

PART II. CRISIS MANAGEMENT PLAN

The Government of the Republic of Lithuania,

- **stating** that many macroeconomic indicators and the future projections thereof clearly show Lithuania having reached an economic crisis and moving swiftly towards a recession,
- **taking into consideration** country's difficult financial situation, where, according to some experts, the government deficit in 2008 may reach 2.5-3 percent GDP, instead of 0.5 percent GDP planned by the previous government, while in 2009, because of unfoundedly optimistic macroeconomic forecasts, may exceed 4 percent GDP, instead of the planned 2.7 percent GDP,
- **estimating** that the total borrowing need of the government sector, including re-financing of the previous obligations, would exceed LTL 9 billion in 2009 if no measures are taken,
- **noting** the ongoing financial crisis on the global markets resulting in increasingly difficult lending conditions which often undermine even the borrowing capacity of the states surpassing Lithuania in their credit ratings,
- **being convinced** that stabilization of the public financial system is a necessary precondition to ensuring overall macroeconomic stability,
- **being aware** that public financial system and macroeconomic stability alone are not enough to bring Lithuania out of the present crisis but they are absolutely necessary for achieving that goal,
- **striving** to protect the socially-sensitive areas and to fulfil the obligations of the previous government to the people working in the fields of education, public health, culture and art, and in the social sector, to the maximum extent possible under these changed circumstances,

shall decisively and promptly implement this crisis resolution plan which becomes an integral part of the Government Programme, once the Programme is **approved** by the Seimas and the President of the Republic of Lithuania.

I. SAVING POLICY AND EFFECTIVE USE OF TAXPAYERS' MONEY

1. We shall make the following cuts of the draft budget of central and municipal authorities submitted to the Seimas by the previous Government:

- An average 15 percent reduction of the net revenues of the President, members of the Parliament, members of the Government and the State Controller;

- An average 12 percent reduction of salary appropriations (including social insurance payments) of the state and municipal budget appropriation managers, with exception of those for teachers' salaries. Salary increase for teachers will be slowed down by reducing additional funding for that purpose from LTL 1091 million (designated in the pre-crisis salary increase programme approved by the former Government) down to LTL 861 million. The salaries of the workers of social sector, culture and arts, scientists and academic staff will be also raised but in lower percentage than it was planned prior to the crisis, and following the general principle of salary appropriation cuts referred to above;
 - An average 15 percent reduction of appropriations for state budget appropriation managers and special subsidies to municipalities, first of all by giving up commercial public relation services, trimming down to a necessary minimum the funding limits for mobile communications, transport, representation, all non-priority missions abroad, stationery and other goods and services not related with the key activities of public institutions*;
 - A cut from 80 percent to 60 percent of excise revenues generated from the sale of petrol, diesel fuel and energy products contributing to the account of the Road Maintenance and Development Programme;
 - municipal revenues generated from the personal income tax, making relevant percentage adjustment in the municipal share of the personal income tax;
 - a 15 percent reduction in appropriations for both the land reform and rural support programme;
 - a 10 percent reduction in investment, with primary focus on vehicles, furniture, electric appliances and other items dispensable for daily operation*;
 - additional reduction in military appropriations by LTL 42 million;
2. We shall cancel the Law on Indexation of Minimum Wages, Social Security Benefits and Basic Limit of Penalties. Instead of automatic indexation of wages and various benefits provided in the Law, we shall promptly develop a specific mechanism to mitigate the impact of the crisis on the most vulnerable groups of the society (including the increase in the prices of compensated medications once the reduced VAT rate has been cancelled).
3. We shall reform the payroll and other payout system of companies and public enterprises controlled by the state and municipalities to prevent higher-than-market salaries.
4. We shall pay child benefits for all the children under three years of age, as well as for senior children from families where total net income per person does not exceed three state-supported income limits (LTL 1050 per person or LTL 4200 for a family with two children).

