

The Government of the Republic of Lithuania and the social partners (trade unions and organizations uniting employers, pensioners and the disabled) consider solidarity and social peace to be core values during this unprecedented economic crisis. Driven by the objective of solidarity, after prolonged yet constructive negotiations, the partners have reached a national agreement. Understanding the responsibility to avoid huge indebtedness of the State and to build a safe future for Lithuania and acknowledging our differences but also the genuine concern with the future of our nation and land, we believe that Lithuanian citizens will be in a better position to face serious challenges and the crisis will be overcome much faster if we choose the path of joint agreements and solidarity.

NATIONAL AGREEMENT

In late 2008, the period of recession began, with a major impact on the national economy. Rising unemployment, shrinking household and corporate incomes, smaller borrowing opportunities available to businesses, also prevailing pessimistic attitudes have had dire consequences on consumption and investment. The situation has been made even worse by the necessary saving-driven fiscal policies of the State, reduction of State investments and the poor situation of Lithuania's major export markets.

To bring the crisis under control, the necessary amendments were made to the national and municipal budgets during the first half-year of 2009 and the public finance deficit was pushed down by 7 per cent of the GDP.

An expert analysis shows that the tensions created by the recession in the Baltic States will persist in the sphere of public finance in 2010 and 2011. Under this global economic crisis, the consequences of the recession for the Lithuanian economy, which failed to accumulate resources, have been especially painful. In 2010, the slump in Lithuania's GDP may amount to 4 per cent, while the deficit (if no action is taken) will reach 13.7 per cent of the GDP; respectively, the GDP growth in 2011 would amount to 3-4 per cent, but the deficit would remain high at 13 per cent of the GDP. An attempt to cover the said deficits only from borrowed means would pose a threat to the sustainability of the public sector debt and increasingly large sums would be required to service the debt; the future generations would be burdened by heavy indebtedness. If the Government fails to take action, the national debt will rise to 32 per cent this year, 46 per cent in 2010, 58 per cent in 2011 and as high as 67 per cent of the GDP in 2012.

Therefore, Lithuania's search for an exit from the crisis must first of all be linked to a long-term public finance strategy, i.e. management of the State debt and deficit, stability of finances, and introduction of the euro. The euro shall not be a goal in itself, but only a means to ensure the wellbeing of Lithuanian citizens as well as the safety and sustainability of our financial system and to facilitate the country's full integration into the European Union.

Introduction of the euro would contribute to economic stability, which is necessary for further growth: it would drastically reduce the credit interest rates for Lithuanian businesses and residents, eliminate additional currency exchange costs, simplify payments, reinforce the security of investments and decrease the economic risks for the State, thus making Lithuania much more attractive for investors.

Lithuania's economic recovery should not be linked only to the balancing of public finances in order to introduce the euro. Economic recovery and long-term prosperity of the country largely depends on competitive business regulation as well as on the business environment. Adequate regulation of the business environment stimulates entry of promising businesses into the market, contributes to the increase of the number of efficient jobs and value-added created by them and promotes the growth of internal and external investment as well as of the general competitiveness of the country. All this is especially important for the Lithuania's small and open economy. It also has a positive influence on the situation of the public finances of the country.

The improvement of the serious financial and economic situation Lithuania finds itself in, will first of all depend on the recovery of the global economy. Yet many problems can and must be solved internally.

The public sector must flexibly and quickly adapt to the conditions imposed by the crisis, assume responsibility for decisions and use of public funds, also contribute to the enhancement of the business environment and competitiveness, to the protection of jobs, and to the improvement of work productiveness.

The State faces exceptional challenges that require urgent and swift action.

The Government and the social partners, with the aim to overcome the recession and restore the competitiveness of the Lithuanian economy as soon as possible, have hereby established the principles of economic recovery.

IN THE FRAMEWORK OF THE NATIONAL AGREEMENT:

The Government shall undertake to implement measures of fiscal consolidation stipulated in the National Agreement. In case macroeconomic situation improves and the Ministry of Finance makes positive economic forecast adjustments, the extent of the necessary consolidation measures would be corrected accordingly.

In case all the measures aimed for the consolidation of State finances stipulated in the National Agreement are implemented, the Government shall undertake to refrain from taking any new decisions concerning the increase of existing tax tariffs and from introducing new taxes, except the increase of the State social insurance contribution stipulated in the National Agreement, until the year 2011.

The Government shall undertake to ensure that legislation regulating labour relations will not be amended without approval of the tripartite Council of the Republic of Lithuania by the year 2011.

