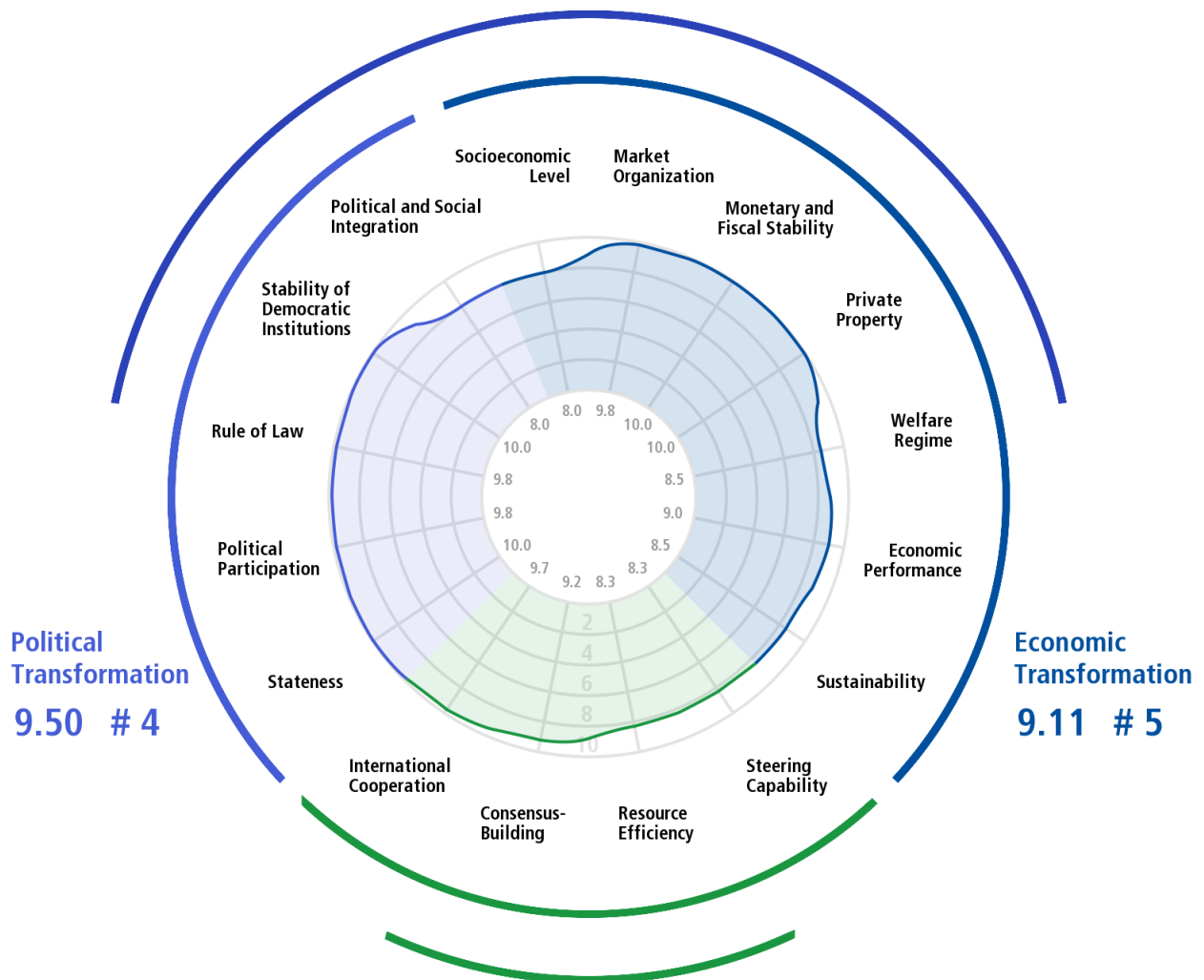


# Lithuania

## Status Index

**9.30 # 4**

on 1-10 scale out of 137



## Governance Index

**7.21 # 6**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>2.8</b>	HDI	<b>0.869</b>	GDP p.c., PPP \$	<b>35343</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-1.4</b>	HDI rank of 189	<b>34</b>	Gini Index	<b>37.4</b>
Life expectancy	years	<b>74.7</b>	UN Education Index	<b>0.890</b>	Poverty <sup>3</sup>	% <b>1.5</b>
Urban population	%	<b>67.7</b>	Gender inequality <sup>2</sup>	<b>0.124</b>	Aid per capita \$	-

