

# Spain profile - Timeline

- 29 April 2019

## A chronology of key events:

**1492** - The Christian Kingdoms of Castile and Aragon conquer the Emirate of Granada, ending nearly 800 years of Muslim rule in the south and founding modern Spain as a united state.



Replicas of the ships of Christopher Columbus arrive in New York in 1992 to celebrate the 500th anniversary of his landing in the Americas

Christopher Columbus arrives in the Americas, heralding the conquest of much of South and Central America. Jews and later Muslims are expelled from Spain during the Inquisition.

## Spanish Empire

**16th-17th centuries** - Spanish Empire at its height, with Spain the predominant European power. The rise of Protestant states in northern Europe and the Ottoman Empire in the Mediterranean begin the country's gradual decline.

**18th century** - The War of the Spanish Succession loses Spain its European possessions outside the Iberian Peninsula. Bourbon dynasty, originally from France, centralises the Spanish state, shutting down many regional autonomous assemblies and modernising government and the military.

**1807-1814** - Napoleon's France occupies Spain, which has been a French satellite since 1795. Fierce nationalist resistance and British intervention in the Peninsular War gradually force French troops out.



US troops advance on Manila during the Spanish-American War, when Spain lost some of its colonies

**19th century** - Napoleonic legacy of political division and economic dislocation leaves Spain weak and unstable, with frequent changes of government and a low-level insurgency by Carlist supporters of a rival branch of the royal family.

All Latin American colonies win their independence, with Cuba, Puerto Rico and the Philippines in Asia lost during a disastrous war with the United States in 1898.

**1910s** - Spain sought compensation in conquering colonies in Africa, most significantly northern Morocco and the Spanish Sahara.

**1920s** - The trade boom achieved by neutrality in the First World War is squandered through fighting Moroccan rebels and the financial mismanagement of the Primo de Rivera dictatorship at home.

## Civil war and dictatorship

**1931** - The return of democratic government leads to an electoral backlash against the monarchy and its allies, and a republic is declared. Radical policies of land reform, labour rights, educational expansion and anti-Church legislation deepen the political divide.

**1936** - After two years of right-wing government, a Popular Front coalition of left-wing and liberal parties narrowly wins parliamentary elections and seeks to reintroduce the radical policies of 1931.

A coup by right-wing military leaders captures only part of the country, leading to three years of civil war.

## Long-term leader: Franco



General Franco's dictatorship spanned nearly four decades

### Spanish Mass marks Franco death

### Franco's ghost still haunts Spain

### 1975: Franco's 36-year reign ends

**1939** - General Francisco Franco leads the Nationalists to victory in the Civil War. More than 350,000 Spaniards died in the fighting, and Franco purges all remaining Republicans.

Spain remains neutral throughout the Second World War, although the government's sympathies clearly lie with the Axis powers.

**1946-50** - Francoist Spain is ostracised by United Nations and many countries sever diplomatic relations.

**1950s** - As the Cold War deepens the US gradually improves relations with Spain, extending loans in return for military bases.

Spain is admitted to the UN in 1955 and the World Bank in 1958, and other European countries open up to the Franco government.

El Milagro Espanol - the economic miracle of the late 1950s - sees Spain's manufacturing and tourism industries take off through liberalisation of state controls.

**1959** - The Eta armed separatist group is founded with the aim of fighting for an independent homeland in the Basque region of Spain and France. Its violent campaign begins with an attempt to derail a train carrying politicians in 1961.

**1968** - West African colony of Spanish Guinea gains independence as Equatorial Guinea.

**1973 December** - Eta kills Prime Minister Admiral Luis Carrero Blanco in retaliation for the government's execution of Basque fighters. Subsequent attempts to liberalise the Franco government founder on internal divisions.

## Move to democracy

**1975 November** - Franco dies, and is succeeded as head of state by King Juan Carlos. Spain makes transition from dictatorship to democracy, and withdraws from the Spanish Sahara, ending its colonial empire.



King Juan Carlos, pictured in 1975 with General Franco, left, supported moves toward democracy

- Born in Rome, 1938
- Grandson of Alfonso XIII, who left Spain in 1931

### **1978: Spain set to vote for democracy**

**1977 June** - First free elections in four decades. Ex-Francoist Adolfo Suarez's Union of the Democratic Centre manages a relatively smooth transition to stable democracy.

**1980** - 118 people are killed in Eta's bloodiest year so far.

**1981 February** - Coup attempt fails after King Juan Carlos makes a televised address demanding that plotters surrender.

**1982** - Socialists under Felipe Gonzalez win elections and govern until 1996. Free education, an expanded welfare state and liberalisation of abortion laws are key policies. Spain joins Nato.

**1986** - Spain joins the European Economic Community, later to become the European Union.

## Aznar years

**1996 March** - Conservative Jose Maria Aznar becomes prime minister.



Rebels attempted a coup in 1981 but King Carlos defused the situation

1997 July - Eta kills Basque councillor Miguel Angel Blanco, sparking national outrage and bringing an estimated six million people onto the streets in protest.

1997 December - 23 leaders of Eta's political wing Herri Batasuna are jailed for seven years for collaborating with Eta - the first time any members of the party are jailed as a result of Eta links.

## Flamenco

---



- Flamenco music and dance have Andalusian roots
- Rhythmic hand clapping accompanies guitar music, song
- Song subjects range from death to romance and humour
- Flamenco reached a wider audience in 19th century "singing cafes"

1998 April - Crops destroyed and wildlife wiped out when an iron pyrite mine reservoir belonging to a Canadian-Swedish company bursts its banks causing toxic waste spillage. Waterways feeding Europe's largest wildlife reserve, the Donana national park, are severely contaminated.

1998 September - Eta announces its first indefinite ceasefire since its campaign of violence began.

2000 March - Aznar's Popular Party (PP) wins landslide in general elections.



Eta's campaign for a sovereign Basque state has cost many lives

### **Timeline: Eta campaign**

2002 January - Peseta replaced by Euro.

2002 November - North-west coastline suffers ecological disaster after oil tanker Prestige breaks up and sinks about 130 miles out to sea.

## Madrid attacks



Catalan architect Antoni Gaudi shattered traditional concepts

**2004 March** - A total of 191 people are killed in explosions on packed rush-hour trains in Madrid in near-simultaneous pre-election attacks by an Islamic group with links to al-Qaeda.

With Spain still in mourning, the Socialists under Jose Luis Rodriguez Zapatero defy earlier opinion polls and win a general election.

**2004 April** - Prime Minister Zapatero orders Spanish troops withdrawn from Iraq in May.

**2005 June** - Parliament defies Roman Catholic Church by legalising gay marriage and granting homosexual couples same adoption and inheritance rights as heterosexual ones.

**2005 September-October** - At least 11 die and many more are injured in a series of mass attempts by African migrants to enter the enclaves of Melilla and Ceuta from Morocco in a bid to reach Spain.

## Catalan autonomy demands

**2006 January** - Lt Gen Jose Mena Aguado sacked as head of army ground forces after suggesting that the military might take action in Catalonia if the region gains too much autonomy.



The movement seeking independence for Catalonia has been growing in strength

**2006 June** - Voters in Catalonia back proposals to give the region greater autonomy as well as the status of a nation within Spain.



**2007** October - Twenty-one mainly North Africans are found guilty and given long jail sentences for the Madrid train bombings in 2004.

**2007** November - Parliament passes a bill formally denouncing General Franco's rule and ordering the removal of all Franco-era statues and symbols from streets and buildings.

**2008** March - The Socialists win re-election with an increased margin, but falls short of an absolute majority.

## Economic crisis

**2009** January - Spanish economy enters recession for first time since 1993.

**2009** July - Foreign Minister Miguel Angel Moratinos visits Gibraltar - the first visit by a Spanish minister in 300 years.

**2010** February - Thousands of workers demonstrate against government spending cuts and plans to raise the retirement age by two years to 67 - the first mass labour protests since the Socialists came to power in 2004.

**2010** May - Unemployment rate climbs to over 20% for first time in nearly 13 years. Parliament approves 15bn-euro (£13bn) austerity package.



Spaniards were put under severe pressure by economic problems

**2011** November - Conservative Popular Party wins resounding victory in parliamentary election.

**2011** December - New government headed by Mariano Rajoy takes office. Announces new round of austerity measures to slash public spending by 16.5bn euros (£14bn) and nearly halve the public deficit from about 8% of GDP in 2012.

**2012** November - The Basque armed group Eta issues a statement that it is ready to disband, disarm and enter talks with the French and Spanish governments.

**2013** April - Spain's unemployment rate soars to new record of 27.2% of the workforce in the first quarter, passing six million figure, although the rate of increase slows.

**2013** September - Economy registers 0.1% growth in July-September, formally lifting it out of recession.

**2014** June - King Juan Carlos abdicates, succeeded by the crown prince as Felipe VI.

**2014** November - Spanish government dismisses the result of a symbolic independence referendum in Catalonia.

## New political forces

**2015** December - Popular Party government loses majority in general election that sees populist anti-austerity movement Podemos and new liberal Ciudadanos movement perform well.

**2016** October - Prime Minister Mariano Rajoy forms minority government and ends 10 months of political deadlock after repeat elections in June.

**2017** August - Two Islamic State terror attacks kill 16 people in Barcelona and the nearby resort of Cambrils.

**2017** October - Madrid imposes direct rule in Catalonia after voters in a referendum back separation from Spain.

**2018** May - Basque separatist former armed group Eta announces it is ceasing all political activities.

**2018** June - Mariano Rajoy loses a vote of confidence. Socialist leader Pedro Sanchez takes over as prime minister.

**2019** April - Snap election boosts Socialists, but they remain short of a majority. Vox becomes first far-right party to win seats since the death of Franco in 1975.

*This page intentionally blank*





## ***Lithuania***

<b>Subject</b>	<b>Page</b>
Chargé d’Affaires Marcus Micheli Lithuania .....	93
US Relations with Lithuania.....	95
Economist Intelligence Unit Country Report .....	97
BBC Timeline.....	117

*This page intentionally blank*

## Chargé d’Affaires a.i. Marcus Micheli

### Chargé d’Affaires a.i. Marcus Micheli Lithuania



**Marcus Micheli**, a career member of the Senior Foreign Service, is currently the Chargé d’affaires a.i. at the U.S. Embassy in Vilnius, Lithuania.

He previously served as Consul General at the U.S. Consulate in Yekaterinburg, Russia; as a Director at the National Security Council; and as Deputy Chief of Mission at the U.S. Embassy in Chisinau, Moldova. In addition to tours at the Department of State in Washington, DC, he also has served overseas in Montenegro, Russia, Bosnia and Hercegovina, Ukraine, and Poland. Mr. Micheli was a Pearson Congressional Fellow with

the House of Representatives Committee on Foreign Affairs, and he has an M.A. in International Affairs from Columbia University, an M.A. in Strategic Studies from the U.S. Naval War College, and a B.A. in History from Reed College.

*This page intentionally blank*

# U.S. Department of State Diplomacy in Action

## U.S. Relations With Lithuania

Bilateral Relations Fact Sheet

### **BUREAU OF EUROPEAN AND EURASIAN AFFAIRS**

MAY 23, 2019

#### **U.S.-LITHUANIA RELATIONS**

The U.S. and Lithuania share a history as valued Allies and strong partners. The United States established diplomatic relations with Lithuania in 1922, following its declaration of independence during World War I. Lithuania was annexed by the Soviet Union in 1940 during World War II. In 1990, Lithuania proclaimed its renewed independence, and international recognition followed. The United States never recognized the forcible incorporation of Lithuania into the Soviet Union, and it views the present Government of Lithuania as the legal continuation of the interwar republic.

After Lithuania regained its independence, the United States worked closely with the country to help it rebuild its democratic institutions and a market economy. The U.S. welcomed Lithuania's accession to the North Atlantic Treaty Organization (NATO) and the European Union (EU) in 2004. As a NATO Ally and EU member, Lithuania has become a strong, effective partner committed to democratic principles and values. The country is a strong supporter of U.S. objectives in the area of democracy promotion and has helped the people of other young European nations develop and strengthen civil institutions.

#### **U.S. Assistance to Lithuania**

In FY 2018, the United States provided Lithuania with approximately \$74 million in security assistance to help Lithuania develop defensive capabilities, increase the NATO interoperability of its forces, and educate its military officers.

#### **Bilateral Economic Relations**

Lithuania is a dynamic European economy with growing commercial opportunities for U.S. businesses. In 2017, the United States was Lithuania's 7th largest trading partner, with more than USD 2 billion in total trade. Steps undertaken during the country's accession to the EU and NATO, and later to the Organization of Economic Cooperation and Development helped improve Lithuania's legal, tax, and customs systems, which has aided economic and commercial sector development. Lithuania ranked 16th (out of 190 countries) in the 2018 World Bank's Ease of Doing Business Report. The United States and Lithuania have signed an agreement on bilateral trade and intellectual property protection and a bilateral investment treaty. Lithuania participates in the Visa Waiver Program, which allows nationals of participating countries to travel to the United States for certain business or tourism purposes for stays of 90 days or less without obtaining a visa.

#### **Lithuania's Membership in International Organizations**

Lithuania and the United States belong to a number of the same international organizations, including the United Nations, NATO the Organization for Security and Cooperation in Europe, the Organization for Economic Cooperation and Development, the International Monetary Fund, the World Bank, and the World Trade Organization.

#### **Bilateral Representation**

Principal embassy officials are listed in the Department's Key Officers List.

Lithuania maintains an embassy in the United States at 2622 16th Street NW, Washington, DC 20009, tel: (202) 234-5860.