The Government recognizes that in hard times it is necessary to strengthen fight against shadow economy, particularly focusing on smuggling, tax evasion and illegal trade.

Associated business structures shall undertake to make efforts to maintain the existing jobs and pay special attention ensuring that members of their associations were honest in paying taxes and wages.

Associated business structures acknowledge the necessity to further enhance social responsibility and undertake to support measures for informal education of school children and youth by implementing certain projects.

The Government and social partners shall undertake to address emerging disagreements by means of dialogue, negotiations and agreement as well as by holding discussions on the implementation of the National Agreement.

PART I

CONSOLIDATION OF STATE FINANCES

The compliance of Maastricht criteria is the best indicator proving that the State carries out correct and responsible finance policy, thus it is necessary to gradually reduce deficit in 2009, 2010 and 2011 and ensure that it does not exceed 3 per cent of GDP. Moreover, another reason to reduce deficit is the fact that Lithuania finds it difficult and expensive to finance deficits that fail to meet the Maastricht criteria and in case of failure to take appropriate actions to consolidate public finances it would be difficult to maintain credibility in international markets.

Thus, at present the main aim of the State's financial policy is to foresee additional measures for consolidation for the year 2009–2011. Due to the present state of public finances that shows no signs of improvement, certain additional measures (that increase income and/or reduce public spending) will be necessary this year as well. It is underlined in the recommendations on the procedure of excess deficit for Lithuania made by the Council of Europe. In 2010–2011 the aim is through negotiations with social partners to implement structural reforms of public sectors (*Sodra*, systems of health and education) and ensure that by means of cost-efficient use of State funds citizens will be provided with high quality affordable services and the functioning of the systems will be stable and efficient.

Moreover, it is necessary to assess the fact that on the basis of present forecasts in the year 2010 the deficit has to be reduced by LTL 4-5 billion. This goal can be achieved by

reducing the deficit of the central government sector by approximately 1.6 per cent of GDP, by reducing the deficit of *Sodra* by 2 per cent of GDP and by eliminating the deficit of the local government (which may amount to approximately 1 per cent of GDP).

Taking account of the abovementioned key principles in the field of consolidation of State finances, it is agreed on the necessity to:

I. REDUCE EXPENDITURE ON STATE MANAGEMENT

From August 1, 2009 to January 1, 2011 on the basis of differentiation temporary reduce wages of State politicians, judges, State officials and civil servants by 10 per cent on average.

From September 1, 2009 to January 1, 2011 temporarily reduce wages of people employed at budget institutions and organizations by 8 per cent on average.

During the period of validity of the National Agreement restrain from reduction of base levels of wages that are applied when calculating payments for people employed in the State governance and budget sector.

Aim at more efficient management of expenditure from the State budget making efforts to ensure gradual transition to the principle of State budget expenditure planning according to which State budget expenditure is managed aiming at certain goals and by monitoring the implementation of results.

When speeding up the implementation of decisions of the Sunset Commission and the Sunrise Commission, attach much attention to the reform of public bodies that do not provide public services but receive funds from the State budget; ensure that in the future public bodies were not directly financed from the State budget and the State did not become a founder of public bodies. Involve representatives of associated business structures and professional unions into the activity of the abovementioned commissions.

Establish a transparent and clear system of payments for people employed at public bodies, State enterprises and State-controlled enterprises by December 31, 2009.

In 2010, reduce the number of career civil servants, civil servants of political confidence and contract employees at State and municipal institutions up to 10 per cent.

II. OPTIMIZE TAX ENVIRONMENT

Following a temporary raise of the VAT rate by 2 percentage points up to 21% in the period of economic difficulties, to review the said tax rate when drafting the 2011 State Budget.

With a view to enhancing Lithuania's competitive advantage, to consider the possibilities for reducing profit tax rate to 15% (with respect to enterprises where the number of employees does not exceed 10 (micro enterprises) and whose annual income does not exceed LTL 0.5 million, the profit tax rate should be cut down to 7.5 per cent).

To retain until 1 September 2010 the reduced VAT rate on heating.

As from 1 January 2010, to cancel compulsory health insurance contributions on irregular income (including dividends, income from asset sales, interest and etc.).

To develop the Guidelines for the Introduction of Real Property Tax by 2011.

