poverty or social exclusion, computed as the difference in the share of the population, narrowed from 18 percentage points (pps) in 2017 to 10.7 pps in 2022 but increased slightly in 2023 to 12.2% and it remains well above the EU average (0.4 pps in 2023). Lithuania is moving away from the targets for SDG 3 (Good health and well-being) and remains below the EU average. For SDG 3, this concerns in particular healthy life expectancy – this was 60.3 years in 2022 (EU average: 63.6 years). Uneven progress has been made on causes of death indicators, with some improving –

especially road traffic deaths, where the indicator fell from 6.8% in 2016 to 5.6% in 2023 (EU average: 4.5%) but with the rate of standardised avoidable mortality nearly double the EU average. 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.

Lithuania is improving on two SDGs related to *macroeconomic stability* (SDGs 16 and 8) but is moving away from SDG 17. Lithuania made significant progress on the investment share of GDP and is now above the EU average (SDG 8 on Decent work and economic growth) with its share increasing from 20.1% in 2017 to 23.7% in 2023 (EU: 22.4% in 2023). The employment rate is performing better than the EU average (79.2%, vs 75.8% for the EU in 2023). On the negative side, the long-term unemployment rate and the indicator on young people not in education, employment or training has deteriorated (from 1.9% in 2019 to 2.3% in 2023 and from 10.9% in 2018 to 14.7% in 2023 respectively). Lithuania is improving on SDG 16 (Peace, justice and strong institutions). The Corruption Perceptions Index improved from 60% in 2018 to 63% in 2024 (EU average: 62%), and general government total expenditure on law courts per capita increased from EUR 49 in 2019 to EUR 56 in 2024. This is, however, still far from the EU average of EUR 121.7 in 2023.

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



Lithuania faces structural challenges in a wide range of policy areas, as identified in the country-specific recommendations (CSRs) addressed to the country as part of the European Semester. They refer, among other things, to taxation policy, education and training, labour market policy, research and innovation, energy, resource efficiency, sustainable transport, social protection and housing and healthcare.

The Commission has assessed the 2019-2024 CSRs considering the policy action taken by Lithuania to date and the commitments in its recovery and resilience plan (RRP). At this stage, Lithuania has made at least 'some progress' on 78% of the CSRs ⁽³⁶⁸⁾, and 'limited progress' on 22% (Table A16.2).

EU funding instruments provide considerable resources to Lithuania by supporting investments and structural reforms to increase competitiveness, environmental sustainability and social fairness, while helping to address challenges identified in the CSRs. In addition to the EUR 3.85 billion funding from the Recovery and Resilience Facility (RRF) in 2021-2026, EU cohesion policy funds ⁽³⁶⁹⁾ are providing EUR 6.3 billion to Lithuania (amounting to EUR 7.8 billion with national co-financing) for 2021-2027 ⁽³⁷⁰⁾ to boost competitiveness and growth. Support from these instruments combined represents around 13.7% of 2024 GDP ⁽³⁷¹⁾. The contribution of these instruments

to different policy objectives is outlined in Graphs A16.1 and A16.2. This substantial support comes on top of financing provided to Lithuania under the 2014-2020 multiannual financial framework, which financed projects until 2023 and has delivered significant benefits for the economy and Lithuanian society. Project selection under the 2021-2027 cohesion policy programmes is advanced, while implementation of selected projects has also gained momentum, enabling substantial investment.

The Lithuanian RRP contains 45 investments and 173 reforms to stimulate sustainable growth. These are targeted at addressing common European challenges by embracing the green and digital transition, to strengthen economic and social resilience and to promote the cohesion of the single market. In particular, Lithuania's plan aims to accelerate reforms and investments in education and healthcare. The plan will also invest in more sustainable power generation and energy storage, promote green mobility, facilitate the 5G rollout and strengthen social protection. A year before the end of the RRF timespan, implementation is well on its way, with 47% of the funds disbursed. Lithuania has fulfilled 30% of the milestones and targets in its RRP ⁽³⁷²⁾. Efforts are needed to ensure completion of all RRP measures by 31 August 2026. In this context, it is important for Lithuania to address the fragmentation and limited cooperation among national, regional, local authorities and stakeholders, which constitutes a bottleneck for the implementation of EU funds.

Lithuania also receives funding from several other EU instruments, including those listed in Table A16.1. Most notably, the common agricultural policy (CAP) provides Lithuania with an EU contribution of EUR 4 billion under the CAP strategic plan 2023-2027 ⁽³⁷³⁾.

⁽³⁶⁸⁾ 14% of the 2019-2024 CSRs have been fully implemented, 15% substantially implemented, and some progress has been made on 49%.

⁽³⁶⁹⁾ In 2021-2027, cohesion policy funds include the European Regional Development Fund, the Cohesion Fund, the European Social Fund Plus and the Just Transition Fund. The information on cohesion policy included in this annex is based on adopted programmes with the cut-off date of 5 May 2025.

⁽³⁷⁰⁾ European territorial cooperation (ETC) programmes are excluded from the figure.

