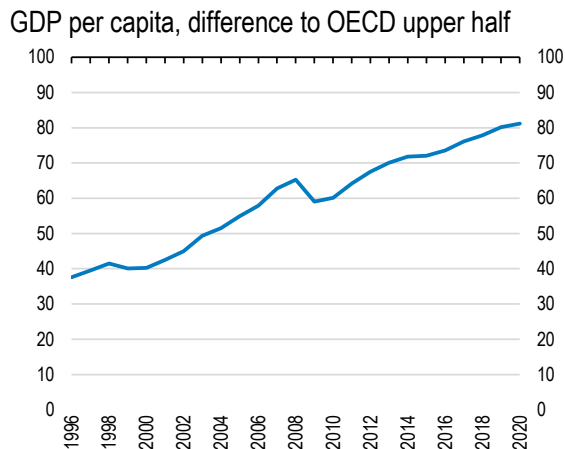


Executive summary

The covid crisis hit a buoyant economy

The strong pre-COVID-19 economy boosted rapid convergence towards the OECD average incomes. An investment-friendly business climate helped attract foreign direct investment and integration in global-value chains.

Figure 1. Lithuania is converging rapidly



Source: OECD Economic Outlook database.

StatLink <https://doi.org/10.1787/888934184814>

The recovery will be uncertain. The COVID-19 recession was comparatively mild, and the economy is recovering. The government swiftly set up a programme supporting households and firms, representing almost 10% of GDP, and plans new investments to support long-term growth. The economy is expected to contract by 2% in 2020 and to rebound by 2.7% in 2021, and unemployment will rise to around 9%, yet protracted disruptions in world trade would be harmful for the outlook.

Poverty is high, especially among the unemployed, less educated, single parents and older people. The tax-benefit system is not very redistributive and its size below the OECD average. The government should increase social support while keeping work incentives.

Regional disparities are increasing. Investment in peripheral regions is low and labour mobility towards economically strong areas insufficient. Productivity differences between core and peripheral regions are rising. The government should continue investing in

rural areas while facilitating migration to more prosperous areas.

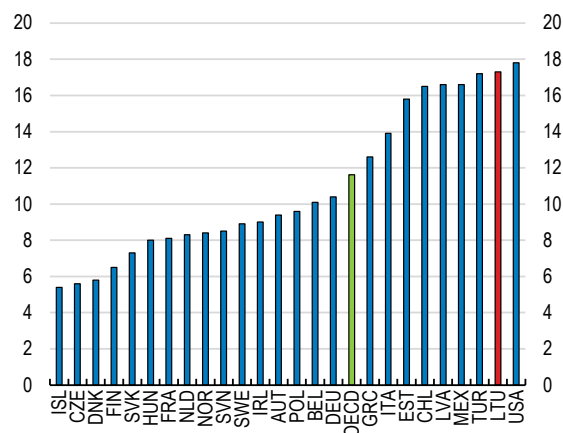
Table 1. The economy is projected to rebound

	2019	2020	2021
	Percentage changes, volume (2015 prices)		
GDP at market prices	4.3	-2.0	2.7
Private consumption	3.4	-3.2	2.8
Gross fixed capital formation	6.2	-6.6	3.8
Exports	9.5	-4.7	3.7
Imports	6.3	-6.9	5.5
Consumer price index	2.2	1.2	1.5
Unemployment rate	6.3	8.8	8.1
Government financial balance (% of GDP)	0.3	-8.9	-5.4
Current account (% of GDP)	3.5	5.2	3.9

Source: OECD Economic Outlook 108 database (provisional).

Figure 2. Poverty is high

Poverty rate after taxes and transfers (50% poverty line), % of population, 2018 or latest year



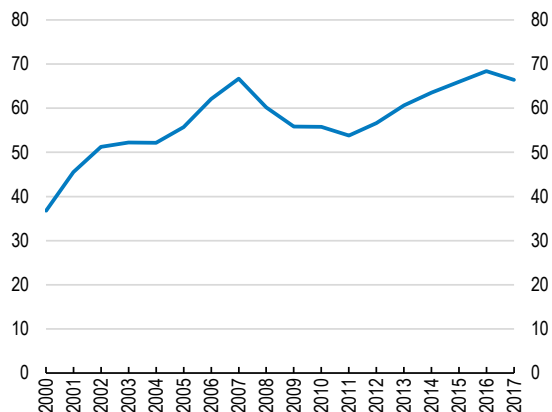
Source: OECD Income Distribution Database.

