

**Response of the Seimas of the Republic of Lithuania to the Questionnaire
Prepared by the CRIS Committee
Concerning the Resolution of the European Parliament of 20 October 2010 on the
Financial Economic and Social Crisis: Recommendations Concerning Measures and
Initiatives to be Taken**

- 1. What specific EU projects, actions and legislative proposals would you favour in order to improve the potential of the EU economy in terms of sustainability, competitiveness and employment in a ten-year perspective, taking into account the EU 2020 strategy and the functioning of the Internal Market? How would you like to promote innovation, competitiveness and long term investments particularly for Small and Medium Enterprises (SMEs)?**

We support the call for the EU 2020 strategy to pursue a broad political concept of the future of the EU as a competitive, social, sustainable Union that places people and the protection of the environment at the centre of policy making. We agree with the statement that if the Europe 2020 strategy is to be credible, greater compatibility and complementarity are needed between the national budgets of the 27 EU Member States and the EU budget and that the EU budget should play a greater role in terms of pooling resources. We support the proposal to establish a stronger link between the Stability and Growth Pact, macroeconomic instruments and the Europe 2020 National Reform Programmes. We share the view that the long-term sustainability of public finances is essential to ensure stability and growth. We also welcome the Commission proposals to strengthen the management of the euro zone in the medium and long term. We support and try to implement the provision according to which the Member States should hold debates in their respective national parliaments prior to adoption of their stability and growth programmes.

Small and medium-sized enterprises (SMEs) play a significant role in boosting competitiveness and job creation; therefore we consider that it is important to support SMEs by facilitating their access to credit, through support for guarantee schemes and creation of a guarantee fund. Furthermore, we support the initiative to reduce the number of administrative procedures related to public procurement and to cut red tape, the move that is essential to the wellbeing of SMEs. In addition to funding for SMEs, the EU has to take a coordinated approach to funding research and innovation and be at the forefront of establishing new employment sectors and attracting private investment. We also agree with the development of mechanisms whereby SMEs and other innovators would be offered risk-softening funding through stimulation of public-private partnership and the use of private equity funds to attract private investment.

- 2. What financial resources do you favour at EU level in order to re-launch the economic recovery of the EU, taking into account the principles of sustainability, subsidiarity and solidarity? Are you in favour of introducing own financing mechanisms at EU level, such as so-called 'Euro-bonds' as a tool to finance specific EU projects?**

The EU budget is limited while the number of tasks undertaken by the EU is increasing. Therefore, innovative financing could supplement the presently dominating grants (unrequited direct payments from the EU budget) approach. The use of such instruments, however, should not serve as a basis for the reduction of the EU budget expenditure for direct funding.

It should be noted that during further development of the initiative whereby Eurobonds would be issued to finance specific EU projects, it is essential that the following conditions are met: bond issue should be promoted to implement those projects which will generate income in the future and

allow project-financing companies to clear their debts; funds should be borrowed to implement projects of strategic importance, including projects related to major sources of energy. Note should also be taken of the way in which this EU-level mechanism is to be brought in line with the current administrative procedures and rules for the implementation of projects financed by the EU structural funds and implemented at a national level.

3. Are you in favour of the introduction of a financial transaction tax?

Additional taxation on the financial sector as a mechanism to generate extra budget revenue could be considered only after assessing the possible effect of other post-crisis measures (strengthening of banking regulation (Basel III Agreement) and levies on banks if they are imposed) on the financial sector. This tax could only be imposed in a coordinated way and at a global level. If no consensus on this issue is achieved, it will be useless to introduce this tax in the EU alone, since it could give rise to an active relocation of financial centres outside the EU and result in a fall in employment.

The alternative to the financial transactions tax can be a financial activities tax which is imposed on the total profit of financial institutions and wages, but it does not discriminate between different financial products nor does it depend on the level of turnover. This tax on the financial sector is more reasonable since it would be more effective and its administration would be easier. It is more difficult to shift the tax directly on to the users of specific financial services and the tax is likely to have less adverse and unpredictable effects on the markets.

When the possibility of imposing new taxes on financial markets is assessed, it is important to take account of the future budget revenue generated by new taxes as well as the impact such taxation could have on the stability of financial markets and risk management.

4. What further actions can be undertaken at EU and national levels in order to increase territorial and regional and social cohesion and stimulate an inclusive and mobile labour market and the sustainability of our social patterns?

In this respect it is essential to increase energy independence of the Member States with a view to establishing a fully functioning internal energy market, solving the issue of missing links and encouraging the integration of renewable energy resources. Aiming at a sustainable, competitive and inclusive EU economy, we approve of the proposals to ensure energy supply to all the member states by negotiating supply contracts, organising storage capacities and funding research. We believe that it is important to invest in the development of renewable energy sources and the increasing of energy efficiency; we also welcome the determination to develop an integrated railway infrastructure in the EU. We agree to the prioritisation of investment in the renewal of housing stock and public transport in order to reduce energy costs.