III. BALANCE SODRA'S BUDGET, REDUCE OTHER SOCIAL BENEFITS

Social partners, being aware of the necessity in the period of economic difficulties to control public finance, prevent uncontrollable growth of budget and Sodra deficit thereby ensuring a timely payment of pensions and other social benefits to Lithuanian people, do not oppose Government's proposals aimed at dealing with the emerging problems in such a way that all beneficiaries would unanimously share the burden of benefit reduction and that the most vulnerable population groups would also be protected. Decisions proposed in this chapter will be implemented in accordance with the principles of legitimate expectations and proportionality under conditions of economic difficulties as laid down in the Constitution.

Rates of the state social insurance contributions shall not be increased more than by 2 percentage points, the contribution rate increase being evenly distributed between the employer and employee.

To implement a temporary differentiated reduction of all pensions so as to protect the recipients of the lowest pensions, while the recipients of higher pensions and other income would solidarily take a heavier burden of reduction and to set an ultimate pension amount below which pensions should not be further reduced.

The total amount of state social insurance pensions, state pensions and other social benefits per person should not temporarily exceed 1.3 of the announced average monthly wage of the quarter preceding the last quarter prior to the month for which benefits should be paid.

The assigned maternity (paternity) benefits shall be temporarily reduced by 10 per cent, taking into account the amount of the benefit so as to protect the recipients of the lowest benefits, and an ultimate amount (LTL 670) shall be set, below which maternity (paternity) benefits shall not be reduced, also the possibility shall be offered of working during the second year of childcare, receiving income and a part of the maternity (paternity) benefit.

The system of benefits paid to children shall be reformed so as to prevent the duplication of maternity (paternity) benefits and ensure that the said benefits be paid only to low income families raising pre-school aged children.

A long-term state social insurance and state benefits reform shall be developed through a consistent raising of the age of old age pension for males and females until 65 years of age, the association of the payments from Sodra's budget with real income of the said budget, creation of common and clear system of payments from the state budget, which would encourage individuals to work rather than receive social support.

IV. SOLVE PROBLEMS RELEVANT TO THE DISABLED

To strengthen control over identifying working capacity and special needs to ensure transparency and to prevent abuse.

The amount of funds appropriated for the implementation of the Programme of Social Integration of the Disabled must be at least the same as that in 2009; besides, the starting date and the ending date for the implementation of the amendments of the procedure for funding the projects concerning services for the disabled (transfer to municipalities) must be revised and specified.

To retain work motivation of the employable age disabled persons and to guarantee continuity of the activities of social enterprises, pensions or benefits of lost capacity to work (disability) paid to the working disabled persons should be reduced at the rate lower than that applied to other working pension receivers.

V. BALANCE MUNICIPALITY FINANCES

To seek balancing municipal budgets against their obligations, and address the issue of outstanding municipal debts to business.

PART II

SUPPORT TO BUSINESS AND IMPROVEMENT OF BUSINESS CONDITIONS

IN THE FRAMEWORK OF THE NATIONAL AGREEMENT:

We shall undertake to take any additional business promotion measures, to infuse new financial resources into economy, and to solve immediate energy problems. We must take these measures as soon as possible to be able to reduce the impact of the global economic crisis on the economy of Lithuania. The Parties to the National Agreement shall support each other's efforts to implement these initiatives.

Business conditions have substantial impact on the development of the economy of Lithuania, creation of jobs and social stability. Favourable conditions for starting and developing business is a precondition for the growth of national competitiveness. The aim of the Sunrise Commission set up by the Resolution of the Government is to submit proposals for the improvement of business environment to help Lithuanian business to withstand the crisis, to retain jobs and to maintain competitiveness.

To achieve efficient improvement of business conditions, it is advisable to invoke international survey data that spotlight weaknesses of Lithuanian business conditions and a potential for the improvement of these conditions.

According to the data of *Doing Business 2009* survey conducted by the World Bank, Lithuania ranks 28th in terms of attractiveness to business. Lithuania got very low assessment in terms of the conditions for employee hiring and dismissing (131st), possibilities to start business (74th), possibility to get a permit for construction (63rd), and protection of investors (88th). Efforts to improve these indicators will not only make Lithuania look more attractive for foreign investors but also relieve conditions for local business which would result in the creation of more jobs.

Therefore the Parties to the National Agreement shall agree as follows:

to achieve that in 2011 according to *Doing Business 2009* survey conducted by the World Bank Lithuania is among the top 15 countries and becomes a leader of the Baltic States;

to reduce the number of business administrating institutions and to achieve that by 2011 the bureaucratic burden of administration is reduced by 30%.