StatLink <https://doi.org/10.1787/888934184833>

Growth should be greener. CO₂ emissions are below OECD average and declining, but mortality from exposure to fine particles is the highest in the OECD. Transport and energy are the main sources of emissions. Environmental taxation is low. The government set up a programme to co-fund private climate investment and wants to reach carbon neutrality by 2050. The government should also introduce a CO₂ tax.

Figure 3. Regional inequality is rising

Productivity gap between rural and urban areas, premium in GDP per capita, %



Source: OECD Regional database.

StatLink  <https://doi.org/10.1787/888934184852>

Fiscal and financial policies are sound

Sound fiscal policy over the past years has created fiscal space to help the economy in the current crisis.

Fiscal policy is expansionary. The constitutional fiscal law of 2015 provides for tight surveillance. In 2019 the budget was in a small surplus. To help households and firms to weather the COVID-19 crisis, the government plans additional tax and spending measures totalling 10% of GDP. As a result, the balance is expected to turn sharply negative in 2020. Once fiscal positions have recovered, the government should simplify the fiscal framework and set a long-term debt target.

The COVID-19 crisis affects credit. About 40% of the corporate sector was affected by containment measures, exacerbating funding challenges especially for small firms. Non-performing loans in the banking sector declined markedly, and frequent use of macro-prudential regulation helped strengthen financial stability. The government eased financial conditions following the COVID-19 crisis and should continue to do so.

Reforming state-owned enterprises could boost the recovery

Wages grew faster than productivity over the past few years, reducing competitiveness while boosting lower incomes. Reforming state-owned enterprises could help raise productivity.

Figure 4. Competitiveness is declining

Index, 2005 = 100



Source: Economic Outlook database; and OECD Earnings database.

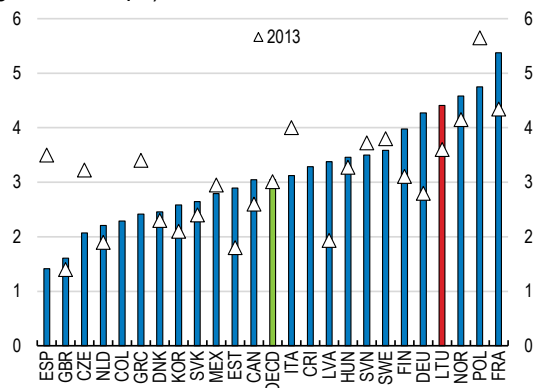
StatLink  <https://doi.org/10.1787/888934184871>

State-owned enterprises are oversized. The scope of state-owned enterprise (SOE) belongs to the largest in the OECD. Governance has improved over the past two years following the adoption of the 2018 “SOE Reorganisation and Optimization Plan”, but remains weak against OECD standards. Only half of the SOEs reach their targets. A clearer strategy defining the rationale for public ownership is needed, and SOEs should be subject to same regulations and market constraints as private companies.

Municipal SOEs pose a particular challenge. Around 250 municipal enterprises are active across 40 sectors, ranging from energy supply, waste treatment to local public transport, with few limits set on their scope. Municipal SOEs often compete with private providers and cross-subsidise corporate activities with revenues from publicly supported ones, distorting competition. The government should strengthen the regulatory framework for municipal enterprises, by establishing a level playing field between public and private providers.

Figure 5. State-owned enterprises proliferate

Scope of public ownership, Index from 0 to 6 (greatest scope), 2018



Source: OECD Product Market Regulation database.

StatLink <https://doi.org/10.1787/888934184890>

Education should foster strong and relevant skills

Strong and relevant skills could help accelerate the recovery and reduce inequality across regions and income groups. The education infrastructure should better adapt to higher skill needs and shrinking student numbers.

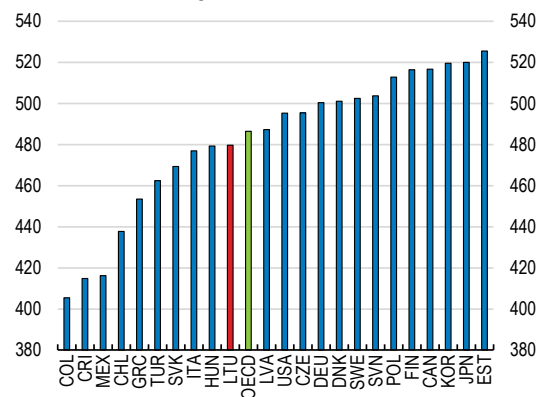
Performance of primary and lower secondary education is weak. Spending on infrastructure is excessive, reflecting high spending on overly small schools. School performance lacks systematic oversight. Recent reforms were rather shy, mainly involving an increase in teacher salaries. The government should merge small schools and strengthen quality oversight.