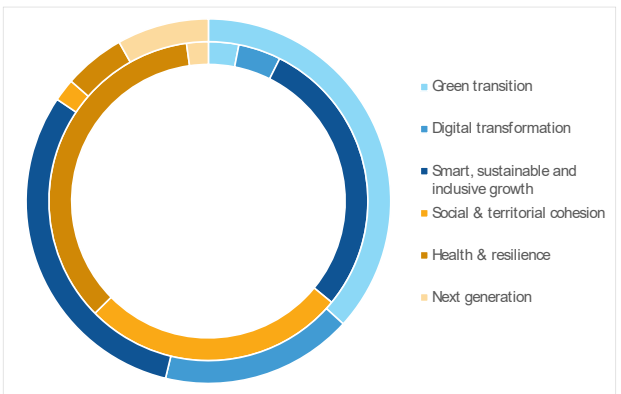
⁽³⁷¹⁾ RRF funding includes both grants and loans, where applicable. GDP figures are based on Eurostat data for 2024.

⁽³⁷²⁾ As of mid-May 2025, Lithuania has submitted 3 payment requests.

⁽³⁷³⁾ An overview of Lithuania's formally approved strategy to implement the EU's common agricultural policy nationally

Operations amounting to EUR 210 million ⁽³⁷⁴⁾ have been signed under the InvestEU instrument backed by the EU guarantee, improving access to financing for riskier operations in Lithuania.

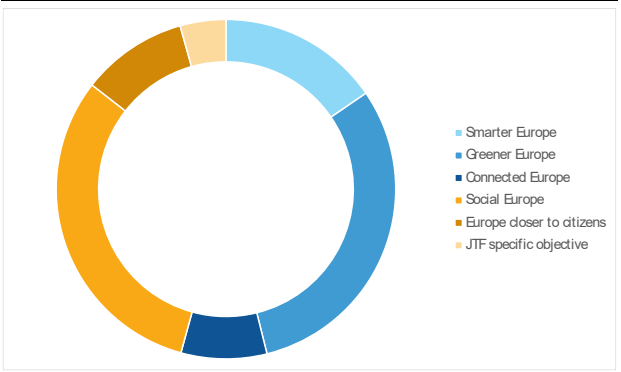
Graph A16.1: **Distribution of RRF funding in Lithuania by policy field**



(1) Each RRP measure helps achieve the aims of two of the six policy pillars of the RRF. The primary contribution is shown in the outer circle, while the secondary contribution is shown in the inner circle. Each circle represents 100% of the RRF funds. Therefore, the total contribution to all pillars displayed on this chart amounts to 200% of the RRF funds allocated.

Source: European Commission

Graph A16.2: **Distribution of cohesion policy funding across policy objectives in Lithuania**



Source: European Commission

Cohesion policy funds aim to increase the productivity and competitiveness of Lithuanian firms and improve the business environment. The European Regional

can be found at: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans/lithuania_en

⁽³⁷⁴⁾Data reflect the situation on 31.12.2024.

Development Fund (ERDF) will support nearly 5 000 small and medium-sized enterprises (SMEs) investing in skills for smart specialisation, industrial transition and entrepreneurship, and will improve digital connectivity for nearly 15 000 households and 1 400 businesses by providing very high-capacity broadband access. Lithuania is making significant use of the Strategic Technologies for Europe Platform (STEP) to strengthen its competitiveness, allocating EUR 59 million to STEP priorities covering digital technologies and deep tech, clean and resource-efficient technologies and biotechnologies. Moreover, the European Social Fund Plus (ESF+) is supporting Lithuania's labour market with over EUR 200 million (19% of the total ESF+ allocation) to help 54 000 unemployed people gain skills and receive personalised support. An additional EUR 64.5 million will boost adult lifelong learning and skills development, aiming to upskill 1 770 inactive people and provide training to more than 80 000 through individual learning accounts.

Other funds are contributing to competitiveness in Lithuania, for instance through open calls. The Connecting Europe Facility has financed strategic investments in rail transport such as the Rail Baltica, the development of alternative fuel infrastructure in the air and maritime sectors, the integration of the energy market including the synchronisation of the Baltic States with the EU's electricity system and in 5G connectivity along transport corridors, along Via Baltica. Horizon Europe has supported research and innovation, from scientific breakthroughs to scaling up innovations, with widening participation and spreading excellence and climate, energy and mobility as top priorities for Lithuania. In Lithuania, the Technical Support Instrument (TSI) is focused on providing support to the integration of Rail Baltica in the European rail network. The TSI is also helping Lithuania to implement specific reforms included in its RRP, such as strategic planning, decision making and municipal capacity building.

Lithuania's RRP also contains ambitious measures to improve the business environment and competitiveness. As part of the measures covered by payment requests submitted over the past year, reforms include new legislation limiting cash payments in risky economic sectors, improvements to the tax administration and online tax collection, new legislation on adult education and vocational training, a renewed framework of incentives for business to invest in R&D, the setting-up of a competence centre for open data and digital transformation and the establishment of a data exchange tool, as well as a significant capital injection of EUR 150 million into Lithuania's national promotional institution (ILTE) to improve access to finance.