*This page intentionally blank*

---

## Country Report

# Lithuania

**Generated on September 17th 2019**

Economist Intelligence Unit  
20 Cabot Square  
London E14 4QW  
United Kingdom

---



## **The Economist Intelligence Unit**

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

### **London**

The Economist Intelligence Unit  
20 Cabot Square  
London  
E14 4QW  
United Kingdom  
Tel: +44 (0) 20 7576 8181  
Fax: +44 (0) 20 7576 8476  
E-mail: [eiucustomerservices@eiu.com](mailto:eiucustomerservices@eiu.com)

### **New York**

The Economist Intelligence Unit  
The Economist Group  
750 Third Avenue  
5th Floor  
New York, NY 10017, US  
Tel: +1 212 541 0500  
Fax: +1 212 586 0248  
E-mail: [eiucustomerservices@eiu.com](mailto:eiucustomerservices@eiu.com)

### **Hong Kong**

The Economist Intelligence Unit  
1301 Cityplaza Four  
12 Taikoo Wan Road  
Taikoo Shing  
Hong Kong  
Tel: +852 2585 3888  
Fax: +852 2802 7638  
E-mail: [eiucustomerservices@eiu.com](mailto:eiucustomerservices@eiu.com)

### **Geneva**

The Economist Intelligence Unit  
Rue de l'Athénée 32  
1206 Geneva  
Switzerland  
Tel: +41 22 566 24 70  
Fax: +41 22 346 93 47  
E-mail: [eiucustomerservices@eiu.com](mailto:eiucustomerservices@eiu.com)

This report can be accessed electronically as soon as it is published by visiting [store.eiu.com](http://store.eiu.com) or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

## **Copyright**

© 2019 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-5209

## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

# Lithuania

## Summary

2 [Briefing sheet](#)

## Outlook for 2019-23

4 [Political stability](#)  
4 [Election watch](#)  
5 [International relations](#)  
5 [Policy trends](#)  
6 [Fiscal policy](#)  
6 [Monetary policy](#)  
6 [International assumptions](#)  
7 [Economic growth](#)  
8 [Inflation](#)  
8 [Exchange rates](#)  
8 [External sector](#)  
8 [Forecast summary](#)

## Data and charts

9 [Annual data and forecast](#)  
10 [Quarterly data](#)  
10 [Monthly data](#)  
12 [Annual trends charts](#)  
13 [Monthly trends charts](#)  
14 [Comparative economic indicators](#)

## Summary

14 [Basic data](#)  
16 [Political structure](#)

## Recent analysis

### Economy

18 [Forecast updates](#)

# Briefing sheet

Editor: **Matthew Sherwood**

Forecast Closing Date: **September 2, 2019**

## Political and economic outlook

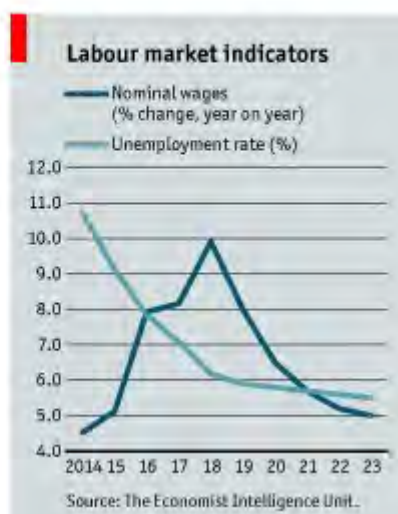
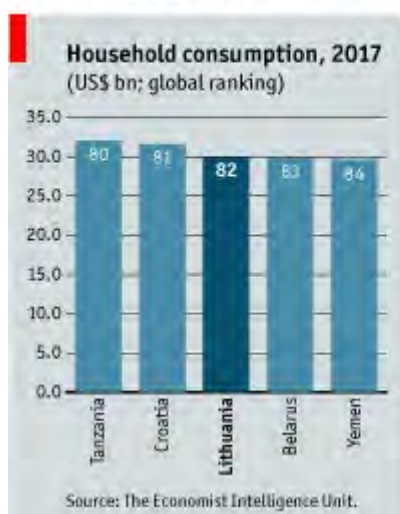
- The prime minister, Saulius Skvernelis, leads a minority government consisting of the Lithuanian Farmers and Greens Union (LVZS) and the Social Democratic Labour Party of Lithuania (LSDDP). The coalition holds only 66 of the 141 parliamentary seats.
- In September 2018 the government signed a co-operation agreement with Order and Justice (TT), giving it a de facto majority of 73 seats and strengthening political stability. The Economist Intelligence Unit believes that the coalition will last a full term, to 2020.
- In 2018 real GDP growth eased to 3.5%. We expect growth to decelerate markedly in the second half of 2019 as external demand slows more substantially. Still strong private consumption, and investment, will support growth of 3.6% in 2019 and 3.1% in 2020-23.
- Lithuania's accession to the euro zone in 2015 reduced the systemic risks from large euro-denominated debt. We expect continued fiscal prudence and proactive macroprudential regulation in the absence of control over monetary policy.
- Sound economic growth and increases in excise duty kept the government budget in surplus in 2018, at 0.7% of GDP. However, as the execution of structural reforms and growth slows, we expect the budget to enter a narrow deficit of 0.1% of GDP in 2020.
- Consumer price inflation will edge down slightly this year, primarily owing to a decline in global energy prices. However, strong domestic demand on the back of solid wage growth will continue to support price pressures in the medium term.

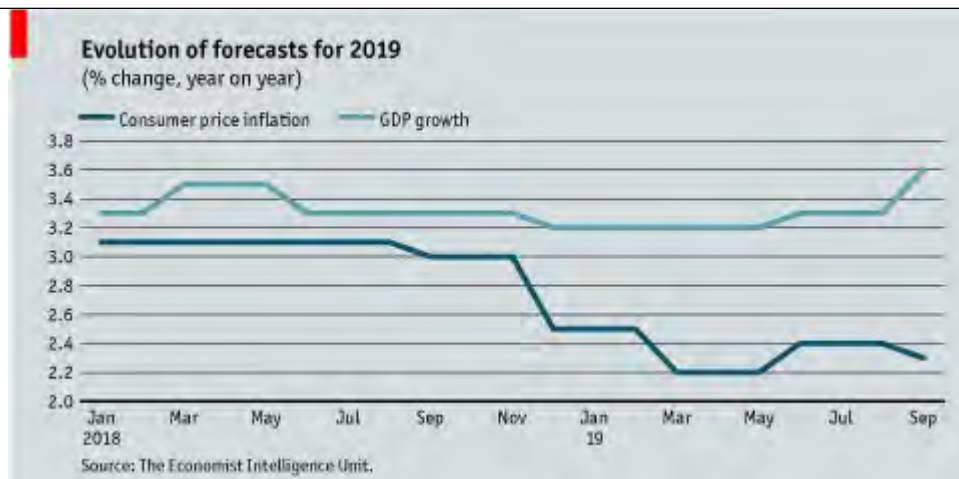
### Key indicators

	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>
Real GDP growth (%)	3.5	3.6	2.6	3.6	3.2	2.9
Consumer price inflation (av; %)	2.5	2.3	2.2	2.1	2.1	2.1
Government balance (% of GDP)	0.7	0.2	-0.1	0.1	0.1	0.1
Current-account balance (% of GDP)	1.5	1.2	0.7	0.2	-0.1	-0.2
Money market rate (av; %)	-0.3	-0.3	-0.4	-0.2	0.1	0.2
Unemployment rate (%)	6.2	5.9	5.8	5.7	5.6	5.5
Exchange rate US\$:€ (av)	1.18	1.12	1.15	1.19	1.23	1.24

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts.

## Market opportunities





## Key changes since May 28th

- Although Mr Skvernelis had vowed to step down as prime minister after losing the presidential election in May, he has decided to remain in his post, after winning a vote of confidence by his LVZS party.
- In August Mr Skvernelis announced that he had lymphoma, but that he would continue carrying out his duties as prime minister. It is possible that he may yet have to resign, but a change of prime minister will not affect political stability.
- According to second-estimate data, real GDP increased by 3.9% year on year in the second quarter of 2019, on an unadjusted basis. With growth in the first quarter now revised up to 4.2%, we have upgraded our full-year forecast to 3.6% (from 3.3% previously).
- However, with risks to the global outlook increasing and manufacturing in most major euro zone markets having entered a recession, we have revised our forecast for real GDP growth in 2020 downwards, to 2.6%, from 3.1% previously.

## The quarter ahead

- September 10th—Balance of trade (July): According to recent real GDP data, export volume growth remained strong in the second quarter of 2019, but slowed significantly year on year. The external trade data for July will provide the first evidence of whether the expected slowdown is accelerating.
- September 12th—European Central Bank (ECB) monetary policy meeting: We expect the ECB to present a stimulus package that is likely to include a cut to the deposit rate, a change to its forward guidance, the announcement of another round of quantitative easing and the introduction of a deposit-tiering system.
- October 30th—Real GDP growth rate (flash estimate; Q3): High-frequency indicators are yet to show signs of the sharp economic slowdown forecast for the second half of 2019. Although we expect third-quarter annual headline growth to slow to about 3%, another quarter of near 4% growth would lead to an upgrade to the 2019 and 2020 forecasts.

## Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
A global trade war hits European exports	High	High	16
A rise in corruption scandals heightens political instability	High	Moderate	12
Companies confront a growing skills gap when recruiting	High	Moderate	12
Corruption remains embedded in the public sector, adding to the costs of doing business	High	Moderate	12
Export growth struggles to recover after being hit by the Russian slowdown	Low	Very high	10

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

# Outlook for 2019-23

## Political stability

After the October 2016 general election a centre-left government comprising the Lithuanian Farmers and Greens Union (LVZS), and the Social Democratic Party of Lithuania (LSDP) came to power, holding 73 of the 141 seats in parliament. However, in September 2017 the LSDP left the coalition after tensions with the LVZS escalated over implementation of structural reforms. In defiance of the LSDP's withdrawal, a faction of its members formed a splinter group called the Social Democratic Labour Party of Lithuania (LSDDP) and chose to remain in government. This left the government with 66 parliamentary seats and reliant on ad hoc support from opposition parties and individual members of parliament (MPs) to pass legislation. In September 2018 the government signed a co-operation agreement with the right-leaning opposition party, Order and Justice (TT), which has seven parliamentary seats. This has secured the government a de facto majority and strengthened its position.

The Economist Intelligence Unit expects the government to serve out a full term, to October 2020. The ruling LVZS holds the largest number of parliamentary seats and remains one of the most popular parties in Lithuania. Previous announcements by party leadership that the LVZS would withdraw from the government unless it secured a clear victory at both the presidential and European Parliament elections led to a strong pushback from within the party itself. The prime minister, Saulius Skvernelis, had vowed to step down from office if he did not win the presidential election in May 2019; he finished third in the first round. At a meeting held in May 2019, LVZS MPs unanimously expressed their intention to remain in power and voted in favour of Mr Skvernelis, in a vote of confidence requested by the prime minister himself.

However, risks to this outlook remain and are exacerbated by Mr Skvernelis's position as prime minister. In August 2019 Mr Skvernelis announced that he had lymphoma, and will be taking sick leave periodically during September and October in order to undergo chemotherapy. Mr Skvernelis states that the prognosis for his recovery is good and that he intends to continue with his prime ministerial duties. He is a figure that LVZS MPs have been able to rally around. The LVZS's and Mr Skvernelis's political manoeuvres in mid-2019—although possibly intended to mobilise the party's supporters—appear to have backfired. Both Mr Skvernelis and the LVZS were criticised by opposition parties for being irresponsible in their political duties, and these developments could still cost the LVZS public support, as voters are likely to lose confidence in the party's commitment to maintaining political stability.

## Election watch

The next parliamentary election is scheduled for October 2020. The current coalition may lead the next government, but political trends could change before then. The opposition Homeland Union-Lithuanian Christian Democrats (TS-LKD) has been leading in opinion polls, and also came out on top in the European Parliament elections. It is closely followed in popularity by the ruling LVZS, with the two parties receiving the support of about half of the electorate. The LSDP polls a distant third, and the LSDDP is right at the 5% electoral threshold needed to secure seats among the 70 allocated, based on proportional representation.

We think believe that it is unlikely that the TS-LKD will join forces with the LSDP ahead of the election, as the parties have historically had ideological differences; but an alliance could emerge between the TS-LKD and the Liberal Movement, which polls stronger than the LSDDP. However, such an alliance would require the support of smaller parties and independents if the centre right was to have a good chance of forming a majority government—not least because the co-operation agreement between the LVZS and the TT is likely to bring these two parties closer.

## International relations

Lithuania will continue to pursue a foreign policy based on strong Euro-Atlantic ties. Its accession to the euro zone in 2015 has led to closer integration with Western institutions, and further moves in that direction were made in July 2018, when Lithuania was admitted to the OECD.

Events in Crimea and eastern Ukraine in 2014 heightened fears concerning Russian intentions in the wider region, with a consequent deterioration in Lithuanian-Russian relations. Implicit threats of Russian aggression, including frequent violations of Baltic airspace, prompted NATO to send a German-led battalion to Lithuania in February 2017. More recently, in late November 2018 Lithuania spoke out against the maritime action taken by Russia against Ukraine in the Sea of Azov. Lithuania had also expelled three Russian diplomats earlier in March 2018, in a show of solidarity with the UK after an attack on a former Russian military intelligence officer on British soil. Although we do not expect the two sides to engage in direct conflict, diplomatic tensions will remain high. We expect reciprocal sanctions between Russia and the EU—imposed in 2014—continue in the medium term.

## Policy trends

Lithuania adopted the euro in January 2015, which reduces the systemic risks related to euro-denominated debt. With monetary policy in the hands of the European Central Bank (ECB), continued fiscal prudence will be required in order to avoid macroeconomic imbalances and to control inflation. This is especially true, as ECB monetary policy is already strongly pro-cyclical in Lithuania's case. No longer responsible for monetary policy, the Bank of Lithuania (BoL, the central bank) will remain doubly focused on macroprudential regulation, with Lithuania having so far avoided the imbalances that plagued the country before the 2008-09 global financial crisis.

Since taking office the government has successfully implemented structural reforms aimed at enhancing fiscal sustainability and reducing the shadow economy. In 2018 the government implemented reforms including the merger of social security taxes paid by employers and employees, an increase in the non-taxable personal income threshold and the substitution of the current flat income tax rate of 15% with a more progressive tax system. The government has also made changes to the second pillar of the pension system; employees now have to double their contributions over a five-year period or opt out of the pillar.