Vocational education fails to provide relevant skills. The school network often lacks scale and specialisation. Firm-based learning (apprenticeships), introduced in 2016, still attracts few students. Reform should improve VET, including apprenticeships, thereby strengthening links to the labour market.

Tertiary education is fragmented. Recent attempts to consolidate the university network failed or did not bring the expected results. Funding provides few incentives to improve quality. The government should encourage universities to specialise in fewer areas. More rigorous quality assessment and a funding reform could also help improve quality.

Figure 6. School outcomes are weak

PISA scores, average, 2018



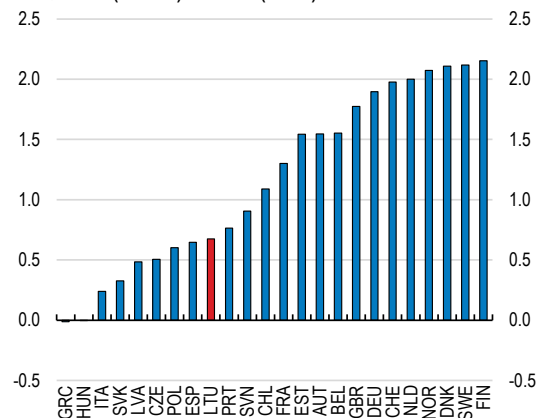
Source: PISA 2018 database.

StatLink <https://doi.org/10.1787/888934184909>

Reforms to increase public integrity should bear fruit. Indicators of control and perceived risks of corruption suggest performance below OECD averages. Sectors with corrupt practices include health care and public procurement. In 2019 the shadow economy shrank after rising during four consecutive years. Recent policy measures to prevent foreign bribery have been impressive. Public integrity should remain a guiding principle in the government's efforts to implement the 2015-2025 anti-corruption programme.

Figure 7. Control of corruption remains below OECD average

Scale, -2.5 (worst) to 2.5 (best) score



Source: World Bank Worldwide Governance Indicators.

StatLink <https://doi.org/10.1787/888934184928>

MAIN FINDINGS	KEY RECOMMENDATIONS
Policies to support the recovery	
The COVID-19 crisis has affected economic activity and household incomes, exacerbating funding challenges for the corporate sector.	Continue providing temporary support to households and firms, while helping to reallocate resources to viable firms.
Financial and fiscal policies	
The asymmetric fiscal rule (two-regime rule), relying on potential output, causes frequent revisions to fiscal planning.	Simplify the fiscal framework and establish a long-term debt target.
Public investment is low.	Increase public investment against rigorous cost-benefit analysis.
Structural policies	
The scope of state-owned enterprises is large and governance lags behind OECD standards.	Strengthen the governance of state-owned enterprises further. Sell to private investors if no compelling reasons for public ownership exist.
Green growth policies	
The economy's carbon imprint is considerable, while environmental taxation is below the OECD average.	Introduce a carbon tax in sectors not covered by the European emission trading system, and reimburse at least partially the proceeds to households and firms.
Fossil fuel subsidies belong to the highest in the OECD.	Remove environmentally damaging fuel subsidies.
Reducing poverty and social disparities	
Social spending is comparatively low and the provision of cash benefits and social services is not closely linked to the needs of vulnerable groups.	Further increase the level of minimum-income benefits, while maintaining work incentives. Increase gradually social assistance pensions, while strengthening means-testing. Better tailor the provision of social benefits and services to individuals' needs.
The long-term care services do not effectively reach the elderly population.	Move to an integrated model of long-term care provision, with a focus on home-care for the elderly.
Access to early childhood education and care is not ensured for all children.	Continue the expansion of early childhood education and care, with a special emphasis on children from disadvantaged background and rural areas.
Activation policies need to strengthen to facilitate labour market integration of those out of work with high poverty rates.	Increase spending in active labour market programmes, upon a close monitoring of their outcomes and a focus on training programmes.
Fostering regional growth	
PISA scores are weak, especially in small rural schools.	Improve educational outcomes by reforming the school network and by strengthening supervision.
Vocational education and training is little developed, contributing to skills mismatch especially in rural areas.	Foster and improve vocational education and training, and strengthen firm-based learning (apprenticeships).
The housing rental market is very small, discouraging mobility.	Revise rental legislation by clarifying the rights of tenants and landlords.
Policy coordination between municipalities is weak, driving cost and reducing public service quality.	Implement functional regions as planned and provide them with power to coordinate investment and public services across municipalities.



From:
OECD Economic Surveys: Lithuania 2020

Access the complete publication at:

<https://doi.org/10.1787/62663b1d-en>

Please cite this chapter as:

OECD (2021), "Executive summary", in *OECD Economic Surveys: Lithuania 2020*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/1bd01e59-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.