With a view to improving the territorial, economic, regional and social cohesion, the consistent process of policy planning and implementation is needed on the EU and national levels. This may be achieved by:

- Identifying major long-term territorial specificities reflecting economic, social and territorial development objectives in the territory;
- Reciprocity in adjusting territorial development objectives horizontally (between different policies and development dimensions (social, economic, territorial and other development)) and vertically (on the EU, national, regional and local levels), so that social development objectives are in line with territorial objectives, local objectives are in line with regional objectives, etc.;
- Providing for the most appropriate ways of achieving the development objectives;

- Ensuring coordination of the implementation of EU and national policies contributing to achieving the objectives and, first and foremost, aiming at avoiding the overlapping of financed activities;

- Providing local and regional authorities and citizens with as many opportunities as possible to participate in making the decisions directly affecting their life quality. The wider application of the multilevel governance including the involvement of administrative territorial units and, in particular, civil society into the process of policy making, implementation and assessment, would markedly contribute to the promotion of the political process “from bottom to top” resulting in higher compatibility between local, EU and national policy objectives. Please note that the EU cohesion policy presents a great example of practical implementation of multilevel governance, the good practice that needs to be passed on to other policy areas. The use of EU structural support already contributes effectively to the promotion of strategic planning, strengthening of national administrative capacities and capabilities and involvement of local and regional institutions as well as social, economic and territorial partners into the process of policy making.

We think that the economic, social and territorial cohesion of the EU regions, enshrined in the Lisbon Treaty, must remain the principle objective of the EU cohesion policy after 2013 (EU cohesion policy should not be divided into sectors, i.e., investment should not be directed towards achieving individual objectives of sectoral policies). In this respect, the European Social Fund should remain a constituent part of the EU cohesion policy and, aiming at a greater effect of investment, be designed together with other EU cohesion policy funds.

In our opinion, it is possible to ensure social and territorial cohesion only by developing an inclusive and job-creating labour market so that all individuals wishing to work can make use of the advantages offered by growth and new jobs while socially excluded individuals can actively participate in educational programmes. Better education would improve opportunities to find a job and the growing employment would reduce poverty.

Proper functioning of an inclusive labour market is limited by the following three major obstacles: scarce employment opportunities due to the lack of jobs; qualifications of the labour not fully meeting the needs of the labour market; economic passivity of individuals outside the labour market and their lack of motivation to integrate into the labour market; barriers to integration created in respect of individual groups of people.

When increasing employment and adjusting labour supply to the market needs, the key factors will be the following changes in educational, professional training and qualification upgrading systems: increased openness and flexibility of these systems, an opportunity to apply flexible learning methods, development of partnership between education and labour sectors, and response to the needs of the labour market. Improved professional guidance and training as well as application of additional measures for developing professional skills would increase youth integration into the labour market.

Despite the pension reforms carried out, the crisis has exposed the need to take further measures for mitigating aging effects on pension systems. Lithuania faces the major challenge of ensuring the long-term sustainability of the pension system in view of aging.

The Government of the Republic of Lithuania has approved the concept of the pension system reform, which provides for establishing a stronger link between social insurance pension contributions and benefits. This would increase the attractiveness of the system and encourage people to take part in it as well as establish interdependence between the size of benefits, on the one hand, and economic and demographic indicators, on the other.

The issue of adequate, secure and financially stable pension systems will also arise while implementing the objectives of the Europe 2020 strategy. During the following decade, Lithuania will aim at reducing the number of people exposed to poverty risk by 170 thousand, i.e. by one-fourth. The most important measures for the implementation of this strategy are related to the policy of increasing employment: it is these measures in particular that will be given special attention.

We are aware that there is a risk that the recovery of the European economy may not bring about growth in employment, so there is a need for decisive action in this area. Since inadequate youth employment presents a burning problem, we believe that the EU has to undertake an important task of making quality and accessibility improvements in the education system. Therefore, we agree with the opinion that education should be placed at the very heart of the Union's economic strategy and that education should constitute a public good in the eyes of the Union, with investment in all aspects of the education system, in quality of education and in broadening access to higher education. We support the proposal to introduce a permanent, inclusive European-level system of lifelong learning. Still, it is important to promote public-private partnerships in education and cross-border mobility for students and researchers.

We support the European Parliament in highlighting the importance of qualitative employment and development of effectively operating labour markets for employment growth. We agree on the need to eliminate illegal labour and to remove the obstacles for entering the labour market for its outsiders. We are also in favour of incentives for employers, which encourage creation and maintaining of jobs, support innovation, and make long-term investments. We appreciate the development of employers' and employees' initiatives in building a functioning labour market. We believe that it is reasonable to strive for 75% employment rate on the EU level by 2020 (but we have certain reservations about the 50% EU target of poverty reduction having in mind that the Europe 2020 strategy provides for 25% reduction in view of the actual potential of the Member States and public finance sustainability¹).

5. Which mechanisms should be established to create effective European economic governance in order to overcome macroeconomic imbalances, exit from the public debt crisis and prevent its recurrence in the Member States, while fostering growth, employment and social cohesion? Would you favour a permanent crisis resolution mechanism at EU level?