EU funds are playing a significant role in promoting environmental sustainability and green transition in Lithuania during the current seven-year EU budget (multiannual financial framework). The ERDF is investing over EUR 15 million in systems for climate-related disaster prevention and resilience, and the Cohesion Fund (CF) supports resource efficiency by creating additional capacity of almost 130 000 tonnes/year for waste recycling. ERDF and CF investments are also boosting capacity to produce renewable energy by 800 MW. This will increase the share of renewables in final energy consumption and reduce dependence on fossil fuels. Lithuania's CAP strategic plan allocates EUR 402 million (41% of rural development funding) to environmental and climate objectives and EUR 753 million (25% of direct payments) to eco-schemes. These support sustainable practices, including pasture management for soil quality, restricted fertiliser use in orchards, and no-tillage techniques and grassland conversion. The TSI is also providing support to improve environmental, food and veterinary safety and the monitoring of green public procurement.

Lithuania's RRP, including the REPowerEU chapter, has a comprehensive set of reforms

and investments for the green transition. Measures covered by payment requests submitted over the past year include: (i) new legislation on restoring and protecting wetlands; (ii) enhancing the investment environment for renewable energy developers, for instance, by reducing the duration of the permit-granting procedures to one year, or waiving the necessary permits for establishing new renewable energy power plants of up to 100 kW); (iii) setting up competence centres on building renovation and green finance; (iv) a financial instrument providing up to EUR 550 million to finance investments into renewable energy power plants and (v) a unique 200 MW energy storage system that ensures the security of Lithuania's energy system, which also enabled the synchronisation of the Baltic States with the European continental network.

Promoting fairness, social cohesion and improving access to basic services are among the key priorities of EU funding in Lithuania. The ERDF support will enable access to new or modernised healthcare facilities for a large part of the society, improving the healthcare system's capacity. Complementing ERDF infrastructure investments, the ESF+ promotes social cohesion through support to social services. These will help to move away from institutional care, provide family crisis support and addiction recovery, and help reduce child poverty. With EUR 175 million in funding, these programmes will support deinstitutionalisation for 3 300 people, comprehensive family services for 75 000 people, and community services for 5 400 vulnerable children. The TSI is also providing support to mental health among Lithuanian youth.

Lithuania's RRP contains several reforms and investments related to fairness and social policies. Reforms and investments covered by payment requests over the last year include reforms to improve quality and access to medical services and to ensure more efficient provision of ambulance services.

Table A16.1: **Selected EU funds with adopted allocations - summary data (million EUR)**

Instrument/policy	Allocation 2021-2026		Disbursed since 2021 (1)
RRF grants (including the RepowerEU allocation)	2 297.6		1 060.8
RRF loans	1 552.7		758.70
Instrument/policy	Allocation 2014-2020 (2)	Allocation 2021-2027	Disbursed since 2021 (3) (covering total payments to the Member State on commitments originating from both 2014-2020 and 2021-2027 programming periods)
Cohesion policy (total)	7 033.5	6 274.3	3 918.6
European Regional Development Fund (ERDF)	3 683.8	3 616.1	2 106.2
Cohesion Fund (CF)	2 039.8	1 248.5	1 057.2
European Social Fund (ESF, ESF+) and the Youth Employment Initiative (YEI)	1 309.9	1 136.4	670.1
Just Transition Fund (JTF)		273.3	85.0
Fisheries			
European Maritime, Fisheries and Aquaculture Fund (EMFAF) and the European Maritime and Fisheries Fund (EMFF)	63.4	61.2	39.5
Migration and home affairs			
Migration, border management and internal security - AMIF, BMV and ISF (4)	238.1	428.0	252.1
The common agricultural policy under the CAP strategic plan (5)	Allocation 2023-2027		Disbursements under the CAP Strategic Plan (6)
Total under the CAP strategic plan	3 998.1		1 260.8
European Agricultural Guarantee Fund (EAGF)	3 020.6		1 094.0
European Fund for Agricultural Development (EAFRD)	977.5		166.8

(1) The cut-off date for data on disbursements under the RRF is 31 May 2025.

(2) Cohesion policy 2014-2020 allocations include REACT-EU appropriations committed in 2021-2022.

(3) These amounts relate only to disbursements made from 2021 onwards and do not include payments made to the Member State before 2021. Hence the figures do not comprise the totality of payments corresponding to the 2014-2020 allocation. The cut-off date for data on disbursements under EMFAF and EMFF is 29 April 2025. The cut-off date for data on disbursements under cohesion policy funds, AMIF, BMVI and ISF is 5 May 2025.

(4) AMIF - Asylum, Migration and Integration Fund; BMVI - Border Management and Visa Instrument; ISF - Internal Security Fund.

(5) Expenditure outside the CAP strategic plan is not included.

(6) The cut-off date for data on EAGF disbursements is 5 May 2025. The information on EAGF disbursements is based on the Member State declarations until March 2025. Disbursements for the Direct Payments (EAGF) started in 2024.

Source: European Commission

Reforms for education included new legislation outlining the requirements for the development and implementation of National qualification programmes for pedagogical staff, as well as revisions to the curriculum for pre-primary, primary, lower secondary, and secondary education. Reforms and investments have also been made to ensure digitisation and accessibility of cultural resources.