Structural reforms will continue to focus on boosting productivity growth. Education and healthcare reforms implemented in 2018 are proceeding more slowly than originally expected, as highlighted by the IMF in its Article IV consultation report published in July 2019. Current, and future, governments will need to address shortcomings in these areas if Lithuania is to create the competitive and well-paid workforce that it needs—an urgent concern in a country that is ageing rapidly and has one of the highest old-age dependency ratios in the EU.

Corruption remains endemic in business and politics. The National Security and Defence Committee conducted a parliamentary inquiry in 2018, which confirmed that several large domestic business and media groups had illegally sought to influence high-level politicians, and public servants, in recent years. The parliament will continue to focus on strengthening measures aimed at ensuring greater transparency in business-political relations, but corruption is likely to remain entrenched in the medium term.

## Fiscal policy

The government remains committed to fiscal prudence. We forecast that the fiscal surplus will decline to 0.2% of GDP in 2019, from 0.7% of GDP last year. The 2019 state budget reflects the government's priorities: to reduce poverty and social exclusion, as well as to continue to comply with NATO's target of 2% of GDP in defence spending. This year revenue will be supported by a positive macroeconomic backdrop and better tax administration. We expect the fiscal balance to move into negative territory in 2020 as growth slows significantly in the face of strong global headwinds. In 2021-23 the fiscal balance will return to surplus of 0.1% of GDP as the government avoids macroeconomic imbalances and controls inflation while attempting to improve living standards (through higher spending on healthcare, education and welfare benefits).

Public debt levels are extremely low and comfortably less than the EU threshold of 60% of GDP, at 34.2% at end-2018. The ratio will continue to decline gradually in 2019-23 (the forecast period) to 27.5% at end-2023.

## Monetary policy

We believe that the ECB will announce an easing package at its next meeting, on September 12th. This is likely to include a small cut to the deposit rate, an adjustment to the ECB's forward guidance and the announcement of another round of quantitative easing (QE2), which we expect will last 12 months, starting in December 2019. The introduction of a deposit-tiering system (in which some bank deposits at the ECB are charged at different rates) is also a possibility. At its last meeting in July the ECB sent a strong signal of its readiness to intervene; in its communication it firmly underlined its intolerance towards both "realised and projected" weak inflation, and reaffirmed its commitment to symmetry in its inflation goal of "below, but close to, 2%". Crucially, the ECB announced that it had tasked "the relevant Eurosystem committees with examining options" for further stimulus in what represented the first concrete step towards a substantial stimulus.

The bank is taking pre-emptive action against rising deflation risk and a deteriorating economic outlook in the euro zone, mostly driven by global trade tensions.

This means that, together with another round of targeted longer-term refinancing operations (TLTROs-III), to be started in September, funding conditions will remain ultra-loose in the medium term. Details of the size and scale of the QE2 programme have not been announced, and the ECB will have to overcome at least one of its self-imposed constraints. However, we expect it to announce monthly net asset purchases of about €50bn that should last for 12 months. The nomination of Christine Lagarde, the IMF director, for the ECB presidency is unlikely to lead to a significant change in the ECB's monetary policy strategy.

## International assumptions

	2018	2019	2020	2021	2022	2023
<b>Economic growth (%)</b>						
US GDP	2.9	2.2	1.7	1.9	2.0	1.8
Euro zone GDP	1.9	1.1	1.4	1.7	1.7	1.7
World GDP	2.9	2.4	2.5	2.9	2.9	2.9
World trade	4.4	2.9	3.4	3.7	3.9	4.0
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
EU28 CPI	1.9	1.1	1.4	1.7	1.7	1.7
Manufactures (measured in US\$)	5.1	0.9	3.1	2.9	3.6	3.3
Oil (Brent; US\$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US\$)	1.8	-4.7	4.0	3.5	1.4	0.7
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
Exchange rate €:US\$ (av)	0.85	0.89	0.87	0.84	0.82	0.81
Exchange rate US\$:€ (av)	1.18	1.12	1.15	1.19	1.23	1.24



## Economic growth

Lithuania has one of the most robust economies in the euro zone, with real GDP growth averaging 3.8% in 2017-18 and accelerating in the first half of 2019. This performance has been driven primarily by strong private consumption, itself a result of a tight labour market that is driving up wages. Investment growth has also been strong, owing to better absorption of EU funds. After a strong 2017, exports of goods and services were held back in 2018 by softer demand in the euro zone, Lithuania's main export market, but easily outpaced growth in imports—a drawdown of inventories was a contributory factor in curbing import demand.

According to second-estimate data from Statistics Lithuania, real GDP growth, on an annual unadjusted basis, averaged 4.1% in the first half of 2019. Based on the detailed breakdown for the first and second quarters, the drivers of growth have remained the same as those in 2017-18. Of particular note was a strong uptick in export volumes in the first quarter, despite increasing uncertainty facing the global economy and further softening in Lithuania's main export markets. Already strong investment growth also accelerated in January-March without a commensurate boost in imports.

We forecast that real GDP growth will ease significantly in the second half of 2019 and continue to ease in the first half of 2020 on the back of slowing demand in the euro zone and rising uncertainty about global economic prospects, the ongoing US-China trade war, and a "no-deal" Brexit. Headline growth in 2019 will average 3.6% for the full year and decelerate further to 2.6% in 2020. A rebound in exports in 2021 corresponding with the euro zone recovery will cause growth in that to year average 3.6%, before decelerating again to average 3.1% per year in 2022-23.

Private consumption will continue to drive domestic demand even as real wage growth slows in 2019-23, especially in export-producing sectors. Lithuania's shrinking working-age population will put a floor under wage rises, and government-led wage increases in healthcare and education will further support consumer demand. We expect investment growth to ease in the second half of 2019 and first half of next year as global trade uncertainty rises and demand from Lithuania's major European export markets slows. Nevertheless, investment will continue to be supported by strong growth momentum in the domestic construction industry and EU structural funds.

We expect the external sector to weigh on overall growth, as global trade flows ease. However, the recent productivity-enhancing investments in manufacturing and equipment have boosted Lithuania's export competitiveness. This will continue to support the enlargement of Lithuania's export market share in the EU. A pick-up in the global economy in the latter half of our forecast period will also support Lithuania's export demand.

### Economic growth

%	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>
GDP	3.5	3.6	2.6	3.6	3.2	2.9
Private consumption	3.9	3.7	3.3	3.3	3.3	3.2
Government consumption	0.8	1.0	1.0	0.9	0.9	0.8
Gross fixed investment	6.5	6.3	4.9	5.1	3.9	3.8
Exports of goods & services	5.1	4.8	3.7	5.0	4.5	4.3
Imports of goods & services	4.3	5.1	4.4	4.5	4.7	4.7
Domestic demand	2.9	4.2	3.2	3.1	3.3	3.3
Agriculture	-9.9	1.0	1.0	1.0	1.0	1.0
Industry	4.8	3.2	3.2	3.2	3.2	3.2
Services	3.6	3.9	2.4	3.8	3.2	2.9

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts.

## Inflation

Inflation averaged 2.5% in 2018, supported by strong domestic demand and rising global energy prices. Inflation has largely stabilised in 2019 and will average 2.3% for the year. Although global oil prices have declined recently, weighing on inflation, firming core price pressures will continue to support headline inflation at more than 2% throughout the forecast period. Wage growth has been strong owing to a tightening labour market, and government measures to increase the minimum wage and social security benefits. We expect these domestic price pressures to keep inflation steady in 2020-23, at about 2.1% on average.

## Exchange rates

The euro has depreciated against the US dollar since peaking at almost US\$1.25:€1 in February 2018, partly owing to monetary tightening in the US last year. Since the start of 2019 the euro has weakened further, mostly hovering at about US\$1.11:€1-US\$1.13:€1, as high-frequency data and soft indicators continue to disappoint market expectations, and point to a weak euro zone outlook. We expect the euro to remain broadly stable in the coming months and to average US\$1.12:€1 in 2019. Next year it will appreciate to an average of US\$1.15:€1 as the Federal Reserve (the US central bank) further eases policy. The euro should recover more pronouncedly from 2021 on the back of the ECB's policy tightening as growth in the region accelerates, which, together with the euro zone's large current-account surplus, should lift it to US\$1.24:€1 by end-2023.

## External sector

After recording deficits in 2015-16, the current account moved strongly into surplus in 2017 and reached 1.5% of GDP in 2018, mainly led by robust export growth in the transport and financial services sectors. In 2019-21 we forecast that the current-account surplus will decline steadily and eventually enter negative territory in 2022-23, recording small deficits. Typically, Lithuania records deficits on its goods trade account, and we expect this to remain significant in 2019-23 as imports pick up, aided by both re-exports and firm domestic demand. This will be partly offset by surpluses on the services account and the secondary income accounts.

## Forecast summary

### Forecast summary

(% unless otherwise indicated)

	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>
Real GDP growth	3.5	3.6	2.6	3.6	3.2	2.9
Industrial production growth	4.8	4.2	3.2	3.7	3.7	3.7
Unemployment rate (av)	6.1	5.9	5.8	5.7	5.6	5.5
Consumer price inflation (av; EU harmonised measure)	2.5	2.3	2.2	2.1	2.1	2.1
Short-term interbank rate	-0.3	-0.3	-0.4	-0.2	0.1	0.2
General government balance (% of GDP)	0.7	0.2	-0.1	0.1	0.1	0.1
Exports of goods fob (US\$ bn)	32.4	34.2	38.0	42.1	46.3	50.7
Imports of goods fob (US\$ bn)	35.5	36.6	40.1	44.5	48.8	53.1
Current-account balance (US\$ bn)	0.8	0.7	0.4	0.1	-0.1	-0.2
Current-account balance (% of GDP)	1.5	1.2	0.7	0.2	-0.1	-0.2
Exchange rate €:US\$ (av)	0.85	0.89	0.87	0.84	0.82	0.81
Exchange rate €:US\$ (end-period)	0.87	0.89	0.86	0.83	0.81	0.81
Exchange rate €:Rb (av)	0.014	0.014	0.013	0.013	0.014	0.014
Exchange rate €:¥100 (av)	0.77	0.82	0.81	0.80	0.81	0.84

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts.

# Data and charts

## Annual data and forecast

	2014 <sup>a</sup>	2015 <sup>a</sup>	2016 <sup>a</sup>	2017 <sup>a</sup>	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	48.6	41.5	43.0	47.6	53.3	54.5	56.5
Nominal GDP (€ bn)	36.6	37.4	38.8	42.2	45.1	48.5	49.3
Real GDP growth (%)	3.5	2.0	2.4	4.1	3.5	3.6	2.6
<b>Expenditure on GDP (% real change)</b>							
Private consumption	4.0	4.0	5.0	3.3	3.9	3.7	3.3
Government consumption	0.3	0.2	-0.1	-0.4	0.8	1.0	1.0
Gross fixed investment	5.7	4.9	0.3	6.8	6.5	6.3	4.9
Exports of goods & services	3.3	0.9	4.0	13.6	5.1	4.8	3.7
Imports of goods & services	3.1	6.8	3.8	12.0	4.3	5.1	4.4
<b>Origin of GDP (% real change)</b>							
Agriculture	3.5	5.2	-5.7	-0.5	-9.9	1.0	1.0
Industry	5.9	0.9	0.9	5.7	4.8	3.2	3.2
Services	2.5	2.4	3.7	3.8	3.6	3.9	2.4
<b>Population and income</b>							
Population (m)	3.0	2.9	2.9	2.8	2.8	2.8	2.7
GDP per head (US\$ at PPP)	27,805	28,647	30,078	33,053	35,531	38,145	40,418
Recorded unemployment (av; %)	10.7	9.1	7.9	7.1	6.2	5.9	5.8
<b>Fiscal indicators (% of GDP)</b>							
General government revenue	34.0	34.6	34.4	33.6	34.7	36.0	35.6
General government expenditure	34.6	34.9	34.1	33.1	34.0	35.8	35.7
General government balance	-0.6	-0.3	0.2	0.5	0.7	0.2	-0.1
Public debt	40.5	42.6	39.9	39.4	34.2	31.6	31.2
<b>Prices and financial indicators</b>							
Exchange rate €:US\$ (av)	0.75	0.90	0.90	0.89	0.85	0.89	0.87
Exchange rate €:US\$ (end-period)	0.82	0.92	0.95	0.83	0.87	0.89	0.86
Consumer prices (av; %)	0.2	-0.7	0.7	3.7	2.5	2.3	2.2
Stock of money M1 (% change)	4.8	47.5	11.4	7.6	11.6	10.9	1.6
Stock of money M2 (% change)	1.5	33.1	7.3	5.9	11.4	7.5	5.0
Lending interest rate (av; %)	3.5	3.0	2.8	2.8	3.2	3.1	3.0
<b>Current account (US\$ m)</b>							
Trade balance	-1,253	-2,206	-1,965	-2,189	-3,125	-2,374	-2,130
Goods: exports fob	31,498	24,730	24,243	29,103	32,373	34,233	37,964
Goods: imports fob	-32,751	-26,937	-26,207	-31,292	-35,498	-36,607	-40,094
Services balance	2,172	1,933	2,483	3,540	4,735	3,948	3,047
Primary income balance	-698	-1,721	-1,746	-1,898	-1,760	-1,853	-1,401
Secondary income balance	1,280	1,048	883	1,010	968	950	867
Current-account balance	1,500	-946	-345	463	817	672	383
<b>International reserves (US\$ m)</b>							
Total international reserves <sup>c</sup>	8,728	1,697	2,602	4,450	-	-	-

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> The Economist Intelligence Unit no longer forecasts this series following Lithuania's adoption of the euro.

Source: IMF, International Financial Statistics; Statistics Lithuania; UN; Ministry of Finance; European Central Bank; Bank of Lithuania.