We support the strengthening of the prevention and correction parts of the Stability and Growth Pact with more focus on limiting the growth of public sector expenditure in the Member States in relation to the growth of potential GDP as the main tool to achieve a medium-term budget target of a Member State, which would ensure a sustainable financial situation in the public sector and would harmonise budget policy with the economic cycle. In order to achieve this goal we also support the idea to enhance sanctions. As for the enhanced sanctions in the case of breach of budgetary discipline when making use of the EU budget, it is important that the sanctions imposed should ensure the equality of Member States and are proportionate.

National budget planning regulations are also important for ensuring budgetary discipline. Lithuania is also currently working on the reform of the system of budgetary planning and implementation that will facilitate fiscal policy planning with due consideration of an economic cycle and accumulation of a reserve within the national treasury for the period of an economic downturn.

¹ The national poverty line stands at 60% of average disposable income in the Member States.

Concerning the establishment of a scoreboard of macroeconomic performance indicators, which can be used to alert the Member States that exceed macroeconomic imbalances, it is essential to take into consideration the level of economic development of the Member States when defining the thresholds of performance indicators because it may determine a different dynamics of the processes.

We believe that it is essential to implement further the reform of the cohesion policy framework and enhance its flexibility enabling a faster and more efficient allocation of resources for Member States and regions. We support the need to establish a link between long-term investment strategies based on the cohesion policy and results in the areas of competitiveness, creation of jobs, etc. We believe that delegation of more powers to regions and communities will give a positive impetus in attaining territorial and social cohesion on the national level. We recognise the need for promoting entrepreneurship, funding SMEs, and directing financial support offered to SMEs under the cohesion policy to provision of risk capital while encouraging wider involvement of the banking sector and enhancing the efficient use of the structural funds.

We support the establishment of a permanent crisis-resolution mechanism. At the European Council in December 2010 we expressed a position that Lithuania is cautious about the revision of the EU Treaty. It is important for Lithuania that further consultations on the permanent crisis-resolution mechanism are transparent and in cooperation with all EU Member States and National Parliaments. In this context, it is crucial for Lithuania to retain the current mechanism of financial support for non-euro area states. We are of the opinion that while the permanent crisis-resolution mechanism is being established, the terms for euro area membership should not become stricter or more rigid. In addition, the amendment of the EU Treaty should not imply compulsory financial obligations of non-euro area states towards the EU budget.

6. Given the adoption of the legislative package on EU prudential supervision, the US financial market reform bill and the Basel committee proposals, which further action should be taken at global and, in particular, at EU level in order to stabilize and reform the financial markets with a view to long term investment and sustainable development?

As the global financial crisis emerged, the reform of the regulatory and supervisory framework for financial markets was undertaken both on the EU and global levels, with a view to preventing similar crises in the future, as well as restoring and ensuring reliability of financial markets and sustainable development. Therefore, a number of reforms were initiated, including the transformation of the supervisory framework for financial markets, review of requirements for bank liquidity and capital, elaboration of crisis prevention and management systems, widening of the range of financial services and enterprises under supervision and regulation, searching for additional measures to ensure reliability of financial institutions of systemic importance and reduce the burden of their potential operational failure on taxpayers, review of deposit and investment guarantee systems, etc. It is worthwhile noting that the majority of the reforms are still to be implemented in practice and some of them are under discussion. The new measures will increase a regulatory, and in some cases (e.g. the Basel Committee proposals), a financial burden on financial market participants; therefore it will take some time for the market to adjust to the new requirements, including the abovementioned stricter requirements for monetary policy, as well as for policies of borrowing and borrowing in foreign currencies.

Considering the large number of initiatives, we believe that the major focus should be placed on effective completion of initiatives undertaken and proper and timely fulfilment of international obligations undertaken on global, regional, and national levels.

7. Would you recommend a reform of the global financial and economic governance structures, such as a reform of the G20, the IMF and the World Bank? If yes, what would be the basis of a new institutional structure? What form of coordination should be achieved at global level?

The World Bank and the International Monetary Fund, which Lithuania is a member of, are international financial institutions uniting nearly all the countries of the world. These institutions are not static as they are constantly engaged in negotiations on more effective representation of member country interests, internal institutional reforms, and adequate adjustment to the ongoing economic and political processes. Recently, intensive discussions have been held in these institutions on reform aiming at bringing the activities of international financial institutions closer to the present-day realities.

In the Group of Twenty (G20), which encompasses only the major economies, Lithuania is represented through the European Union. Although G20 is not a formal organisation and its decisions are of recommendatory character only, its decisions are important and have an impact on the global economy. However, considering the fact that G20 represents only a small part of world countries, we think that it is essential to strengthen the existing international financial organisations that have deeply rooted traditions and avoid establishing new ones that can result in an additional administrative burden. Lithuania is in favour of a transparent representation of interests of all countries and a possibility to express their own opinions, especially when decisions taken have a direct impact on the countries or are obligatory to other institutions.