Table A16.2: Summary table on 2019-2024 CSRs

Lithuania	Assessment in May 2025	Relevant SDGs
2019 CSR 1	Some progress	
Improve tax compliance and	Some progress	SDG 8, 16
broaden the tax base to sources less detrimental to growth.	Some progress	SDG 8, 10, 12
Address income inequality, poverty and social exclusion, including by improving the design of the tax and benefit system.	Some progress	SDG 1, 2, 8, 10, 12
2019 CSR 2	Some progress	
Improve quality and efficiency at all education and training levels, including adult learning.	Some progress	SDG 4
Increase the quality,	Some progress	SDG 3
affordability and	Some progress	SDG 3
efficiency of the healthcare system.	Some progress	SDG 3
2019 CSR 3	Some progress	
Focus investment-related economic policy on innovation,	Some progress	SDG 9, 10, 11
energy and	Substantial progress	SDG 7, 9, 10, 11, 13
resource efficiency,	Some progress	SDG 6, 10, 11, 12, 15
sustainable transport and	Limited progress	SDG 10, 11
energy interconnections, taking into account regional disparities.	Substantial progress	SDG 7, 9, 10, 11, 13
Stimulate productivity growth by improving the efficiency of public investment.	Some progress	SDG 8, 16
Develop a coherent policy framework to support science-business cooperation and	Full implementation	SDG 9
consolidate research and innovation implementing agencies.	Full implementation	SDG 9
2020 CSR 1	Some progress	
In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	Not relevant anymore	SDG 8, 16
Strengthen the resilience of the health system, including by mobilising adequate funding and addressing shortages in the health workforce and of critical medical products.	Some progress	SDG 3
Improve the accessibility and quality of health services.	Some progress	SDG 3
2020 CSR 2	Some progress	
Mitigate the impact of the crisis on employment.	Full implementation	SDG 8
Increase the funding and coverage of active labour market policy measures	Some progress	SDG 8
and promote skills.	Some progress	SDG 4
Ensure the coverage and adequacy of the social safety net and improve the effectiveness of the tax and benefit system to protect against poverty.	Some progress	SDG 1, 2, 8, 10, 12
2020 CSR 3	Some progress	
Support liquidity for businesses, especially for small and medium-sized enterprises and export-oriented sectors	Some progress	SDG 8, 9
Front-load mature public investment projects	Some progress	SDG 8, 16
and promote private investment to foster the economic recovery.	Some progress	SDG 8, 9
Focus investment on the green and digital transition, in particular on the coverage and take-up of very high-capacity broadband,	Some progress	SDG 9
on clean and efficient production and use of energy,	Substantial progress	SDG 7, 9, 13
and sustainable transport.	Some progress	SDG 11
Promote technological innovation in small and medium-sized enterprises.	Some progress	SDG 8, 9

(Continued on the next page)

Table (continued)

2021 CSR 1	Not relevant anymore	
<i>In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control.</i>	Not relevant anymore	SDG 8, 16
<i>When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.</i>	Not relevant anymore	SDG 8, 16
<i>At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.</i>	Not relevant anymore	SDG 8, 16
<i>Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.</i>	Not relevant anymore	SDG 8, 16
2022 CSR 1	Substantial progress	
<i>In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation</i>	Not relevant anymore	SDG 8, 16
<i>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</i>	Not relevant anymore	SDG 8, 16
<i>For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.</i>	Not relevant anymore	SDG 8, 16
<i>Foster cooperative public procurement at central government and municipality levels.</i>	Substantial progress	SDG 9
2022 CSR 2	Not relevant anymore	
<i>Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 20 July 2021.</i>	RRP implementation is monitored by assessing RRP payment requests and analysing reports published twice a year on the achievement of the milestones and targets. These are to be reflected in the country reports.	
<i>Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation</i>	Progress with the cohesion policy programming documents is monitored under the EU cohesion policy.	
2022 CSR 3	Some progress	
<i>Strengthen primary and preventive care.</i>	Some progress	SDG 3
<i>Reduce fragmentation in the planning and delivery of social services and improve their personalisation and integration with other services.</i>	Substantial progress	SDG 1, 2, 10
<i>Improve access to and quality of social housing.</i>	Some progress	SDG 1, 2, 10
2022 CSR 4	Some progress	
<i>Reduce overall reliance on fossil fuels</i>	Some progress	SDG 7, 9, 13
<i>by accelerating the deployment of renewables</i>	Substantial progress	SDG 7, 9, 13
<i>and increasing energy efficiency and decarbonisation of industry, [transport] and buildings,</i>	Limited progress	SDG 7
<i>and [increasing energy efficiency and decarbonisation] of transport</i>	Some progress	SDG 11
<i>and ensure sufficient capacity of energy interconnections.</i>	Substantial progress	SDG 7, 9, 13
2023 CSR 1	Some progress	
<i>Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.</i>	Full implementation	SDG 8, 16
<i>While maintaining a sound fiscal position in 2024,</i>	Full implementation	SDG 8, 16
<i>preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.</i>	Full implementation	SDG 8, 16
<i>For the period beyond 2024, continue to pursue investment and reforms conducive to higher sustainable growth and preserve a prudent medium-term fiscal position.</i>	Full implementation	SDG 8, 16
<i>Strengthen the adequacy of healthcare and</i>	Limited progress	SDG 3
<i>social protection,</i>	Some progress	SDG 1,2, 10
<i>and improve general public services.</i>	Limited progress	SDG 16