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The review period covers the first half of the latest parliamentary term in Lithuania. Therefore, this assessment is also a performance assessment of the current ruling coalition led by the Lithuanian Farmers and Greens Union (LVŽS), which in 2016 unexpectedly stormed into power by capturing 59 out of the 141 seats in the parliament. Although their parliamentary majority has slimmed because of the split in their former coalition partner, the Social Democratic Party (LSDP), LVŽS continues to enjoy a comfortable majority, with assistance from the splinter (Social Democratic Labor Party) and informal case-by-case arrangements with the Law and Justice Party and the Polish Electoral Action.

LVŽS was elected on a promise of clean government and a social conservative agenda emphasizing cultural and social issues as well as regional development. Although rhetorically the ruling majority emphasized full discontinuity, in reality there was a degree of continuity with the previous government. Overall, responsible governance continued, though it sometimes lacked sufficient consultation with society and parliament on policy alternatives to generally accepted public policy goals. This at times led to unnecessary heated debates or clashes with civil society.

Lithuania has continued to address difficult issues affecting the quality of democracy. In 2018, the parliamentary national security and defense committee completed a yearlong investigation into the undue influences on political decision-making and privileged access to policymakers enjoyed by several Lithuanian and foreign financial groups. The final report was approved unanimously by the parliament and remedies are being discussed. Two parliamentary parties are currently in court on charges of political corruption. Overall, the fight against corruption and office abuse remains robust, focusing on actions of high profile and impact. Special investigation services and other institutions (the prosecutor general's office and police) have demonstrated the ability to take necessary action and withstand political pressure. Action taken to date has not yet lowered public perception of corruption but the population's direct experience of corruption has significantly decreased (except in the health sector).

The most important reforms that the current government have adopted from the previous one are the adoption of a new social model (liberalization of labor relations) and reforms to the management of state-owned forest. The ruling coalition delivered on its promise to take action against the high consumption of alcohol. It took important actions in the area of public procurement and the reform of state-owned enterprises (especially in railways). These and other reforms were convincing enough for Lithuania to be accepted as a member of the Organization for Economic Co-operation and Development (OECD) in June 2018.

The wage setting reform in secondary education, on the other hand, was poorly prepared and implemented. It led to strikes by several teacher unions at the end of 2018. The social security system was reformed over 2017 to 2018, but had a negligible impact on the alleviation of poverty and social exclusion. Health outcomes continue to be one of the lowest in the EU.

Robust economic growth continued during the review period. Macroeconomic stability was preserved and strengthened. Foreign direct investment has increased, especially in the manufacturing sector. Private investment also grew, though this remains below levels sufficient to help Lithuania escape the middle-income trap. It is also important to note that Lithuania has strengthened its military and defense capability (in 2018, it achieved a 2% GDP allocation to defense) and resilience to hostile foreign propaganda.

Finally, defying expectations, at the time of reporting Lithuanians reported the highest level in European Union of life satisfaction and positive expectations about their personal future.

## History and Characteristics of Transformation

Lacking not only the structures for transformation, but also statehood itself, Lithuania began completely anew in 1990. Occupied and annexed by the Soviet Union in the 1940s, Lithuania was a Soviet Republic for almost 50 years. Soviet rule had comprehensively reshaped the country, its resources, economy and above all, its people. Lithuanians often use the term “rebirth” to describe their return to statehood, which represented the starting point of transformation and the goal of becoming a free and independent state within the community of European democracies. With accession to the European Union on May 1, 2004 and to NATO in March 2004, Lithuania achieved the goals and aspirations it set in 1990. Because the creation of a democratic republic amounted to the end of foreign occupation, the change of the political system met with no opposition. The fight for independence and the founding of the new state provided a common popular basis of identity. The legitimacy of Lithuania’s democratic order is thus closely tied to the Baltic revolution and the victory of the independence movement that was supported by the vast majority of the population. Political transformation progressed smoothly with few problems. The population voted for the constitution in 1992, and in 1993, a multiparty system emerged, marking the successful end of the first phase of political transformation. The constitution provided for pluralism under the rule of law and established a Constitutional Court – a first in Lithuanian history. The political system has proven itself reliable. All actors have accepted transfers of power and the impeachment of President Paksas in 2004 demonstrated both the viability of democratic