## Quarterly data

	2017		2018				2019	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
<b>Central government finances (€ m)<sup>a</sup></b>								
Revenue	3,436	3,778	3,348	4,180	3,839	4,274	3,501	n/a
Expenditure	3,235	4,144	3,396	3,666	3,658	4,622	3,736	n/a
Balance	201	-366	-48	514	180	-348	-235	n/a
<b>Output</b>								
GDP at chained 2010 prices (€ m)	9,654	9,330	8,473	9,148	9,909	9,688	8,831	9,524
GDP at chained 2010 prices (% change, year on year)	3.7	3.8	3.7	3.8	2.6	3.8	4.2	3.9
Industrial production (% change, year on year)	7.1	7.4	6.7	4.6	3.2	4.9	4.3	5.2
<b>Employment, wages &amp; prices</b>								
Unemployment rate (% of the labour force)	6.6	6.7	7.2	5.9	5.6	6.0	6.5	n/a
Consumer price index (2010=100)	104.7	105.6	105.9	107.2	107.0	108.1	108.1	110.0
Consumer price index (% change, year on year)	4.5	4.1	3.1	2.5	2.2	2.3	2.1	2.5
Producer price index (2010=100)	99.5	102.0	102.8	105.9	108.9	107.0	105.2	108.0
Producer price index (% change, year on year)	3.9	3.7	2.0	6.2	9.4	4.8	2.3	1.9
<b>Financial indicators</b>								
Exchange rate €:US\$ (av)	0.85	0.85	0.81	0.84	0.86	0.88	0.88	0.89
Exchange rate €:US\$ (end-period)	0.85	0.83	0.81	0.86	0.86	0.87	0.89	0.88
Deposit rate (av; %)	0.25	0.33	0.33	0.26	0.28	0.28	0.26	0.21
Lending rate (av; %)	2.83	2.67	3.17	3.03	3.28	3.17	3.24	3.31
Money market rate (av; %)	-0.33	-0.33	-0.33	-0.33	-0.32	-0.32	-0.31	-0.32
M1 (av; € m)	20,200	21,357	21,164	21,966	22,525	23,836	23,687	23,789
M1 (% change, year on year)	9.0	7.6	8.6	11.9	11.5	11.6	11.9	8.3
M2 (av; € m)	23,896	24,975	24,794	25,575	26,161	27,818	27,674	27,892
M2 (% change, year on year)	7.5	5.9	6.5	9.3	9.5	11.4	11.6	9.1
Stockmarket index (end-period; Jan 1st 2000=100)	641.8	653.3	702.3	710.0	689.3	616.9	655.3	665.9
Stockmarket index (% change, year on year)	24.9	33.1	43.2	21.5	5.3	-9.8	-14.9	-8.4
<b>Foreign trade (€ m)</b>								
Exports fob	6,581	7,203	6,527	6,874	7,244	7,617	7,096	7,334
Imports cif	7,159	7,571	7,226	7,645	7,805	8,259	7,594	8,081
Trade balance	-578	-368	-700	-771	-561	-642	-498	-747
<b>Foreign payments (US\$ m)</b>								
Merchandise trade balance	-622	-372	-822	-873	-693	-738	-540	n/a
Services balance	1,058	940	989	1,213	1,326	1,207	1,157	n/a
Primary income balance	-508	-345	-491	-655	-713	98	-302	n/a
Current-account balance	171.1	590.7	-100.1	-60.6	124.1	853.9	414.5	n/a
Reserves excl gold (end-period)	1,865.8	4,207.2	4,858.2	5,082.5	5,449.4	5,531.3	5,096.6	5,273.6

<sup>a</sup> Central government budget; Ministry of Finance data.

Sources: IMF, International Financial Statistics; Statistics Lithuania, Economic and Social Development in Lithuania; Ministry of Finance.

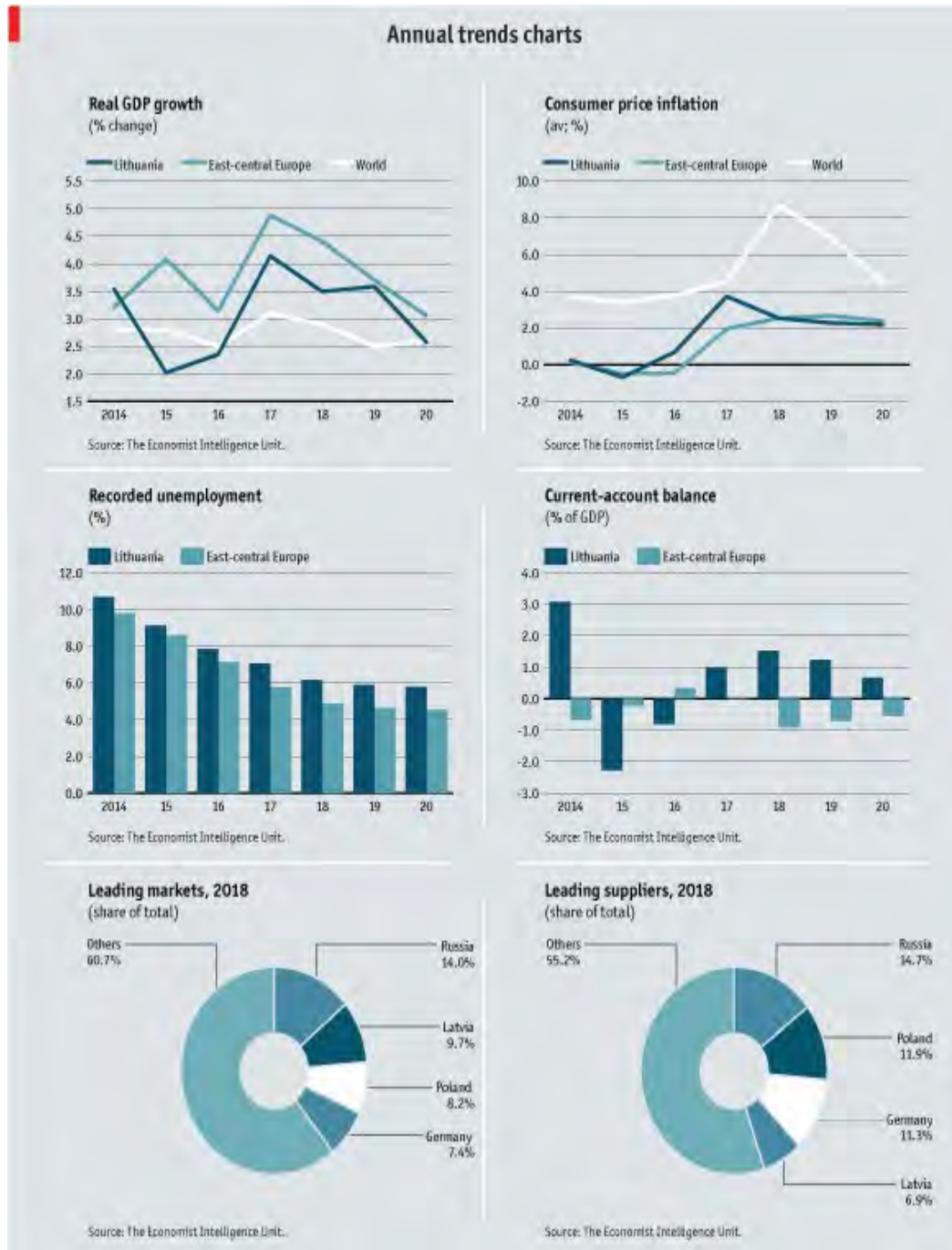
## Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate €:US\$ (av)</b>												
2017	0.94	0.94	0.94	0.93	0.90	0.89	0.87	0.85	0.84	0.85	0.85	0.84
2018	0.82	0.81	0.81	0.81	0.85	0.86	0.86	0.87	0.86	0.87	0.88	0.88
2019	0.88	0.88	0.88	0.89	0.89	0.89	0.89	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate €:US\$ (end-period)</b>												
2017	0.93	0.94	0.94	0.91	0.89	0.88	0.85	0.85	0.85	0.86	0.84	0.83
2018	0.80	0.82	0.81	0.83	0.85	0.86	0.85	0.86	0.86	0.88	0.88	0.87
2019	0.87	0.88	0.89	0.89	0.90	0.88	0.90	n/a	n/a	n/a	n/a	n/a
<b>Real effective exchange rate (CPI-based; 1997=100)</b>												
2017	111.05	111.10	111.72	112.43	113.42	114.16	115.29	115.91	116.68	116.30	116.72	116.89
2018	118.73	118.69	118.08	118.28	116.72	116.05	115.72	114.64	116.22	115.99	115.97	115.58
2019	116.46	116.12	116.00	116.03	115.99	115.92	115.65	n/a	n/a	n/a	n/a	n/a

<b>Deposit rate (av; %)</b>												
2017	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.4	0.3	0.3
2018	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.4	0.3
2019	0.3	0.2	0.3	0.3	0.2	0.2	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
2017	2.8	2.7	3.1	3.3	2.3	2.9	2.9	2.8	2.8	3.1	2.2	2.7
2018	3.1	2.9	n/a	3.2	2.8	3.0	3.1	3.6	n/a	3.1	3.0	3.4
2019	3.4	3.4	2.9	3.4	3.5	3.0	n/a	n/a	n/a	n/a	n/a	n/a
<b>Stock of M2 (€ m)</b>												
2017	23,095	23,128	23,272	23,413	23,429	23,397	23,673	23,685	23,896	24,089	24,130	24,975
2018	24,478	24,709	24,794	25,082	25,299	25,575	25,982	26,158	26,161	26,701	27,006	27,818
2019	27,395	27,493	27,674	28,009	27,909	27,892	n/a	n/a	n/a	n/a	n/a	n/a
<b>M2 (% change, year on year)</b>												
2017	7.8	7.6	8.0	8.0	8.9	8.0	8.3	7.9	7.5	6.8	6.0	5.9
2018	6.0	6.8	6.5	7.1	8.0	9.3	9.8	10.4	9.5	10.8	11.9	11.4
2019	11.9	11.3	11.6	11.7	10.3	9.1	n/a	n/a	n/a	n/a	n/a	n/a
<b>Industrial production (% change, year on year)</b>												
2017	9.8	3.5	5.7	1.4	7.7	10.6	3.8	12.7	5.1	7.8	9.4	5.0
2018	8.3	2.4	9.3	4.4	5.8	3.5	7.5	4.3	-2.0	10.6	3.5	0.7
2019	4.6	5.2	3.1	16.5	1.6	-0.9	6.9	n/a	n/a	n/a	n/a	n/a
<b>Retail sales (% change, year on year)</b>												
2017	9.8	5.2	6.6	3.7	6.7	3.6	3.1	2.9	1.9	2.0	4.5	4.2
2018	5.4	2.7	7.3	5.3	7.1	7.7	7.6	8.0	6.6	9.0	7.2	3.7
2019	5.0	8.5	3.9	14.3	3.4	3.3	n/a	n/a	n/a	n/a	n/a	n/a
<b>Stockmarket index (end period; Jan 1st 2000=100)</b>												
2017	562	561	565	580	592	597	626	659	642	661	660	653
2018	686	684	702	705	711	710	717	700	689	651	643	617
2019	648	652	655	683	678	666	695	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (% change, year on year)</b>												
2017	2.5	3.2	3.2	3.5	3.2	3.5	4.1	4.6	4.6	4.2	4.2	3.8
2018	3.6	3.2	2.5	2.2	2.9	2.6	2.3	1.8	2.4	2.8	2.4	1.8
2019	1.6	2.0	2.6	2.7	2.5	2.4	2.5	n/a	n/a	n/a	n/a	n/a
<b>Producer prices (% change, year on year)</b>												
2017	8.1	10.0	8.4	7.5	3.5	1.5	3.3	4.2	4.2	2.5	5.1	3.5
2018	3.4	1.3	1.4	2.6	7.3	9.0	9.5	9.6	9.2	9.3	4.1	1.2
2019	0.3	3.0	3.8	4.0	2.6	-0.8	-1.6	n/a	n/a	n/a	n/a	n/a
<b>Registered unemployment rate (%)</b>												
2017	8.7	8.8	8.3	7.9	7.3	7.3	7.6	7.5	7.4	7.4	7.7	8.7
2018	9.0	9.1	9.2	8.6	8.1	8.3	8.2	8.2	8.3	7.9	8.2	8.9
2019	9.2	9.2	9.0	8.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Exports fob (€ m)</b>												
2017	2,002	2,138	2,394	2,122	2,499	2,543	2,340	2,645	2,745	2,771	2,923	2,789
2018	2,548	2,538	2,939	2,534	2,772	2,889	2,814	2,935	2,676	3,120	2,986	2,586
2019	2,612	2,566	2,881	2,726	2,786	2,731	n/a	n/a	n/a	n/a	n/a	n/a
<b>Imports cif (€ m)</b>												
2017	2,199	2,333	2,601	2,465	2,733	2,615	2,684	2,844	2,880	2,945	3,110	2,861
2018	2,876	2,812	3,196	2,872	3,194	3,048	2,980	3,115	2,984	3,453	3,159	2,813
2019	2,720	2,860	3,044	2,999	3,318	2,765	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (€ m)</b>												
2017	-197	-195	-207	-343	-234	-72	-344	-199	-135	-174	-187	-72
2018	-329	-274	-257	-339	-422	-159	-166	-179	-308	-333	-173	-227
2019	-108	-295	-163	-274	-532	-34	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (US\$ m)</b>												
2017	1,358	1,541	2,113	1,515	1,385	1,248	1,279	1,310	1,866	2,903	3,314	4,207
2018	3,976	4,609	4,858	4,667	4,723	5,083	4,464	4,501	5,449	4,193	4,211	5,531
2019	4,281	4,177	5,097	4,006	4,098	5,274	4,153	n/a	n/a	n/a	n/a	n/a