(Continued on the next page)

Table (continued)

2023 CSR 2		
<i>Continue the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting implementation thereof. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.</i>	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.	
2023 CSR 3	Some progress	
<i>Strengthen primary care and expand preventive care in order to, inter alia, make the healthcare system more resilient.</i>	Some progress	SDG 3
<i>Improve the planning and delivery of social services.</i>	Substantial progress	SDG 1, 2, 10
<i>Improve access to, and the quality of, social housing.</i>	Some progress	SDG 1, 2, 10
2023 CSR 4	Some progress	
<i>Further reduce reliance on fossil fuels and imported energy</i>	Some progress	SDG 7, 9, 13
<i>by accelerating the deployment of renewables, in particular by ensuring sufficient grid capacity and access,</i>	Substantial progress	SDG 7, 9, 13
<i>ensuring the transformation and decarbonisation of industrial production,</i>	Limited progress	SDG 7
<i>and increasing the uptake of public and sustainable transport, as well as</i>	Limited progress	SDG 11
<i>by making buildings more energy-efficient with a view to, inter alia, reducing energy poverty.</i>	Limited progress	SDG 1, 2, 7, 10
<i>Ensure sufficient capacity of electricity interconnections in order to increase security of supply, continuing the timely synchronisation with the Union electricity grid.</i>	Substantial progress	SDG 7, 9, 13
<i>Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.</i>	Limited progress	SDG 4
2024 CSR 1	Some progress	
<i>Submit the medium-term fiscal-structural plan in a timely manner.</i>	Full implementation	SDG 8, 16
<i>In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.</i>	Full implementation	SDG 8, 16
<i>Provide adequate financing for healthcare,</i>	Limited progress	SDG 3
<i>social protection</i>	Some progress	SDG 1, 2, 10
<i>and general public services.</i>	Limited progress	SDG 9, 16
2024 CSR 2		
<i>Address relevant challenges 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.</i>	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. Progress with the cohesion policy is monitored in the context of the Cohesion Policy of the European Union.	
2024 CSR 3	Limited progress	
<i>Improve health outcomes and the resilience of the health system by strengthening primary care and expanding preventive care.</i>	Some progress	SDG 3
<i>Increase the adequacy of old-age pensions, while maintaining the sustainability of the pension system.</i>	Limited progress	SDG 8
<i>Address regional disparities by promoting cooperation among municipalities in improving access to public services, including public transport.</i>	Limited progress	SDG 10, 11
2024 CSR 4	Limited progress	
<i>Address skills mismatches by improving the labour market relevance of higher education.</i>	Some progress	SDG 4
<i>Facilitate private investment in research and innovation.</i>	Limited progress	SDG 9
<i>Step up resource productivity to progress towards a circular economy.</i>	Limited progress	SDG 6, 12, 15

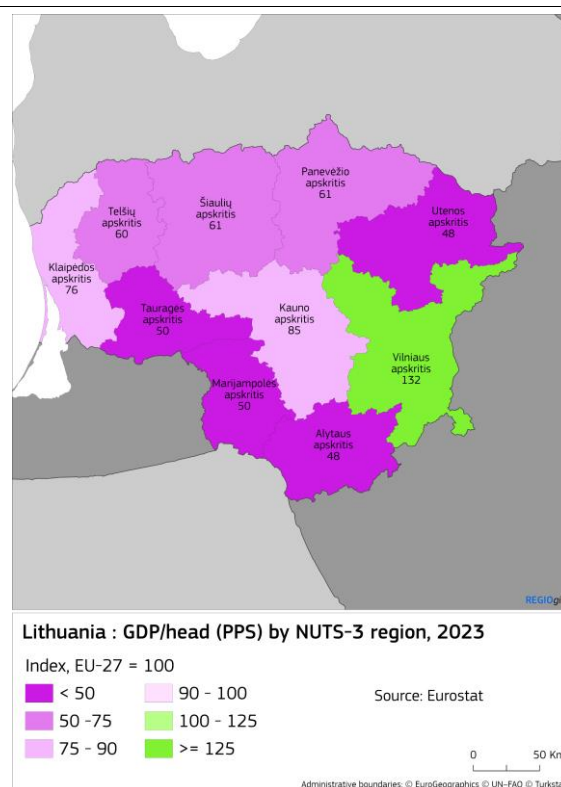
Source: European Commission

Lithuania's regional economic landscape presents significant regional disparities, due to asymmetric economic structure and development, with a fast-advancing Capital Region and the remaining regions lagging behind. Significant overall depopulation combined with ageing and internal migration towards the Capital Region suggest that more efficient delivery of public services is needed.