institutions and the degree to which established rules have been accepted. However, the will of the electorate itself remains subject to fluctuations. Since 1990, no government has succeeded in winning elections and staying in power (except for the Social Democratic Party, which succeeded in forming a ruling coalition for two consecutive periods, the first from 2001 to 2004 and the second from 2004 to 2008). During the second Republic's first decade, the moderately fragmented party system appeared to oppose any new challenges under the constant shifts of voter support. Since 2000, however, the situation has changed as populist parties have made striking gains, but in all instances (2000, 2004 and 2008), they were either co-opted into governing coalitions led by the traditional parties, or (as in 2012) left at the margins of parliamentary politics. Until 2016, all (XVI) governments were led by one of the two traditional political ideologies, right-wing Homeland Union/Christian Democrats of Lithuania or left-wing Social Democrats. Since late 2016, for the first time the government is dominated by the traditional and formerly small parliamentary party of Farmers and Greens Union, which convincingly won the parliamentary elections in 2016. Though its somewhat unexpected landslide victory demonstrates voter volatility, the populist threat seems to have subsided and a broad reform agenda (advocated, but little implemented under previous cabinets) is likely to be pursued. However, much hinges on whether the current party takes over the office of the president. Cabinets appear to have become more stable too. Since 2008, the governments led by conservative Kubilius and social democrat Butkevičius have managed to serve full four-year terms.

Economic transformation led to massive social inequalities and imposed severe social burdens on a majority of the population. The Soviet legacy has proven an especially heavy load to bear. Like all reform-oriented states in Eastern Europe, Lithuania experienced an economic and social crisis characterized by a sharp decline in GDP and soaring unemployment figures. The worst was over by 1994. After a slump in 1999 (the "Ruble crisis"), Lithuania's GDP has shown strong growth since 2000, unabated in the years from 2004 to 2006. Thanks to EU accession, Lithuania has managed to create a market economy that is anchored in principles of social justice and equipped with modern regulatory institutions that are almost free from political pressures. This was a factor in the economic boom, which came to a sharp end in early 2009. The last economic crisis of 2009 to 2010 was the most severe since the collapse of the planned economy in the early 1990s, but Lithuania withstood it through sharp cuts to public expenditure and managed to maintain stability of its national currency, the litas. The crisis could have been an opportunity to rationalize budgetary expenditures, introduce more transparency in policy-making and to restart much needed reforms in certain policy areas. However, policymakers confined themselves to only minor changes. The deteriorating demographic situation and persistent social inequalities, which affect societal cohesion and the stability of the party system, are the most important challenges that no government has yet managed to address. Lithuania has managed to improve its energy security vis-à-vis Russia. It also became a member of the Schengen free travel area and the eurozone and, since 2014, has significantly improved its societal and military resilience to Russia's aggressive policies toward its neighbors. Above all, Lithuania, like its two other Baltic neighbors Latvia and Estonia, continues to deepen its democracy against the tides of democratic reversals elsewhere in Central and Eastern Europe.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

There is clarity regarding the nation's existence as a state, with adequately established and differentiated power structures. The state's monopoly on the use of force is uncontested.

Question  
Score

Monopoly on the  
use of force  
10



1

All citizens enjoy the same civil rights; the nation-state is accepted as legitimate. The main ethnic minorities – Poles (5.6% of the population in 2017), Russians (4.6%) and Belarusians (1.2%) - are fully integrated citizens.

State identity  
10



1

The state is largely defined by a secular order. Religious dogmas have no noteworthy influence on politics or law. Almost 80% of Lithuanians belong to the Roman Catholic Church, but the church does not play a significant political role in the country.