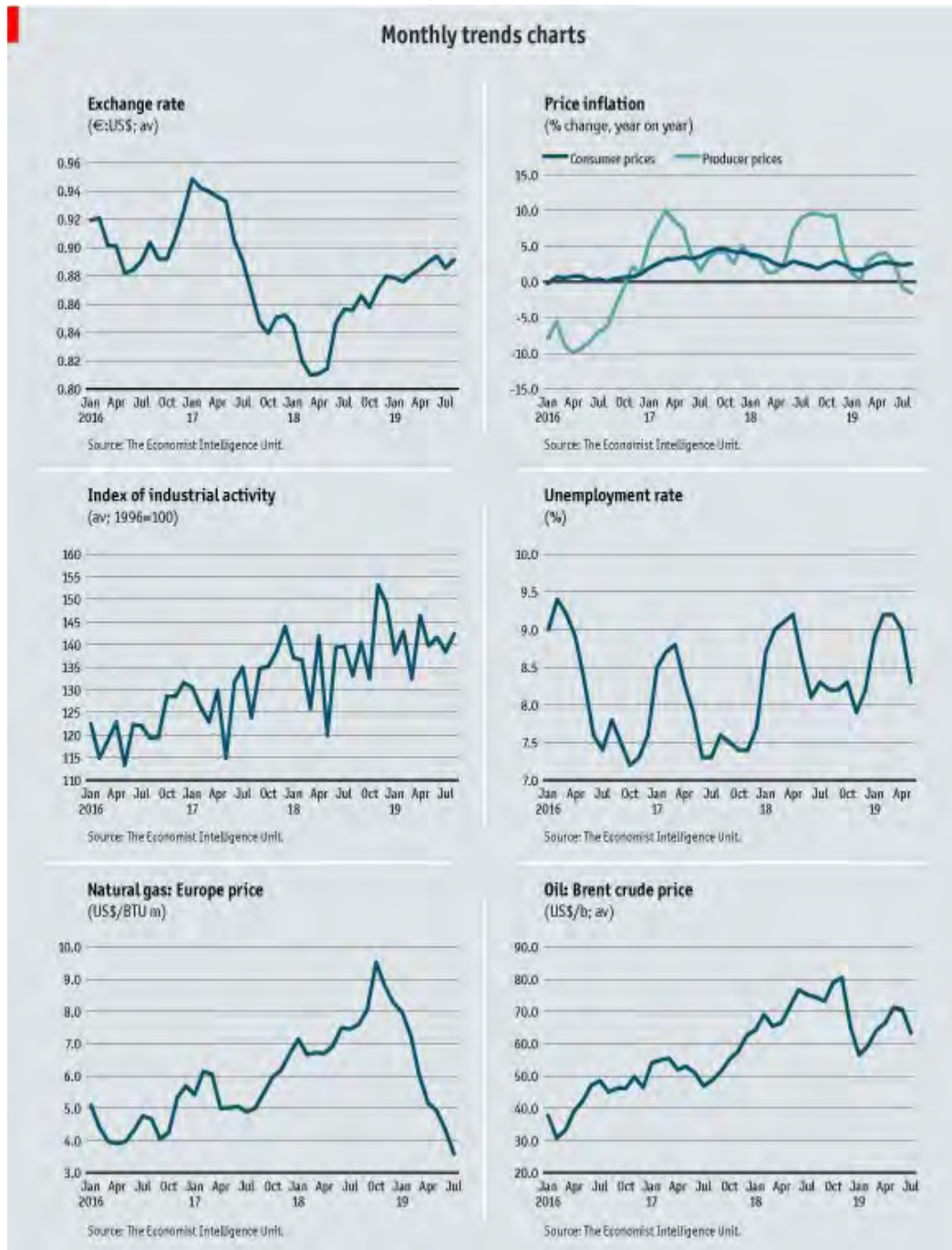
Sources: IMF, International Financial Statistics; Haver Analytics.

# Annual trends charts



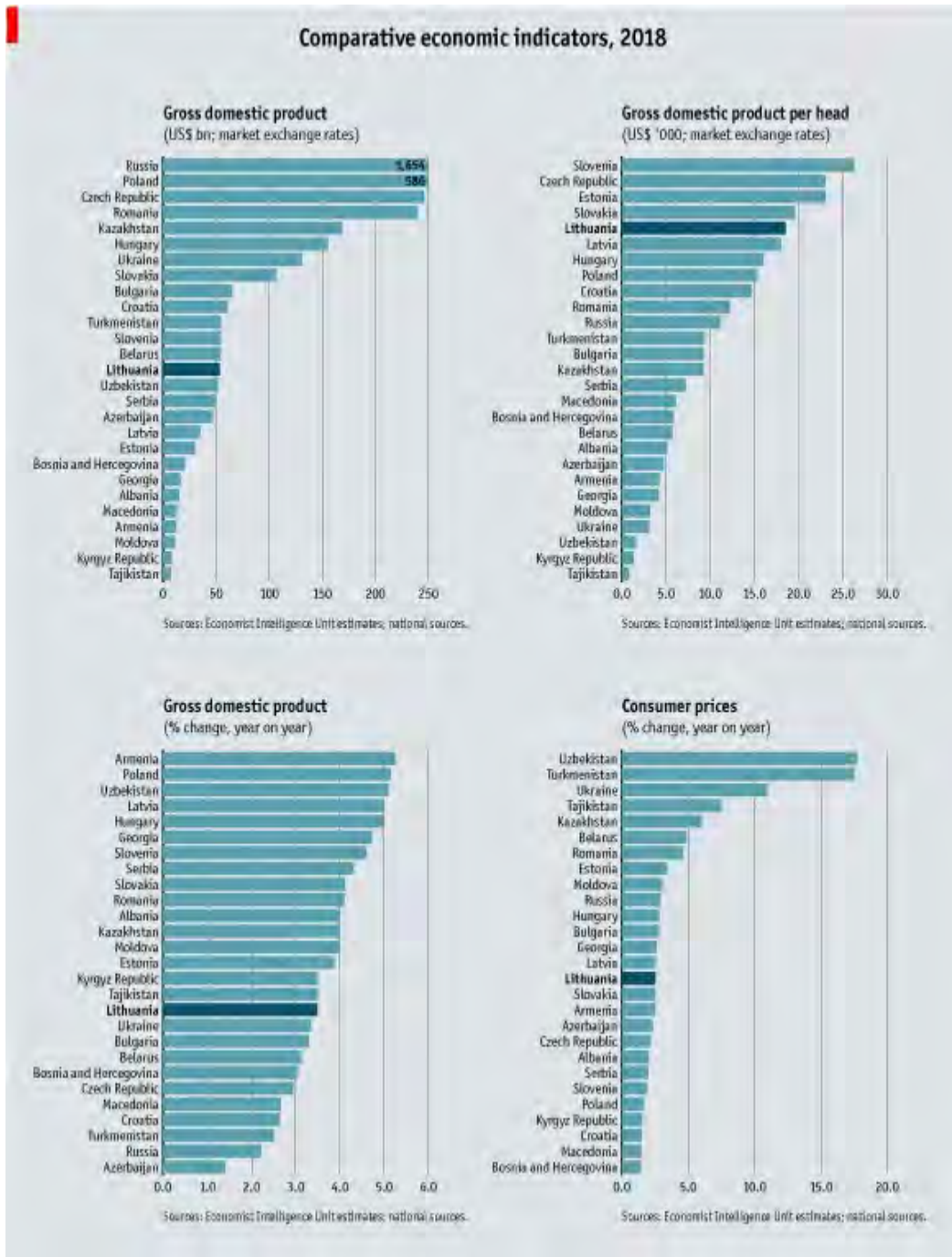


# Monthly trends charts





# Comparative economic indicators



## Basic data

### Land area

65,300 sq km

### Population

2.8m (January 2018; UN data)

## **Main towns**

Population in '000 (January 1st 2011; Statistics Lithuania)

Vilnius (capital): 554

Kaunas: 337

Klaipeda: 178

Siauliai: 121

## **Climate**

Moderate continental; average temperatures range from -5°C in January to 23°C in July

## **Languages**

Lithuanian is a member of the Baltic group of languages (along with Lettish and the now extinct Old Prussian) and is the first language of more than 80% of the population; there are sizeable minorities of native Russian- and Polish-speakers

## **Weights and measures**

Metric system

## **Currency**

The euro replaced the litas on January 1st 2015

## **Time**

Two hours ahead of GMT

## **Fiscal year**

Calendar year

## **Public holidays**

January 1st (New Year's Day); February 16th (Independence Day); March 11th (Independence Restoration Day); April 21st-22nd (Easter); May 1st (Labour Day); June 24th (St John's Day); July 6th (Statehood Day); August 15th (Assumption); November 1st (All Saints' Day); December 24th-26th (Christmas)



## Political structure

### Official name

Republic of Lithuania

### Legal system

On March 11th 1990 parliament voted to restore Lithuanian independence. A new constitution was approved on October 25th 1992

### National legislature

Unicameral assembly, the Seimas, with 141 members; 71 are directly elected and 70 are elected on a proportional basis; parties need 5% of the vote to achieve representation, with the exception of parties representing national minorities. All Lithuanian citizens over the age of 18 may vote

### National elections

October 2016 (legislative); May 2019 (presidential). Next legislative election due by October 2020; next presidential election due in 2024

### Head of state

President, elected directly; currently Gitanas Nausėda, elected in the May 2019 presidential election

### National government

The government formed following the election in October 2016 was a coalition that comprised the Lithuanian Farmers and Greens Union (LVZS) and the Social Democratic Party of Lithuania (LSDP). The LSDP pulled out of the coalition in September 2017, leaving the LVZS to run a

minority government with the Social Democratic Labour Party of Lithuania (LSDDP), a splinter group from the LSDP

## **Main political parties**

Lithuanian Farmers and Greens Union (LVZS); Social Democratic Party of Lithuania (LSDP); Social Democratic Labour Party of Lithuania (LSDDP); Labour Party; Order and Justice (TT, formerly Liberal Democratic Party); Electoral Action of Poles in Lithuania–Christian Families Alliance (LLRA-KSS); Homeland Union–Lithuanian Christian Democrats (TS-LKD); Liberal Movement (LS); Lithuanian Green Party (LZP)

## **Key ministers**

Prime minister: Saulius Skvernelis (independent)

Agriculture: Giedrius Surplys (LVZS)

Culture: Mindaugas Kvietkauskas (independent)

Defence: Raimundas Karoblis (independent)

Economy: Virginijus Sinkevičius (LVZS)

Education & science: Algirdas Monkevičius (Labour Party)

Energy: Zygimantas Vaiciūnas (independent)

Environment: Kestutis Mazeika (LVZS)

Finance: Vilius Sapoka (independent)

Foreign affairs: Linas Antanas Linkevičius (LSDP)

Health: Aurelijus Veryga (LVZS)

Interior: Eimutis Misiūnas (independent)

Justice: Elvinas Jankevičius (independent)

Social security & labour: Linas Kukuraitis (independent)

Transport & communications: Rokas Masiulis (independent)

## **Central bank governor**

Vitas Vasiliauskas

# Recent analysis

Generated on September 17th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

## Economy

### Forecast updates

#### ECB goes big on stimulus policy package

September 13, 2019: Monetary policy outlook

#### Event

On September 12th the European Central Bank (ECB) announced a substantial stimulus package that includes a cut to the deposit rate, enhanced forward guidance, another round of quantitative easing (QE2) and more favourable terms for the third round of cheap loans, known as targeted longer-term refinancing operations (TLTROs).

#### Analysis

The ECB's monetary policy stance has been significantly eased. The deposit rate was cut by 10 basis points, to  $-0.5\%$ . The forward guidance was adjusted, with the ECB governor, Mario Draghi, emphasising that rates will remain low until the inflation outlook converges to the target of "close to, but below,  $2\%$ ", in line with the ECB's mandate—rather than until mid-2020, as previously stated. The QE2 programme will start in November, at a monthly €20bn, and will run "for as long as necessary", until shortly before the ECB starts raising rates.

The QE2 monthly volume is below what we were expecting, but the programme's open-ended nature makes it an extremely dovish move. The ECB also introduced a two-tiered deposit system, whereby a portion of banks' excess reserves held at the ECB is exempt from paying the  $-0.5\%$  rate. The terms of the TLTROs-III—to start this month—were also modified: interest rates can now go as low as  $-0.5\%$  if the bank engages in sufficient lending activity, and the loan maturity was increased to three years, from two previously.

We believe that the package is good news for the euro zone's economic and institutional outlook. First, the introduction of a numerical inflation figure in the ECB's forward guidance, instead of a specific time horizon, boosts the bank's credibility. Second, the QE2 design sends a strong signal to governments that rates will remain ultra-low until at least 2021—the ECB forecasts inflation to average  $1\%$  in 2020 and  $1.5\%$  in 2021—which should incentivise governments to increase their fiscal spending.

Two other technical points are important. The two-tier deposit system—a long-time demand from more hawkish member states, such as Germany—will temper political opposition to a negative deposit rate, as it mitigates the hit to banks' profitability. Such a system opens the way for a "low for longer" situation and for additional rate cuts in future. The more favourable TLTRO-III terms will mostly benefit south European countries, ensuring that funding remains extremely favourable for these nations' impaired banking systems.

#### Impact on the forecast

We maintain our forecast that rates will remain on hold until at least mid-2021.

# Lithuania profile - Timeline

16 January 2018

## A chronology of key events

**1915** - Lithuania occupied by German troops during World War I.

## Capital: Vilnius

---

- Vilnius became the capital in 1323
- Captured or occupied over time by Russia, Sweden, France, Germany
- Part of Soviet Union 1940-1991
- Population: 542,000

**1918** - Lithuania declares independence.

**1920** - Soviet Russia recognises Lithuania's independence under Treaty of Moscow.

**1926** - Nationalist Party leader Antanas Smetona seizes power in military coup after left wing wins elections.

**1939** - The Soviet Union compels Lithuania to accept Soviet military bases.

## Soviet invasion

**1940** - Soviet army invades. President Smetona flees. Lithuania incorporated into Soviet Union.

**1941** - Thousands of Lithuanians deported to Siberia. Nazis invade Soviet Union and occupy Lithuania.

**1944** - Soviet Army returns, presaging further deportations and repression of resistance.



German troops disembark in Lithuania, which was later occupied by Russia

**1988** - Group of writers and intellectuals sets up Lithuanian Movement for Reconstruction (Sajudis). Its leaders declare at a mass rally in the capital, Vilnius, that the USSR occupied Lithuania illegally.