There are still significant regional differences in economic development in Lithuania, which have widened over the past decade, with the Capital Region (Vilnius county) growing faster than other territories. The difference in GDP per capita as percentage of the EU average between the Capital Region and the Central and Western Region of Lithuania increased from 48 percentage points (pps) in 2014 to 65 pps in 2023. At NUTS 3 level, the most developed region, Vilnius county, had a GDP per head (in purchasing power standard, PPS) of 132% of the EU average in 2023, far surpassing other regions. Kaunas and Klaipėda counties reached above 75% of the EU average, while the other regions remain around 60% or less. The four least developed counties (Tauragė, Alytus, Utena and Marijampolė), which border Belarus and Russia, had a GDP per head of around 50% of the EU average (Map A17.1).

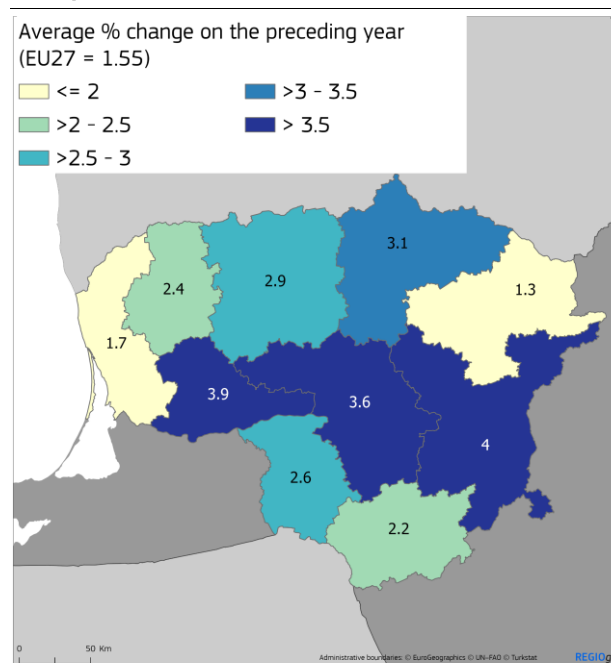
Convergence was hampered by slower growth of GDP per head in the less developed counties. The strong average annual real growth in Lithuania (3.6%) was pushed by the two most developed counties, Kaunas and Vilnius, which reached 3.6%-4.0%, while Klaipėda county registered a more modest 1.7%. In contrast, the two least developed counties (Utena and Alytus) had growth rates of 1.3% and 2.2%, respectively (Map A.17.2).

Map A17.1: GDP per head (in purchasing power standard PPS), 2023



Source: Eurostat

Map A17.2: Real GDP per head growth (2014-2023)



Real GDP per head growth, 2014-2023

Source: Eurostat

Source: Eurostat



Table A17.1: Selection of indicators at regional level in Lithuania

	GDP per head (PPS)	Real GDP per head growth	Productivity - GDP per person employed (PPS)	Real productivity growth (per person employed)	Productivity - GDP per hour worked (PPS)	Real productivity growth (per hour worked)	Population growth	Natural population change	Net migration	Working age population (20-64) growth	
	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	Index EU-27 = 100	Average annual % change	Average annual change per 1000 residents	Average annual change per 1000 residents	Average annual net crude migration rate (%)	Average annual change per 1000 residents of same age	% change over 2 years
	2023	2014-2023	2023	2014-2023	2022	2013-2022	2014-2023	2014-2023	2014-2023	2014-2023	2021-2023
European Union (27 MS)	100	1.6	100	0.6	100	0.9	1.7	-1.5	3.2	-2.1	0.0
Lithuania	87	3.6	82	2.0	73	2.3	-2.1	-5.4	3.3	-4.6	2.0
Vilniaus apskritis	132	4.0	109	2.5	91	2.5	8.1	-3.4	22.6	6.5	5.6
Alytaus apskritis	48	2.2	53	0.8	47	1.6	-12.2	-12.2	3.3	-16.7	-2.4
Kauno apskritis	85	3.6	79	1.9	75	2.6	-0.5	-6.5	14.4	-2.6	2.1
Klaipėdos apskritis	76	1.7	74	0.7	69	1.5	3.3	-6.1	20.6	0.7	4.0
Marijampolės apskritis	50	2.6	52	0.2	48	0.6	-14.1	-10.4	1.2	-17.6	-2.5
Panevėžio apskritis	61	3.1	64	1.0	59	1.9	-13.9	-11.3	0.6	-17.9	-3.0
Šiaulių apskritis	61	2.9	62	1.1	60	2.1	-7.3	-9.6	12.4	-10.2	1.1
Tauragės apskritis	50	3.9	57	2.8	44	2.8	-15.2	-10.4	0.9	-18.7	-2.2
Telšių apskritis	60	2.4	62	0.4	56	0.6	-11.4	-7.6	1.5	-15.9	-2.2
Utenos apskritis	48	1.3	61	1.7	54	2.0	-13.1	-14.5	9.4	-16.9	-1.6

Source: Eurostat and JRC

Creating opportunities across regions would help to maintain and attract the working-age population required to sustain GDP growth in the long term. The decline in the working-age population for more than two decades, and even sharper decline in the young population, have become a challenge. Between 2014 and 2023, Lithuania's working-age population (20-64 years old) declined by an average of 4.6 per 1 000 inhabitants of the same age per year. The young population (less than 20 years old) decreased by an average of 8.9 per 1 000 per year.