5. Free meals for schoolchildren in preschool and primary education, 1-4 grade schoolchildren from families where income per person does not exceed 1.5 state-supported income limits.
6. We shall gradually pay out the outstanding pension arrears for working pensioners during the period 2009-2010.
7. We shall review the social insurance calculation method of the compensated wage and requirements for the calculation of maternity, paternity benefits from the longer term income, taking into consideration the interests of young mothers with little working experience due to their studies or research.
8. We shall change the payment procedure of maternity (paternity) leave allowances in such a way that the sum would not exceed the 100 percent of the former wage.
9. We shall reduce appropriations for state institutions saved due to personnel illness or emerging vacancies by the end of the year.
10. We shall implement national audit recommendations following recent financial and performance auditing at state institutions with a view to a more effective use of public funds; we shall conduct performance audits at other public institutions (to avoid unreasonable expenditure at the government sector), and, on the basis of the findings, we shall enable the Government to adjust appropriation for the audited institutions; accordingly, we shall develop a specific programme providing for these actions.
11. We shall tighten the use of earmarked subsidies allocated for municipalities for the discharge of relevant functions and a pupil's basket by returning unused subsidy funds to the state budget.

Total saving effect is up to LTL 2 billion.

* Except the following funds: EU, co-financing, special programme and funds for socially vulnerable areas.

II. IMMEDIATE TAXATION MEASURES

12. We shall set a flat 20 percent rate on personal income (including dividends) and corporate tax, and a 19 percent VAT rate. Every year we shall review the crisis-related basic tax rates in the future draft budgets and reduce the taxes provided that is not in contradiction with macroeconomic stability.
13. We shall break down a 20 percent personal income tax rate in order to form a direct 5 % pre-tax health insurance contribution instead of directing it to the Compulsory Health Insurance Fund through PIT redistribution. Similarly, we shall break down the rate of contributions to the State Social Insurance Fund in order to separate three percentage points of social insurance contribution paid by the employer. The total contribution rate of compulsory health insurance is 8 percent of pre-tax wage. The decrease in the income of the Compulsory Health Insurance Fund

resulting from the introduction of social insurance contribution shall be compensated from the state budget.

14. We shall change the basic calculation limits of the salaries of politicians, judges, public servants and officials with the aim of avoiding the net increase of their salaries once the personal income tax rate has been reduced.

15. We shall cancel any reduced VAT and personal income tax rates except for the reduced VAT rate on heating. The reduced VAT rates on heating shall be annulled from the next heating season late in 2009 with the establishment of a functioning compensation mechanism for low and middle income earners. We shall review other reduced income tax rates (including the allowed deductions from income) by leaving only the socially-grounded and saving-oriented exemptions.

16. We shall raise an excise tax on fuel up to the minimal levels set by the European Union and double an excise tax on liquefied gas; we shall also increase excise taxes on tobacco (as provided for in the draft law submitted to the Seimas) and alcohol alongside with the abolishment of reduced excise tax rates for the beer produced by small breweries. We shall increase an oil and gas tax by abolishing the reduced rates of this tax and a gambling tax by introducing a rate calculable from the total gambling revenues. We shall review taxes on state national resources, increase a tax on the use of state property in trust without any exceptions to the state-controlled joint stock or private limited companies concerning the payment of dividends to the state budget.

17. We shall revise the list and tax rates of business licence activities except for business licences for craftsmen by abolishing business licences distorting the labour market and create unequal business conditions, e.g. licences for construction works, property leasing, licences creating conditions for wholesale trade, etc. We shall act in a gradual and consecutive way that the persons with business licences would work in compliance with taxation rules applicable to individual activity. Also, we shall be committed to the simplification of the administration and accounting procedures of individual activity.

18. We shall introduce a charge on vehicle owners or managers for light vehicles belonging to legal entities.

19. We shall introduce a corporate tax on agricultural entities and to include farmers (except those operating in subsistence farms) into the income taxation system.

20. We shall reform social and health insurance systems during the period 2009-2010 by including persons still not involved in them and unify the principles of involvement of persons in the system under equal conditions.

21. We shall change the application procedure of the tax-exempt minimum by increasing it for low-income persons. The tax-exempt minimum shall not be applicable to middle-income persons. The tax-exempt minimum system should be so devised that it would eliminate the “threshold” effect unless this measure results in the significant administration costs and the loss of budget revenue.

The total effect of the taxation reform is up to LTL 2 billion

III. INCENTIVES FOR BUSINESS

22. While acting in consultation with the European Commission and other international and local financial institutions, we shall draft a plan on financial measures by the first quarter of 2009; the implementation of the plan would significantly contribute to the stability of the financial sector in Lithuania and create more favourable conditions to gain access to financial sources and credit lines necessary for business preservation and development without increasing a fiscal deficit.