Ringaudas Songaila dismissed as Lithuanian Communist Party chief. Replaced by Algirdas Brazauskas.

**1989** - Parliament approves declaration of Lithuanian sovereignty, stating that Lithuanian laws take precedence over Soviet ones.



Soviet Union failed to halt independence moves

Lithuanian Communist Party breaks away from Soviet Communist Party and declares support for independence.

## Independence struggle

1990 - Sajudis wins majority of seats in parliamentary elections. Its leader, Vytautas Landsbergis, is elected chairman of parliament which declares restoration of independence.

Soviet Union imposes embargo, halting fuel supplies and causing severe economic difficulties. Lithuania agrees to suspend independence, pending talks.

1991 January - As no headway is made in talks with Moscow and the economy faces turmoil, Landsbergis ends suspension of declaration of independence.

Soviet troops fire on civilians outside television tower in Vilnius, killing 13 and injuring several hundred.

1991 February - Referendum sees overwhelming vote in favour of independence.

## Independence



Lithuania shares a border with the Russian exclave of Kaliningrad

1991 September - Following failed coup in Moscow the previous month, Soviet Union recognises Lithuania's independence. Lithuania joins UN.

1992 - New constitution introduces presidency. The former Communist Party, renamed Lithuanian Democratic Labour Party, wins more seats than Sajudis in general election. Coalition government formed.



**1993** - Algirdas Brazauskas elected president. Lithuania joins Council of Europe. New national currency, the litas, introduced. Soviet troops complete withdrawal.

**1994** - Lithuania joins Nato Partnership for Peace programme. Treaty of friendship signed with Poland.

**1995** - Lithuania's two largest commercial banks collapse. Political scandal ensues.

**1996** - Prime Minister Slezevicius dismissed in the aftermath of banking crisis. General elections bring in centre-right coalition government.

**1997** - President Brazauskas visits Russia. Border treaty, cooperation agreement signed.

**1998** - Valdas Adamkus, a US citizen who spent nearly 50 years in exile, elected president.

**1999** - Controversial contract signed selling a controlling share in Lithuanian state oil company to the American energy group, Williams International. Conservative Prime Minister Rolandas Paksas resigns. Andrius Kubilius becomes prime minister.

## Independence hero

---



Independence leader Vytautas Landsbergis challenged Soviet power

### Lithuania hero demands justice

**2000** - General election returns another centre-right coalition government. Paksas reappointed prime minister, this time as a member of the Liberal Union.

**2001 July** - Algirdas Brazauskas becomes prime minister following collapse of coalition in squabble over privatisation and other economic reforms. He pledges to work to speed up EU and Nato membership.

**2002 November** - Nato summit in Prague includes Lithuania on list of countries formally invited to join the alliance.

**2002 December** - EU summit in Copenhagen formally invites Lithuania to join in 2004.

**2003 January** - Rolandas Paksas elected president.

**2003 May** - Lithuanian referendum results in vote in favour of joining EU.

**2003 December** - Impeachment proceedings begin against President Paksas after parliamentary inquiry concludes that alleged links between his office and Russian organised crime constitute threat to national security.

**2004 March** - Lithuania joins Nato.

**2004 April** - Parliament impeaches and dismisses Rolandas Paksas.

## EU era begins

**2004 May** - Lithuania is one of 10 new states to join the EU.

**2004 June** - Valdas Adamkus re-elected president.

## Veteran leader

---



Algirdas Brazauskas oversaw Nato, EU entry

Algirdas Brazauskas oversaw Nato, EU entry

### **Brazauskas returns as Lithuanian PM**

**2004** October - Algirdas Brazauskas carries on as prime minister in new coalition following general elections.

**2004** November - Lithuania becomes first EU member state to ratify new EU constitution.

**2004** December - Reactor one at Ignalina nuclear power station shuts down in line with EU entry requirements. Under the same agreement, the second reactor is to close by 2009.

**2005** January - Foreign Minister Valionis admits that he was once an officer in the Soviet KGB reserves. A parliamentary inquiry is launched into his past and into similar allegations against two other senior officials.

**2006** May-July - Prime Minister Algirdas Brazauskas resigns after the Labour Party pulls out of the ruling coalition. Parliament appoints Gediminas Kirkilas.

**2008** May - Parliament ratifies EU Lisbon Treaty.

The EU Commission turns down Lithuania's application to join the euro zone on 1 January 2007, citing the country's inflation rate.



Bathers plunge from a snowy beach into icy Baltic waters at the Lithuanian resort of Palanga during an annual wellness celebration

**2008** April-May - Lithuania threatens to derail EU-Russia partnership talks over energy concerns but drops veto under pressure from other member states.

**2008** June - Parliament bans display of Soviet and Nazi symbols. The restrictions are the toughest of any former Soviet state.

## **Economic crisis**

**2008** October - The conservative Homeland Union party becomes largest party after parliamentary elections, pushing Prime Minister Gediminas Kirkilas's Social Democrats into second place.



Lithuania's Soviet-built Ignalina nuclear power station - of the same type as Chernobyl - was closed as a condition of EU membership

**2008** November - Homeland Union leader Andrius Kubilius appointed prime minister at the head of a centre-right coalition government.

**2009** April - National statistics office publishes figures showing that Lithuania's GDP plunged 12.6% in the first quarter of 2009, compared to the same period last year.

**2009** May - EU budget commissioner Dalia Grybauskaitė, standing as an independent, wins presidential election with more than 68% of the vote.

**2009** December - The second reactor at the Ignalina nuclear power station is shut down, in line with Lithuania's EU entry requirements.

**2012** December - Social Democrat leader Algirdas Butkevičius becomes prime minister after his party wins parliamentary elections in October. He forms a coalition with the Labour Party and two smaller parties.

**2013** July - Lithuania assumes rotating six-month European Union presidency for first time since joining the EU, the first of the Baltic states to do so.

#### **Tensions with Russia**

**2013** October - Russia halts all dairy imports from Lithuania, amid a row over the Lithuanian EU presidency's efforts to draw Ukraine closer to the EU.

**2014** April - Nato steps up military presence in the Baltic states in response to tensions with Russia over the Ukraine crisis.

Lithuania suspends a Russian state TV channel's broadcasts on its territory, accusing it of propaganda.

**2014** May - Incumbent Dalia Grybauskaitė wins presidential election run-off, the first time in the country's history a president has been elected to two consecutive terms.

**2015** January - Lithuania joins the euro zone.

**2015** February - Government says it plans to restart military conscription, which ended in 2008, amid growing concerns about Russian assertiveness in the Baltic region.

**2015** March - NATO reinforces its presence in the Baltic states and its forces conduct major military drills in the region.

**2016** November - Saulius Skvernelis becomes prime minister after his Peasant and Green Union inflicts a surprise defeat on Prime Minister Algirdas Butkevičius's Social Democrats in parliamentary elections.

**2019** June - Financier Gitanas Nausėda wins presidential election with 66.5% of the vote, beating the initial front-runner, conservative former finance minister Ingrida Simonytė.

*This page intentionally blank*



## ***U.S. European Command***

<b><u>Subject</u></b>	<b><u>Page</u></b>
General Tod D. Wolters .....	125
2018 Posture Statement .....	127
2017 Theater Strategy .....	147
National Security Strategy .....	159

*This page intentionally blank*



# Gen. Tod D. Wolters

U.S. European Command Commander, U.S. Air Force

## **Commander, U.S. European Command and NATO Supreme Allied Commander Europe**

U.S. Air Force General Tod D. Wolters assumed duties as Commander, U.S. European Command, on May 2, 2019. He is responsible for one of two U.S. forward-deployed geographic combatant commands whose area of focus spans across Europe, portions of Asia and the Middle East, and the Arctic and Atlantic oceans. The command is comprised of more than 60,000 military and civilian personnel, and is responsible for U.S. defense operations and relations with NATO and 51 countries.



General Wolters previously served as Commander, U.S. Air Forces in Europe; Commander, U.S. Air Forces Africa; Commander, Allied Air Command, headquartered at Ramstein Air Base, and Director, Joint Air Power Competence Centre, Kalkar, Germany.

General Wolters received his commission in 1982 as a graduate of the U.S. Air Force Academy. He has been assigned to numerous operational command and staff positions, and has completed nine overseas tours, including two tours in Afghanistan. He commanded the 19th Fighter Squadron, the 1st Operations Group, the 485th Air Expeditionary Wing, the 47th Flying Training Wing, the 325th Fighter Wing, the 9th Air and Space Expeditionary Task Force-Afghanistan, and the 12th Air Force.

General Wolters fought in operations Desert Storm, Southern Watch, Iraqi Freedom and Enduring Freedom. He served in the Office of the Secretary of the Air Force, as Legislative Liaison Director and in headquarters staff positions at U.S. Pacific Command, Headquarters U.S. Air Force and Air Force Space Command. Prior to commanding U.S. Air Forces in Europe and U.S. Air Forces Africa, General Wolters served on the Joint Staff as Director for Operations. He is a combat-experienced command pilot with more than 5,000 flying hours in the F-15C, F-22, OV-10, T-38, and A-10 aircraft.

General Wolters earned his Bachelor of Science degree from the U.S. Air Force Academy in 1982, a master's degree in aeronautical science technology from Embry-Riddle Aeronautical University in 1996, and a master's degree in strategic studies from the Army War College in 2001. Additionally, he served as a senior executive fellow at Harvard University's John F. Kennedy School of Government in 2004 and a fellow with National Defense University's Pinnacle Course in 2014.

General Wolters' decorations and awards include the Defense Distinguished Service Medal with oak leaf cluster, the Defense Service Medal with oak leaf cluster, the Defense Superior Service Medal, the Legion of Merit with two oak leaf clusters, the Bronze Star with oak leaf cluster, the Defense Meritorious Service Medal, the Meritorious Service Medal with oak leaf cluster, the Air Medal, the Aerial Achievement Medal with three oak leaf clusters, the Joint Service Commendation Medal, the Air Force Commendation Medal with two oak leaf clusters and the Air Force Combat Action Medal.



UNITED STATES SENATE  
COMMITTEE ON ARMED SERVICES

STATEMENT OF  
GENERAL CURTIS M. SCAPARROTTI, UNITED STATES ARMY  
COMMANDER  
UNITED STATES EUROPEAN COMMAND  
MARCH 5, 2019

UNITED STATES SENATE  
COMMITTEE ON ARMED SERVICES

## INTRODUCTION

Chairman Inhofe, Ranking Member Reed, and distinguished members of the Senate Armed Services Committee, it is my honor to testify today in what is likely my final year as Commander of the United States European Command (USEUCOM). I humbly represent over 68,000 brave and dedicated men and women who are forward-deployed or stationed in the European theater of operations. These warriors demonstrate selfless service and dedication to Euro-Atlantic defense, a mission that is essential to our national security and to maintaining global peace and prosperity. We as a Nation are blessed by their voluntary and exceptional service. Thank you for your steadfast support of these patriots and their mission.

Europe and the Trans-Atlantic NATO Alliance remain crucial to our national security, as clearly stated in the President's 2017 National Security Strategy (NSS), the 2018 National Defense Strategy (NDS), and the 2018 National Military Strategy (NMS). USEUCOM's operations, activities, and investments are aligned with the principles and guidance provided by these strategic documents. I cannot stress enough that USEUCOM's ongoing and future success in implementing and executing these strategies is only possible with Congress' support, especially the sustained funding of the European Deterrence Initiative (EDI).

### A Dynamic Security Environment

The threats facing U.S. interests in the USEUCOM area of responsibility, which includes Israel, are real and growing. They are complex, trans-regional, all-domain, and multi-functional. They require the United States, together with our European allies and partners, to constantly adapt with forces and concepts that are able to out-pace the evolution of these threats. A revisionist Russia is the primary threat to a stable Euro-Atlantic security environment. Russia has invaded Ukraine, occupied Crimea, launched cyber-attacks against the Baltic States and Ukraine, interfered in U.S. and other Western elections, and attacked Ukrainian navy vessels

attempting to transit the Kerch Strait to Ukrainian ports in the Sea of Azov. It is also overhauling its nuclear forces—including those that threaten European territory, such as the dual-capable, Intermediate-Range Nuclear Forces (INF)-violating SSC-8/9M729 ground-launched cruise missile. Given Moscow’s demonstrated willingness to violate international law and legally-binding treaties, and to exercise malign influence, Russia threatens the United States’ vital national interests in preserving a Europe that is whole, free, and at peace.

We have already made significant strides in adapting our European force posture to meet these threats. As we continue to adapt, USEUCOM remains steadfastly committed to fielding a lethal, agile, and resilient force and to strengthening the NATO Alliance. With continued investment, innovative use of resources, and the strength of our Nation’s resolve, I am confident that we will continue to meet the challenges of the dynamic security environment. This includes ensuring the continued credibility of the U.S. nuclear deterrent, which backstops all U.S. military and diplomatic operations across the globe and helps ensure that tensions with Russia—no matter where or how they arise—do not escalate into large-scale war.

## RISKS AND CHALLENGES IN THE STRATEGIC ENVIRONMENT

### Russia

Russia is a long-term, strategic competitor that wants to advance its own objectives at the expense of U.S. prosperity and security and that sees the United States and the NATO Alliance as the principal threat to its geopolitical ambitions. In pursuit of its objectives, Moscow seeks to assert its influence over nations along its periphery, undermine NATO solidarity, and fracture the rules-based international order. Russia actively pursues an aggressive foreign policy in violation of other nations’ sovereignty, carrying out subversive and destabilizing activities in Europe and the U.S. and exploiting opportunities to increase its influence and expand its presence in Afghanistan, Syria, and Asia.