The Capital region is the exception in the working-age population trend. There, the working-age population between 2014 and 2023 increased by 6.5 per 1 000 inhabitants of the same age per year in the same period, while the young population increased by 12 per 1 000, as the young and active population migrated to the Capital Region to study and work. The positive demographic trend in the Capital region was also strengthened by external immigration, as a large proportion of the Ukrainian refugees in Lithuania have settled down in Vilnius. In contrast, less developed and peripheral counties experienced steep annual declines in the working-age population (down

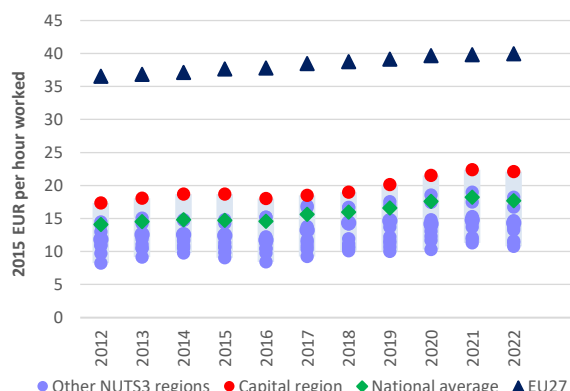
10-19 per 1 000 per year) and in the young population (down 30-35 per 1 000).

The population and the working-age population started to increase in 2022, mainly due to the return of Lithuanian citizens or people born in Lithuania, as well as net migration of non-EU citizens. The working-age population grew by 2% over the two years to 2023, with notable expansion in the prosperous regions of Vilnius, Klaipėda, Kaunas, as well as in Šiauliai. This increase was primarily driven by the native population, which accounted for 85% of the growth, non-EU citizens contributed 17%, while the population of EU citizens saw a decline during this period ⁽¹⁸⁶⁾.

⁽¹⁸⁶⁾ Based on Eurostat, Labour Force Survey and demographic data.

Competitiveness

Graph A17.1: Labour productivity per hour



Unit: Real GDP per hour worked (EUR, 2015 prices)

Source: ARDECO (JRC)

Lithuania's GDP disparities are primarily driven by differences in productivity. In 2022, productivity (GDP per hour in PPS) averaged 73% of the EU level, with Vilnius county leading at 91%. Kaunas and Klaipėda counties followed at 75% and 69% respectively. Conversely, Marijampolė, Alytus, Tauragė counties lagged significantly behind, with productivity below 50% of the EU average (Graph A17.1).

Productivity has been catching up with the EU average, but internal disparities persist. Lithuania's real productivity per hour grew rapidly on average at 2.3% annually (2013–2022), outpacing the EU average of 0.9%, yet it decreased in 2022 and 2023 and regional disparities have not closed. Vilnius and Kaunas counties posted strong growth (2.5% and 2.6%), while Tauragė county, a less developed NUTS 3 region, led with 2.8%. In contrast, Alytus and Marijampolė counties had much slower productivity growth (1.6% and 0.6% respectively). In 2023, productivity per hour decreased countrywide, the least in Vilnius county (-1.2%) and more than 4% in most of the other counties, further widening disparities.

Uneven economic development stalls internal convergence in productivity levels. In major cities, especially in Vilnius, innovation

has become the basis for economic transformation, attracting highly skilled professionals and developing high added-value products, sales of which led to significant GDP and productivity growth. The rest of Lithuania is dominated by micro-enterprises, mainly in low-performing economic areas with moderate relevance to the knowledge economy and innovation development. However, good examples of local clusters development can be observed across the regions: Kaunas county succeeds in attracting investments and developing the biotechnology sector, Klaipėda – marine technologies, while Panevėžys county aims to become a hub for robotics.

Counties with lower productivity face deficits in key growth drivers. Vilnius county leads in R&D, high-skill employment, connectivity, innovation and competitiveness. The county allocates 0.9% of GDP to business R&D, employment in knowledge-intensive services accounts for nearly 50% of total employment, and 10% of employment is in high-tech sectors. In contrast, all the other counties invest just 0.3% of GDP in business R&D, with 35% of employment in knowledge-intensive services and 2.7% in high-tech sectors.

Significant disparities remain in human capital and skills – key assets for productivity growth. In 2023, 62% of people aged 25–64 in Vilnius county held an academic degree, the highest proportion in the EU, and compared to an average of 40% in other counties in Lithuania. Cities lead, with 62% of residents having an academic degree, versus 35% in towns and suburbs and 32% in rural areas. There are notable regional disparities in digital literacy. In 2023, 53% of people had basic or above basic digital skills, below the EU average of 56%. Cities performed better (60%) than rural areas (47%). Students attending urban schools scored in 2022 on average 70 points higher PISA tests⁽¹⁸⁷⁾ than their 15-year-

⁽¹⁸⁷⁾ Programme for International Student Assessment (PISA).

old peers attending rural schools in the areas of mathematics, science and reading literacy, well above the EU average urban-rural achievement gap.