23. We shall establish a profit tax exemption for companies which invest into essential technological modernisation with a view to raising productivity levels and allow the reduction of taxable profit at the sum spent in investment expenditures. If compared to the current proposal submitted to the Seimas, we shall broaden the scope (to include application of technologies that are covered by international patents for innovations) and scale of the exemption (to raise the deduction cap from 35 percent to 50 percent). Prior to the submission of the modified budget to the Seimas, we shall discuss with the business community and make decisions on other measures and ways of investment promotion for improving labour efficiency without prejudice to the goal of ensuring macroeconomic stability.

24. We shall establish a tax credit system for small private start-ups:

- during the first year of operation, 80 percent of the financial obligations to the state,
- during the second year of operation, 50 percent of the financial obligations to the state,
- during the third year of operation, 30 percent of the financial obligations to the state.

We shall arrange repayment of the tax credit over a five-year period.

25. In the State Investment Programme, we shall abandon investment into the new construction projects as well as projects the construction period whereof, with regard to the scrap value of the project and planned appropriations for 2009, would take longer than five years. We shall allocate available funding for the renovation of multi-impartment buildings and objects, the construction of which can be completed in 2009.

26. We shall speed up absorption of the EU funds by reducing requirements for own funds by 10 percent - 20 percent and simplifying the project evaluation procedures.

27. We shall rescind the law provision on compensation (day off) for public holidays falling on weekends.

28. We shall seek maximum centralization and transparency in public procurement procedures.

29. In the Government Programme Action Plan, we shall provide for urgent actions with a view to simplifying company establishment and bankruptcy procedures,

liberalising labour relations, reducing the number of state institutions controlling business and facilitating territorial planning procedures.

IV. BALANCED FUND FLOWS

30. On a provisional basis (for the period 2009-2010), we shall reduce the tariff of the part of the state social insurance pension contribution transferred to the pension fund managing companies from 5.5 percent to 3 percent, i.e. down to the value of contribution by the insured persons into the SoDra (State Social Insurance Fund Board of the Republic of Lithuania).

31. We shall sell the remaining state-owned shares of "Mažeikių nafta" and transfer the obtained funds into the stabilisation fund.

32. We shall implement a quarterly government sector deficit monitoring mechanism. In the Law on Confirmation of Financial Indicators of the State and Municipal Budgets for 2009, we shall propose to the Seimas to authorise the Government, in case of shortage of funds, to make a decision on the reduction of expenditure. In case the revenue exceeds the estimate, we shall utilise the surplus for the reduction of the state deficit only.

33. We shall implement a system to monitor and manage the public sector's indebtedness for the private non-financial corporate sector, with the aim of ensuring timely settlements with suppliers and contractors as well as safeguarding against the growth of outstanding payments.

The total financial effect of the package is up to LTL 5.3 billion.

V. PLAN AMENDMENT PROCEDURE

34. In view of the current macroeconomic forecasts provided by the Ministry of Finance, there is only one way to ensure the financial stability of the State: to achieve the financial target of LTL 5.3 billion provided for in this Plan (by means of reduction of the national budget deficit in 2009, reduction of the SoDra budget deficit, and accumulation of the Stabilisation Fund). The above-mentioned target is the key objective of the Crisis Management Plan.

35. Until another agreement is made, any amendments to the Crisis Management Plan or implementation thereof shall be based on compensatory measures that would undoubtedly lead to the implementation of the target established under section 34.

36. As regards the amendments to the draft Law on the Financial Indicators of the State and Municipal Budgets for 2009, proposals submitted by cabinet ministers, delegated by the coalition partners, to reduce tax rates, refuse certain budget saving lines or take any other actions which, according to the calculations of the Ministry of Finance, could raise deficit, must be based on the saving or extra revenue provisions allowing for the compensation of the increased budget deficit resulting from the initial proposals. These proposals must be submitted by the ministers whose initial proposals may lead to the growth of deficit.

37. Cabinet ministers delegated by the coalition partners shall undertake to deliberate on the plans for essential changes in different public sectors without any delay. Provided the saving effect of public funds achieved in a respective area is especially good, the Government undertakes to deliberate on amendments to the Crisis Management Plan without any delay, unless the amendments are in contradiction with macroeconomic stability.