Russia employs a whole-of-society approach through a wide array of tools to include political provocateurs, information operations, economic intimidation, cyber operations, religious leverage, proxies, special operations, conventional military forces, and nuclear forces. Russia pursues its strategic objectives in Europe, while avoiding direct military conflict with the U.S. and NATO, by targeting countries through indirect action – backed up by the coercive threat of its conventional and nuclear forces. Such actions include questioning a government’s legitimacy, threatening a country’s economic interests, mobilizing fringe opposition groups, and utilizing proxies or armed civilians, such as private military contracting companies with opaque ties to the state.

Russia’s military capability improvements are significant. Russia continues to prioritize high levels of defense spending to complete its broad-based upgrade of its nuclear forces and produce advanced weapons and capabilities specifically designed to counter U.S. military superiority. Russia’s nuclear modernization program covers every leg of its strategic triad and includes advanced modern road-mobile and silo-based Intercontinental Ballistic Missiles (ICBMs), new Submarine Launched Ballistic Missiles (SLBMs), and Long Range Strategic Bombers. Russia is also developing and deploying new strategic nuclear delivery platforms, to include its nuclear-armed, nuclear-powered underwater unmanned vehicle, intercontinental-range cruise missile, and its air-launched ballistic missile, all of which Russia seeks to keep outside of existing arms control agreements. Additionally, they are pursuing nuclear-armed hypersonic weapons, which could provide them the capability to attack anywhere in the globe with little or no notice.

Russia is also building a large, diverse, and modern set of non-strategic, dual-capable weapons. It currently has an active stockpile of approximately 2,000 of these theater-range systems, which are not subject to the New START Treaty’s limitations on deployed warheads. These systems include air-to-surface missiles, short-range ballistic-missiles, gravity bombs, depth charges, and Russia’s INF-violating ground-launched cruise missile, among others.

Russia's non-strategic nuclear weapons stockpile is of concern because it facilitates Moscow's mistaken belief that limited nuclear first use, potentially including low-yield weapons, can provide Russia a coercive advantage in crises and at lower levels of conflict. The 2018 Nuclear Posture Review calls for adjustments to U.S. nuclear forces to close this perceived gap on the escalation ladder and reinforce deterrence against low-yield nuclear use.

Outside of its nuclear forces, Russia is fielding advanced anti-access/area denial (A2AD) integrated air defense systems (IADS), precision guided cruise and ballistic missiles, modern cyber and electronic warfare (EW) capabilities, and counter-space weapons meant to impede U.S. power projection in Europe. They have improved readiness via investments in infrastructure, training, and compensation, and their exercise program demonstrates increasingly sophisticated command and control and integration across multiple warfare areas. In the Arctic, Russia continues to invest in their forces as environmental changes open up access to the High North.

The Kremlin has also demonstrated the ability and political will to deploy its modernized military and expand its operational footprint. Last year we observed a historically high combat maritime presence in the East Mediterranean along with military deployments and demonstrations in Syria. Their most advanced and quietest guided missile submarine, the Severodvinsk, conducted extended deployments in the northern Atlantic.

Russia seeks advantage over the U.S. and its European allies through its non-compliance with long-standing arms control treaties. Its violations of the INF Treaty allowed Moscow to develop capabilities that the United States continued to forego. Its "suspension" of the Conventional Armed Forces in Europe Treaty gave it greater flexibility to posture forces in regions of special interest to Moscow and to do so with significantly less transparency towards its neighbors in ways we do not because of our adherence to these treaties. Its violation of certain provisions of the Open Skies Treaty—as well as its selective implementation of Vienna Document transparency measures—poses challenges for ensuring full military transparency.

Our NATO allies supported the U.S. announcement to begin withdrawal from the INF Treaty because they recognize that Russia's Treaty-banned systems hold much of Europe at risk and that despite significant diplomatic efforts—more than 30 engagements over nearly six years—Russia refuses to return to compliance.

While the United States maintains global military superiority over Russia, evolving Russian capabilities threaten to erode our competitive military advantage, challenge our ability to operate uncontested in all domains, and diminish our ability to deter Russian aggression.

## Ukraine

Moscow persists in its multifaceted campaign to destabilize Ukraine and block Ukraine's democratic choice to align with the West. Following Russia's purported annexation of Crimea in 2014, Russia's aggressive activities, including those of Russia-led forces in the Donbas region in eastern Ukraine, target Ukraine's defense, economic, and political sectors. Russia has not implemented its commitments in the Minsk agreements, and Russia continues to arm, train, lean, and fight alongside antigovernment forces in eastern Ukraine. The conflict in eastern Ukraine remains hot, with numerous ceasefire violations reported weekly. The UN reports that approximately 13,000 people have been killed in the Donbas since Russia instigated the conflict in 2014. More than 100 Ukrainian soldiers were killed in 2018 as well as 55 civilians. Due to Russian intransigence, no peacekeeping initiative has been implemented. Russia's unjustified use of force against Ukrainian vessels and naval personnel in the Black Sea near the Kerch Strait last November demonstrated Russia's disregard for Ukraine's sovereignty and territorial integrity, denying Ukraine its right of free passage in accordance with international law. In addition, through its support of illegitimate elections in the so-called "Donetsk and Luhansk People's Republics", Russia has sought to undermine the government of Ukraine. Russia will likely attempt to interfere in Ukraine's upcoming presidential elections, as it did in 2014.

## Georgia

After the 2008 Russo-Georgian War, Russia stationed 7,000 troops on sovereign Georgian territory. Russia now occupies approximately 20% of Georgian territory and maintains a significant military and border presence in and around Abkhazia and South Ossetia. Russia has recognized the two territories as independent, entering into defense agreements with these territories and incorporating South Ossetian and Abkhazian “national military forces” into Russian Army command structures. Russia exacerbates tensions by fomenting discord between these territories and the rest of Georgia. While Georgia supports confidence building measures, such as granting the EU Monitoring Mission in Georgia (EUMM) access to the occupied territories in accordance with its mandate. Russia opposes them.

## Balkans

Security in the Balkans, a strategically significant region, is tenuous, and Balkan nations are a primary target of Russian malign influence. Negotiations between Kosovo and neighboring Serbia to normalize their relations and agree on a long-term solution that is viable for both countries have struggled to make progress for some time and are currently on hold. Russia fuels regional instability in an effort to prevent individual Balkan nations from progressing on a path toward greater Euro-Atlantic alignment and integration. Seeking to maintain its influence in Serbia through political, military, and economic support, Russia also opposes the recognition of Kosovo as a sovereign country. NATO’s Kosovo Force (KFOR), which includes over 3,500 troops from both NATO and non-NATO nations, plays an important role in maintaining security and stability in this region. Bosnia and Herzegovina also continues to work toward long-term peace and stability. Despite challenges from Republika Srpska, which is influenced by Russia, Bosnia and Herzegovina partners with the U.S. and NATO, supporting the Resolute Support Mission in Afghanistan.

## Baltics and Poland

Estonia, Latvia, Lithuania, and Poland are a focal point of U.S. and NATO deterrence posture and activities as Russia attempts to intimidate these nations, both politically and militarily. Russia also tries to influence ethnic Russian populations, especially in Estonia and Latvia, and both countries remain mindful that in Crimea, Russia used these ethnic groups as a justification for intervention. Poland has offered at least \$2 billion towards U.S. basing in Poland, and the form of such an increased U.S. troop posture in Poland is currently being discussed in Working Groups under the auspices of a DoD-led Executive Steering Group.

## Turkey

Turkey is a strategically important ally facing significant security challenges, the most pressing of which is the ongoing Syrian conflict. It must maintain security along its border with Syria, and within its borders, Turkey hosts over 3.5 million Syrian refugees. Turkey continues to view the Kurdistan Workers' Party (PKK) and Syrian Kurdish People's Protection Units (YPG) as a single entity, one that constitutes a greater threat than ISIS. This has complicated U.S.-Turkey cooperation on Syria. USEUCOM works closely with Turkey to help secure its borders, and we have improved our efforts, in support of Turkey, to counter the PKK and the threats this terrorist organization poses to Turkish citizens. USEUCOM also supports U.S. interagency efforts to effect a deliberate withdrawal of U.S. forces from Syria that ensures the enduring defeat of ISIS, preserves Turkey's security, and keeps faith with U.S. partners on the ground. Finally, USEUCOM supported U.S. interagency efforts to provide an NATO-interoperable alternative to avert Turkey's planned purchase of a Russian S-400 air defense system, which risks triggering the Countering America's Adversaries Through Sanctions Act (CAATSA). Such an opposition puts at risk NATO cohesion and our longstanding and mutually beneficial U.S.-Turkish defense industrial cooperation.



## Violent Extremist Networks

The risk of terrorism in Europe remains high, despite a decline in fatalities from terrorist attacks in 2018. Violent extremists present a clear and persistent threat to Europe's people and infrastructure. ISIS seeks to re-establish itself in Iraq and Syria, expand into new safe havens, and plan attacks against Western targets. We must remain vigilant to all jihadist groups trying to extend their operational networks and radicalize recruits in Europe.

## Israel

In the Levant, Israel faces a complex set of security challenges from numerous actors across multiple domains. Israel must constantly defend itself from threats posed by Hamas, Lebanese Hezbollah, and Iran, which has expanded its network of proxies while also pursuing advancements in its missile program to assert its influence throughout the Middle East. Israel must also guard against Russia's increased presence in Syria, its facilitation of Iran's presence, and ISIS militants along its Syrian border.

## Additional European Security Challenges

Several other issues present ongoing challenges to European security. Though migrant flows slowed in 2018, Europe's migrant crisis has led to difficult political discussions about demographic integration and the allocation of resources. Transnational organized crime and the illicit trafficking of narcotics, humans, and weapons, to include weapons of mass destruction and related materials, can be linked with terrorism and place an added burden on European security and police forces. USEUCOM is also monitoring China's activities in Europe as it seeks to expand its influence and grow its presence. For example, China is looking to secure access to strategic geographic locations and economic sectors through financial stakes in ports, airlines, hotels, and utility providers, while providing a source of capital for struggling European

economies. Russia and China have increased their transactional collaboration based on some common objectives and opportunities to increase their power and influence at the expense of the U.S. and our allies.

## ACCOMPLISHMENTS AND OPPORTUNITIES - "STRENGTH AND BALANCE"

### Strategy Implementation

USEUCOM is confronting the risks and challenges in its area of responsibility by aggressively adapting our thinking and posture in accordance with the President's National Security Strategy (NSS), the Secretary's National Defense Strategy (NDS), and the Chairman's National Military Strategy (NMS). We are particularly focused on expanding the competitive space with Russia by increasing the lethality of our forces and strengthening alliances and partnerships. Our forces demonstrate commitment to the defense of our allies while our execution of the Dynamic Force Employment concept, along with our operations and exercises, introduce operational unpredictability to our adversaries. USEUCOM will help ensure that our Nation successfully competes with Russia, deters aggression, and if necessary, prevails in conflict.

### Supporting NATO

The NSS, NDS, and NMS all emphasize the central role of a revitalized NATO in securing our vital national interests. NATO allies help shoulder our common defense burden through cash (defense spending), contributions (such as troop deployments), and critical capabilities (e.g., advanced missile defense systems). Allies have made considerable progress in each of these areas.

Since January 2017, allies have added more than \$41 billion in increased defense spending over the 2016 level; and by the end of 2020, Allies – according to NATO Secretary General

Stoltenberg – are on track to add approximately \$100 billion in increased defense spending. In 2018, eight allies spent 2% of their GDP on defense and ten more have presented plans or made political commitments to do so by 2024. 15 allies are already allocating at least 20% of their defense budgets to major new equipment in 2018, and 11 more have presented plans or commitments to do so by 2024. In addition, all U.S. EDI-funded military construction is being submitted for consideration of future funding via recoupment through the NATO Security Investment Program (NSIP).

At last year's Brussels Summit, NATO Heads of State agreed that ensuring alliance responsiveness, readiness, and reinforcement are strategic imperatives for implementing a credible deterrence and defense posture. There are several distinct elements to this commitment. Implementation of the NATO Command Structure (NCS) Adaptation will include a refined Initial State Peacetime Establishment (ISPE) manning increase, the stand-up of NATO Headquarters Joint Forces Command – Norfolk (JFCNF) to command and control (C2) operations in the Atlantic, and the establishment of the Joint Support and Enabling Command (JSEC) in Ulm, Germany.

NATO allies are also making progress in developing a more capable, interoperable, and ready alliance force. NATO's Political Guidance for defense planning (PG19) provides direction for a variety of required cross-domain capabilities. PG19, discussed at the February 2019 NATO Defense Ministers conference, is the first step in the process NATO uses to influence allied nations, develop and deliver interoperable forces, and ensure the alliance has the required capabilities and readiness needed to strengthen deterrence and defense. Additionally, the NATO Readiness Initiative (NRI), which builds upon the 2014 Readiness Action Plan's comprehensive package of Assurance and Adaptation Measures, will provide "4-30s" – 30 major naval combatants, 30 medium or heavy maneuver battalions, and 30 air squadrons ready to fight within 30 days – by the year 2020.

In terms of contributions, allies have stepped up their support for NATO-led missions. From 2014 to 2017, the number of NATO troops serving on deployment was up from 18,000 to just under 23,000 (with almost half of that number, 10,500, from outside the U.S.). In addition to the U.S., Germany, Canada, and the UK serve as Framework Nations for the enhanced Forward Presence (eFP) battle groups in the Baltics and Poland. The UK, Romania, and Croatia all contribute forces to the U.S. eFP mission. Germany serves as the Framework Nation for the 2019 NATO Very High Readiness Joint Task Force (VJTF) brigade. NATO allies and partners also contribute forces to NATO's Baltic Air Policing, enhanced Air Policing in the Black Sea region, Standing Maritime Group, Resolute Support Mission (RSM), and KFOR.