Transport connections and infrastructure also vary significantly across the counties. In Vilnius county, 81% of the population within a 120 km radius can be reached in under 90 minutes by car, compared to the national average of 68%, and just 47% in Šiauliai county. Public and on-demand transport options are scarce in rural areas, hindering easy access to jobs and public services, particularly for vulnerable populations. Digital connectivity shows smaller disparities, with internet access reaching 89% of households overall, ranging from 92% in cities to 85% in rural areas.

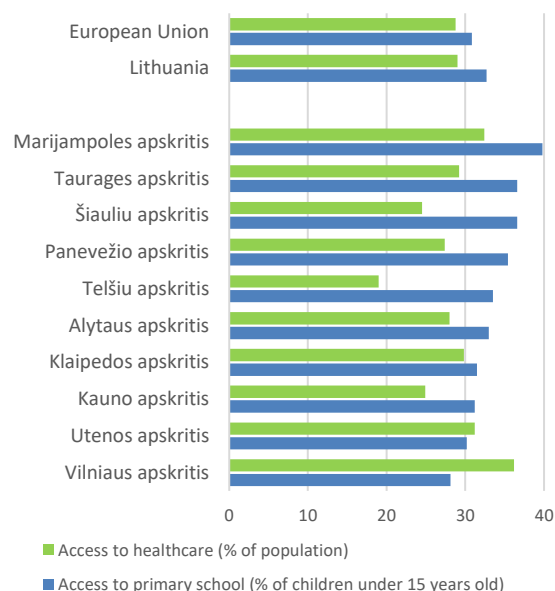
Social fairness

Populations living outside the Capital Region also face more difficulties finding work. In 2023, the Capital Region reported an employment rate of 83% and an unemployment rate of 4.9%. In contrast, the Central and Western Region had an employment rate of 76% and an unemployment rate of 7.8%. Disparities were more pronounced across settlement types: cities had higher employment (84%) and lower unemployment (5.3%), while rural areas lagged with 73% employment and 8.6% unemployment, highlighting persistent regional and urban-rural divides.

Lithuania's demographic trends over the last decades, driven by population decline, ageing and internal migration have increased pressure on public services, especially in shrinking rural and peripheral areas. Overall, only 29% of rural residents lived within a 10-minute drive of the nearest healthcare centre, matching the EU average. Accessibility to healthcare centres varied regionally, from 36% in Vilnius county to 19% in Telšiai county. 33% of children in rural areas

were within a 15-minute walk of a primary school. This is above the average (31%) in the EU ⁽¹⁸⁸⁾ with the highest proportion in Marijampolė county (40%) and the lowest in Vilnius county (28%) (Graph A17.3).

Graph A17.2: Access to healthcare and primary education in rural areas, 2023



Units: Percentage of population that can reach nearest hospital within 10 minutes by car (EU-27); Percentage of children under 15 years old who can reach primary school within 15-minute walk (EU-24).

Source: Eurostat

Lithuania is considering sharing provision of municipal services to improve the efficiency, accessibility and quality of public services. However, the current legal framework for the provision of shared municipal services like public transport, healthcare, education, social and business services, water, wastewater treatment and waste management faces obstacles due to conflicting regulations and loopholes, lacks coordination and guidance, making it difficult for municipalities to set up shared services. Reaping the potential benefits of shared municipal services in Lithuania may

⁽¹⁸⁸⁾ The average is calculated based on 24 Member States, as no data are available for Bulgaria, Malta and Latvia.

require strengthening the underlying legal, fiscal and institutional foundations ⁽¹⁸⁹⁾.

Sustainability

Sustainability performance varies considerably between Lithuania's NUTS 2 regions, particularly in emissions. In 2023, Lithuania's average greenhouse gas emissions per capita (7.2 tonnes of CO₂ equivalent) aligned with the EU-27 average. But emissions in the region of Central-Western Lithuania (8.5 tCO₂eq) were nearly double those in the Capital Region (4.3 tCO₂eq) due to the high energy intensity of industry in the former region.

While Lithuania is below the EU average in green infrastructure and employment, there are notable regional differences. Electric vehicle charging infrastructure varies across regions but remains limited overall, with an average of 42 charging points within 10 km, compared to the EU average of 287, and even the best-performing Capital Region reaching only 123 charging points ⁽¹⁹⁰⁾. The proportion of green jobs also shows significant regional variations, averaging 8.5% of total employment nationally (below the EU's 15%), ranging from 15% in the Capital Region to just 5.6% in the region of Central-Western Lithuania ⁽¹⁹¹⁾.

⁽¹⁸⁹⁾ Enabling inter-municipal shared services provision in Lithuania, OECD 2024.

⁽¹⁹⁰⁾ Indicators of access to alternative fuel infrastructure are based on calculations by DG REGIO and the JRC, using data from the European Alternative Fuels Observatory (EAFO), Eurostat, TomTom and Eco-Movement.

⁽¹⁹¹⁾ [Measuring transition to a competitive and sustainable economy, JRC.](#)