In the field of business condition improvement it has been agreed that it is necessary in the near future to devote special attention to the investment environment, namely:

I. IMPROVE AND STREAMLINE THE PROCEDURE FOR ISSUING CONSTRUCTION PERMITS

There is general recognition that in Lithuania the procedure for the regulation of territory planning and construction is complicated and not favourable for business development and investment. In Lithuania construction is regulated by 17 procedures: from issuing ownership documents and construction permit, designing and connection of communications to the registration of the transfer of an object for operation with the National Property Register. All procedures run more than 160 days.

To improve conditions for the issue of construction permit, the Government will lay efforts

to streamline territory planning, to liberalise and accelerate issuing of construction permits, i.e. to streamline the procedures and to make them shorter.

II. EASE BUSINESS REGULATIONS

In 2009, the Government undertakes to review legal acts regulating enterprise activities:

By 31 December 2009, the Government shall draft amendments to legal acts regulating enterprise bankruptcy and restructuring, with a view to eliminating preconditions for fraudulent bankruptcies, without prejudice to legal environment for crediting relations.

By 31 December 2009, the Government, together with the associated business structures, shall review once again the EU structural support administration system; the Government shall streamline and shorten procedures for allocation of EU funds and ensure social partner participation in the decision-making process with regard to the absorption of EU structural funds.

The Government shall pay particular attention to ensuring public procurement contract settlements by state enterprises and state-controlled enterprises.

III. SUPPORT SMALL AND MEDIUM SIZED BUSINESS ENTITIES

The Government shall aim at promotion of entrepreneurship reducing reduction of bureaucratic obstacles for small start-ups and shall aim at development of favourable tax environment thereto.

The Government, by making use of EU structural funds, shall implement the following business support measures:

it shall provide facilitated loans of up to 25,000 EUR for start-ups, giving priority to regions of Lithuania with the highest unemployment rate;

it shall engage employees of enterprises undergoing economic difficulties, during their forced idle time or those working part-time, into public works, and shall reimburse the lost share of their salaries;

as of 2010, it shall continue pursuing programmes for small and medium sized business support through the network of public business consulting and development incubators, by establishing a public enterprise “Eksportuojančioji Lietuva” [*“Export from Lithuania”*];

it shall develop and support capacities of the associated business structures to provide specialised services for business; it shall develop partnership with associated business structures with respect to creation of consultancy systems and capacity strengthening.

The Government shall look for ways and stimulus measures to attract Lithuanian companies that have outsourced their production abroad back to create jobs in Lithuania.

IV. STIMULATE ECONOMY BY PURSUING PUBLIC-PRIVATE PARTNERSHIP PROGRAMME

With the Seimas having passed the appropriate legislation, an opportunity opens to construct and renovate public buildings and infrastructure entities by making use of the PPP (public-private partnership) system: by attracting private capital for the construction of public buildings. This measure will contribute to saving much more funds to finance entities in accordance with the state investment programme as well as to extend the settlement period for construction works without raising the public fiscal deficit. This programme would attract more financial resources for the development of public buildings and infrastructure. Also, it would act as yet another stimulus measure for Lithuania's economy and creation of jobs. Implementation of this programme would lead to the creation and sustaining of more than 30,000 jobs.

Hence the Parties thereby agree, on the basis of public-private sector partnership, to start in 2010-2011 an extensive and high-value programme for the construction and renovation of public buildings and infrastructure development and modernisation in Lithuania, by ensuring geographic balance for the implementation thereof.

The Government undertakes to promptly start the implementation of several pilot projects in this regard.

Efforts shall be made to attract external funding sources to the programme and to encourage by every means the banking sector competition.

V. SPEED UP MULTI-APARTMENT BUILDING RENOVATION

The Parties hereby agree that in 2010 the multi-apartment building renovation shall become one of the priority programmes and particular attention shall be paid to the speedy implementation thereof.

The Government shall draft a package of measures aimed at encouraging natural persons to heat their homes and obtain electricity by making use of renewable sources (solar, wind, geothermal, hydro-, bio-, and other sources of energy).

VI. RAISE ECONOMIC COMPETITIVENESS THROUGH INTEGRATION OF SCIENCE, INNOVATIONS, AND TECHNOLOGY

Lithuania lacks a common strategy and policy for applied scientific research, experimental (technology) development and innovations. Lack of favourable conditions for

introduction of innovations, poor cooperation between science and business, inadequate level of scientific achievement commercialisation, and low activity in innovations by enterprises contribute greatly to Lithuania's backwardness in this regard compared to other member states of the European Union.