As directed by the NDS, we will 'fortify the Trans-Atlantic Alliance' in part by increasing our collaboration with our European allies and partners. With thanks to Congress for its support to our security cooperation and security assistance initiatives, USEUCOM continues to bolster our engagement in places like Ukraine, Georgia, the Balkans, and in other allied and partner nations along Russia's border. USEUCOM employs programs such as the Ukrainian Security Assistance Initiative, Section 333 of the FY17 NDAA, and Title 22 Foreign Military Financing (FMF) to build partner capabilities in key European nations, enhancing their abilities to defend their sovereignty and territorial integrity, and to operate in coalition with the United States. Additionally, USEUCOM works closely with NATO planners and forces to integrate our collective capabilities, and we will regularly test and improve these capabilities through Title 10 exercises, our Joint Exercise Program, and through NATO Response Force (NRF) certification exercises to ensure interoperability on the battlefield. We will continue to press allies to meet the important 2% mark, advocate for individual nation capability targets that meet their most pressing force requirements, and align with their assigned NATO capability targets.

NATO is also a key platform for engagement and displaying solidarity on issues such as Russia's violation of the INF Treaty. The Alliance unanimously supported our declaration of Russia's material breach of the INF Treaty in December and our announcement that we were

suspending our legal obligations and initiating withdrawal from the Treaty in February. We remain engaged on this issue with our NATO Allies to ensure NATO is postured to defend against Russia's new intermediate-range capability and to deny Russia any military advantage from its unlawful conduct.

#### Working with Non-NATO Partners

Georgia remains a committed partner, especially in Afghanistan, where it is the largest non-NATO contributor to Resolute Support with almost 900 troops currently deployed. The U.S.-Georgia security relationship has steadily expanded, and the establishment in 2018 of the Georgia Defense Readiness Program (GDRP) marked a milestone in our partnership. The GDRP helps Georgia field and sustain a credible, ready force through training, education, and mentorship. The program is a centerpiece of Georgia's broad efforts to enhance its national defense and contribute to the security of the Black Sea region.

Ukraine seeks to partner more closely with the U.S., NATO, and the European Union (EU), and it has made progress in developing a capable, sustainable, and professional force. USEUCOM supports Ukraine's efforts through the Joint Multinational Training Group-Ukraine (JMTG-U), combined exercises including the annual naval Exercise SEA BREEZE, and other activities. The United States delivered the Javelin anti-armor capability to Ukraine in April 2018 to deter Russian aggression against Ukraine. Continued senior-level engagement and support for Ukrainian self-defense capabilities and institutional reform will help enhance regional security and demonstrate our continued commitment to Ukraine's security and territorial integrity, and a rules-based international order in Europe.

Thanks to the historic agreement this past summer between Greece and North Macedonia, we are poised to welcome NATO's newest member once Allied ratifications are complete. North Macedonia is a consistent contributor to security, regularly deploying forces to

Afghanistan and to other U.S. and NATO-led exercises, and the Alliance will be stronger with North Macedonia as a full member.

The EU has moved to enact multiple defense reforms and initiatives in an attempt to create efficiencies and commonalities in European defense. These include the Coordinated Annual Review on Defense, which serves as the basis for preparing the EU's long-term Capability Development Plan and identifying defense and investment capability shortfalls; the European Defense Fund, which will amplify research and development undertaken by multiple participants to achieve economies of scale and free up funds for additional capability development; and Permanent Structured Cooperation (PESCO), a legal framework to cooperate more intensively on defense issues and jointly develop defense capabilities for EU military operations. NATO continues to work with the EU to ensure these efforts complement rather than duplicate NATO initiatives or undermine NATO as the foundation of Euro-Atlantic security.

#### Strengthening U.S. Deterrence Posture

A combat-credible U.S. deterrence posture in Europe means fielding a force that is lethal, agile, and able to maneuver across the continent, capable of delivering joint fires, flexible enough to operate inside a highly contested environment, integrated with multi-domain capabilities, resilient through redundant systems, protected through integrated air and missile defense systems, and prepared to leverage the full power of our allies and partners. Establishing this force requires us to make resource-informed decisions about the appropriate combination of persistent forces (assigned, forward stationed, or persistent heel-to-toe 365 day rotations), and those that can quickly reach and operate in theater under the Dynamic Force Employment concept.

Each of USEUCOM's Service Component Commands has strengthened our deterrence posture. The capability and lethality of U.S. Army Europe (USAREUR) forces stationed in Europe were enhanced by persistent armored brigade combat team (ABCT) and Combat

Aviation Brigade (CAB) rotations. The forward stationing of long-range fires and air defense units will further improve the lethality and resilience of USAREUR forces. Naval Forces Europe (NAVEUR) executed a no-notice deployment of the Harry S. Truman (HST) Carrier Strike Group (CSG) to the Mediterranean in the summer 2018 and to the North Atlantic in the fall 2018. As part of its deployment, the CSG participated in TRIDENT JUNCTURE 18, which had not involved a CSG in over 20 years. In Eastern Europe, strategic bombers and fourth- and fifth-generation fighters deployed to support U.S. Air Forces in Europe (USAFE) deterrence missions. Marine Forces Europe (MARFOREUR) sustained rotational elements in both the Black Sea region and Norway. Special Operations Command Europe (SOCEUR) provided rotational teams that helped build the resiliency of allies and partners exposed to Russian malign influence. In support of the Service Components, our nation's reserve component forces continue to play a critical role in supporting our assurance and deterrence mission, especially through the National Guard State Partnership Program (SPP).

Enhancing our logistical infrastructure and capacity is another key element to fielding a combat-credible force. EDI investments in resilient joint reception, staging, onward movement, and integration (JRSOI) have resulted in infrastructure improvements as well as the Army Prepositioned Stocks (APS) and European Contingency Air Operation Sets (ECAOS). USEUCOM coordinates with USTRANSCOM in the Joint Deployment and Distribution Enterprise (JDDE) to find integrated solutions and facilitate strategic movement and maneuver through our military and commercial partners. The EU is also addressing logistics through its PESCO project focused on military mobility, with the goal of partnering with NATO to better facilitate the movement of troops and equipment across European borders. Furthermore, we are working to enhance munition stocks and ensure interchangeability with NATO munitions to allow flexibility within the Alliance.

We have also strengthened our deterrence and defense through the Joint Force Headquarters Exercise Program, which prepares USEUCOM to effectively carry out its wartime

mission and trains our Component Commands to assume Joint Force Component Command and Joint Task Force (JTF) missions. Our exercises maintain and enhance our ability to jointly operate in a multi-domain and multi-functional environment. We execute four Tier 1 exercises--AUSTERE CHALLENGE, JUNIPER COBRA, JUNIPER FALCON, and JACKAL STONE, along with numerous theater-specific and global integration exercises.

Although we have increased our forces, improved our infrastructure, and successfully executed multiple rotations, deployments, and exercises, a theater not sufficiently set for full-spectrum contingency operations poses increased risk to our ability to compete, deter aggression, and prevail in conflict if necessary.

As for our nuclear forces, the 2018 Nuclear Posture Review validated the importance of maintaining the nuclear triad for strategic stability with Russia and China. Great power competition requires that we maintain a credible strategic deterrence, which includes modernizing its supporting infrastructure. This underwrites U.S. security, diplomacy, and our conventional military operations worldwide.

#### Countering Violent Extremist Organizations (VEO)

USEUCOM works directly with our Combatant Command counterparts and our European partners to identify and counter terrorist threats. We are increasing our intelligence-sharing and strengthening a counter-VEO network that includes NATO, partner nations, and international organizations such as EUROPOL and INTERPOL. Our EU, NATO, and USEUCOM-shared Trinodal Community of Action targets existing VEO networks and facilitates expanded intelligence-sharing with law enforcement. European allies provide the U.S. with critical strategic access for counter-terrorism operations in USAFRICOM and USCENTCOM theaters, and they also deploy their own forces to support U.S.-led operations, including Operation Inherent Resolve. Counter VEO efforts led to a significant decline in directed and enabled attacks across Europe in 2018.



## Competing in Cyberspace

USEUCOM's ongoing efforts to build operational-level cyberspace capabilities are critical to implementing the NDS. USEUCOM benefits from resources and authorities that enable us to partner more closely with USCYBERCOM. We are well-aligned in the planning and conduct of cyber operations to achieve strategic objectives that include deterring Russia, countering misinformation, and defending computer networks. Our Joint Cyber Center (JCC) continues to mature in manning, facilities, and authorities to actively counter cyber-attacks and help strengthen ally and partner nation cyber capabilities.

## Building Intelligence Capacity

USEUCOM is working alongside our allies and partners to grow our intelligence and analytical capability in order to meet both steady state and contingency planning requirements. We are leveraging language expertise resident in European nations and are utilizing non-traditional ISR platforms to mitigate the global shortage of high-demand, low-density assets. In addition, USEUCOM is leveraging the growing capabilities of the Defense Intelligence Agency (DIA) in sourcing intelligence communication and dissemination platforms, such as the Machine-Assisted Analytic Rapid-Repository System (MARS), Publicly Available Information and Open Source Intelligence (PAI-OSINT), and the Joint Worldwide Intelligence Communications System (JWICS).

## Countering Russian Malign Influence

As we expand the competitive space with Russia, USEUCOM is working with the interagency to effectively compete below the level of armed conflict. A leading effort in this domain of competition is the Russian Influence Group (RIG), jointly led by USEUCOM and our State Department counterparts in the Bureau of European and Eurasian Affairs. The RIG brings together the interagency to share information and collaborate in efforts to counter

Russian malign activities in Europe. Separately, U.S. Special Operations Forces (SOF) are also working with select European allies and partners to enhance their defense institutions, border security, and resilience to Russian malign influence. USEUCOM and USSOCOM work together to employ SOF in Europe, where their unique access and capabilities can be utilized to compete below the level of armed conflict.

#### Providing Assistance to Israel

USEUCOM directly supports our Nation's unwavering commitment to the security of Israel. We meet regularly with senior Israeli military leaders, coordinate in planning, and regularly participate in combined exercises. USEUCOM also assists in the defense of Israel through a continuous missile defense presence in the Mediterranean under OPERATION SHARP SENTRY. Israel continues to be the largest recipient of Foreign Military Finance (FMF) funds, and in September 2016, the U.S. and Israel signed a new Memorandum of Understanding (MOU) that provides \$3.8B per year in military assistance over the FY2019 – FY2028 period, totaling \$38B, enabling Israel to maintain a qualitative military edge over its adversaries.

#### Enabling Global Operations

Strategic geographic access, forward basing, and overflight permissions within Europe support multiple Combatant Commands and enable allied, coalition, and U.S. operations. European basing and access remains our strategic military "high-ground" for the United States and a key enabler of our global power projection. The bilateral agreements that grant the U.S. these permissions are built on trust and sustained by maintaining relationships with our allies and partners. Last year's U.S.-led cruise missile strike in Syria is the latest in a number of examples in which European access, basing, and overflight were critical in executing short-notice, contingency operations.

## FY20 Requests

The European Deterrence Initiative (EDI) provides funding to improve our deterrence posture and execute our deterrent initiatives and activities. First, EDI ensures that we position the right capabilities and refine the necessary infrastructure to respond to adversaries in a timely manner. Second, it underwrites our commitment to Article 5 and to the territorial integrity of all NATO nations. Third, EDI increases the capability and readiness of U.S. Forces, NATO allies, and regional partners so we can effectively deter adversary aggression and adventurism. USEUCOM has remained disciplined in nominating EDI projects that are consistent with Congressional guidance and follow five distinct lines of effort: increased presence, exercises and training, enhanced prepositioning, improved infrastructure, and building partnership capacity.

In accordance with your Congressional guidance, we plan and execute EDI as if it were a Future Years Defense Program. This allows us to maintain fiscal and program discipline and prepares the command for when EDI transfers from overseas contingency operations (OCO) to base service budgets.

Our FY20 Budget request focuses on: (1) continued implementation of Enhancing Army Prepositioned Stocks to improve responsiveness of ground forces and provide rapidly deployable combat capability in the event of contingencies; (2) continued implementation of the Air Force Prepositioned Stocks and airfield facilities to improve flexibility and resilience of air forces and provide rapidly deployable combat capability in the event of contingencies; (3) continued enhancement to the Theater's Anti-Submarine Warfare through the procurement of additional equipment and the improvement to theater infrastructure; and (4) enhancing other key capabilities and requirements throughout the theater including, but not limited to: (a) Naval logistics hubs; (b) Integrated Air and Missile Defense; and (c) JRSOI.

## Conclusion

Given the transformation of the European security environment and its impact on U.S. national security, a strong commitment to the USEUCOM area of responsibility is more important than ever. I would like to thank Congress for their acknowledgement of these threats and their continued support of efforts within the USEUCOM theater. Russia continues to engage in armed aggression in eastern Ukraine, is yet to fulfill Minsk Agreement obligations, maintains an illegal occupation of Crimea with reinforced forces, openly violates International law, to include the Intermediate Nuclear Forces, Conventional Armed Forces in Europe, and Open Skies Treaties, and blocks Vienna Document revisions which are needed to address non-accountability of political-military realities. As witnessed last March with the Skripal poisoning, the Kremlin is willing to act boldly, employing banned military-grade nerve agents against civilian targets on the territory of our ally, contrary to all international norms, expectations of civilized society, and their obligations under the Chemical Weapons Convention (CWC). The growing capability of Iran and its proxies is challenging Israel's security. Violent extremists, though slightly abridged in activities last year, remain intent on destroying a rules-based system of government and will continue to target U.S. and European civilians and infrastructure.

Fortunately, we are not alone in meeting these challenges. As stated in the NDS, the NATO Alliance will "deter Russian adventurism, defeat terrorists who seek to murder innocents, and address the arc of instability building on NATO's periphery." NATO has been, and will remain, vital to our national security, and a central element in addressing the challenges of the 21<sup>st</sup> century. Our Trans-Atlantic bond is strengthened by a shared commitment of collective defense, democratic principles, and mutual respect of national sovereignty.

The Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, and civilians at USEUCOM continue to display selfless service and dedication to meet the demands of the European theater. They are the lethal, agile, and resilient force that will protect and defend the Homeland and ensure that Europe remains whole, free, and at peace.