The Parties thereby agree:

jointly, through discussions with business associations, to develop the required legal and financial conditions to support application of scientific inventions for business.

to use expert, financial and other resources in a concentrated and appropriate way for the implementation of the development programs of the integrated science, study and business centres (valleys) focussing on the following areas: natural resources and agriculture; biomedicine and biotechnologies; materials science, physical and chemical technologies; engineering and information technologies;

to consider higher education as a high added value export branch, and encourage educational institutions to explore possibilities of attracting students from abroad; and to support the renovation of the infrastructure in higher education;

to reform vocational training network, bringing together the systems of vocational training and job training centres;

to work out a joint Lithuanian innovation strategy and measures for its implementation.

VII. REFORM ENERGY SECTOR

The Parties acknowledge that the liberalization of domestic electricity and natural gas markets must take into account the need to protect consumers' rights, therefore they will seek to:

transpose the provisions of the 3rd Energy Package adopted by the European Parliament and the EU Council;

facilitate renewable energy development and promotion in Lithuania; promote the production of electricity from high-efficiency cogeneration; to review charges for the connection to the electricity network; and to encourage new customers. In order to implement this decision, by 1 December 2009, the Government will develop proposals and agree them with the associated business bodies;

to exercise a stringent control and apply restrictions on unreasonably excessive profits of energy monopolies;

reduce unreasonably long resumption time taken by electricity network operators in cases of supply failures, thus increasing their liability against consumers in terms of secure supply. To adopt the decision by 1 December 2009.

VIII. PHASE OUT CORRUPTION

Corruption is particularly negative systematic social phenomenon preventing proper use of public finances and hindering market transparency. This phenomenon can be overcome only through concerted efforts of the civil society, businesses and public authorities. With this in mind, we will seek to:

- reduce number of applications to state and municipal offices by simplifying the procedure for issuing permits, licenses, certificates and other documents;

- expand the system of electronic declaration and other on-line services;

- achieve higher than 4.6 score with the Transparency International Corruption Perception Index;

- improve public procurement procedures, introduce a centralized procurement system, ensure transparency in the procurement process by establishing an obligation to the contracting authority to make information on a purchase contract public, or by publishing it in the Central Procurement Information System. It should specify information on participants, contract award winner, prices, products (services), and the criteria determining the winner.

IX. APPLY DYNAMIC APPROACH TO PROBLEM-SOLVING

Besides the National Agreement, a Business Protocol was signed between the Government of the Republic of Lithuania and business associations;

The package of small business proposals submitted by the Lithuanian Small and Medium-Sized Business Council will be discussed in a separate protocol to be signed, by mutual agreement by 1 December 2009;

The Parties agree to establish regular consultation mechanisms to deal effectively with other problems related to economy, energy, transport and social matters.

The Parties agree to consult regularly on the implementation of the National Agreement as well as on possible problems.

The National Agreement shall remain in full effect until 31 December 2010.

PARTIES TO THE NATIONAL AGREEMENT:

Chairman,
Lithuanian Small and Medium-Sized Business Council

Danukas Arlauskas

Chairman,
Lithuanian Trade Union Confederation

Artūras Černiauskas

Member of the Council,
Union of Lithuanian Political Prisoners and Deportees

Dr. Povilas Jakučionis

Chairperson,
Lithuanian Trade Union "Solidarumas"

Aldona Jašinskienė

Prime Minister,
Government of the Republic of Lithuania

Andrius Kubilius

Chairman of Council,
Lithuanian Business Employers' Confederation

Rimantas Kveselaitis

President,
Lithuanian Confederation of Industrialists

Dr. Bronislovas Lubys

Chairman,
Chamber of Agriculture of the Republic of Lithuania

Bronius Markauskas

Chairman,
Lithuanian Labour Federation

Vydas Puskepalis

Chairman,
Lithuanian Pensioners' Union "Bočiai"

Dr. Petras Ruzgus

Managing Director,
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Rūta Skyrienė

President,
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Valdas Sutkus

Director General,
Association of Lithuanian Chambers
of Commerce, Industry and Crafts

Rimantas Šidlauskas

**WE CALL ON ALL CONCERNED ORGANISATIONS AND ASSOCIATIONS TO
JOIN THE NATIONAL AGREEMENT.LET'S UNITE FOR A COMMON CAUSE!**