No interference of  
religious dogmas  
10



1

The state has a differentiated administrative structure throughout the country, making it possible to allocate state resources on a broad basis. The quality of services is generally good, even if some are not as developed as in more affluent neighboring North European countries. Trust in public institutions and satisfaction with their services has been rising among the general population (71% trust in 2016; 20 percentage points higher than in 2015) and among those in contact with the institutions (81% trust in 2016; 18 percentage points higher than in 2015). However, efficiency of some public services (outcomes for public expenditure) is rather low in comparison to other OECD countries, especially in secondary education and health care.

Basic administration

10

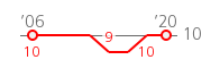


## 2 | Political Participation

There are no constraints on free and fair elections. In the last Freedom House report (2018), Lithuania scored maximum points for electoral process and political pluralism and participation. The municipal councils, members of parliament and the president are all elected by direct vote. Representatives of the various political parties monitor procedural fairness, and the validity of all past elections (including the last parliamentary elections in 2016) were not questioned. There are generally few irregularities and the high elections commission deals with them effectively. Electronic checks of voter identification provides an effective safeguard mechanism against multiple voting. Since 2012, the electoral process has been monitored by a civic initiative called the White Gloves movement.

Free and fair elections

10



In municipal elections in 2015, mayors for the first time were elected by popular vote in parallel to municipal councils. 76% of Lithuanians approved this change.

Since November 2013, in all elections, candidates can be put forward not only by political parties, but also by electoral committees, to rectify a contradiction with the constitution (which ensures the right to put forward oneself forward as a candidate). The popularity of electoral committees has been rising, fragmenting the party system. In the 2019 municipal elections, 98 electoral committees contested 80% of all municipalities.

Rolandas Paksas, the impeached president and former chairman of the Law and Justice Party, has been barred from four consecutive national (presidential and parliamentary) elections. The Seimas, the unicameral parliament of Lithuania, has been unable to implement the 2011 European Court of Justice ruling which established that the lifetime prohibition from running for an elected office that the Lithuanian Constitutional Court imposed on an impeached politician was excessively harsh.

Electoral turnout has been low but stable – around 50% in the most recent parliamentary and presidential election, falling below that in the European Parliament and municipal elections. In 2015, parliamentary constituency boundaries were redrawn by the central electoral commission, following inclusive parliamentary discussions to correct imbalances in district populations accrued since the 1990s.

There are no groups, such as business elites or oligarchs, with veto powers adequate to undermine democratic procedures. Elected rulers have effective power to govern.

Effective power to govern

10



Citizens generally enjoy unrestricted freedom of association and of assembly. The government, however, has continued to ban the Communist Party and other organizations associated with the former Soviet regime. The legal and regulatory framework for NGOs is solid. In December 2013, the parliament adopted a law on NGOs that defines them as organizations working for the public benefit. The OECD continues to recommend capacity-building and financial to NGOs operating in Lithuania and encourages their increased engagement in the design and delivery of public services. The fourth march for tolerance involving gay rights groups in Vilnius (Baltic Pride parade) will take place in June 2019 under a welcoming invitation from the city administration. Since the first march in 2010, public opinion has become more positive and the third peaceful parade in 2016 drew a record attendance. However, opposition to same sex partnerships is declining very slowly (from 79% against in 2013 to 69% in 2017, according to a Vilmorus survey).

Association / assembly rights

10



Unrestricted freedoms of expression and of the press and media are guaranteed by the constitution and function in practice. Private media comprise a diverse selection of print and electronic outlets. However, the 2015 Freedom House country report (the latest one to date) states that ownership of the media is not transparent, as disclosure is not strictly mandated or enforced. However, the Lithuanian ministry of culture and the Lithuanian chapter of Transparency International both maintain publicly accessible databases on media ownership. An increasing concentration of media was noted in a study commissioned by the ministry of culture in 2014. Competition law restricts concentration, but there are reports that these restrictions can be easily circumvented. According to Freedom House (2015), newspapers controlled by financial institutions demonstrate bias in favor of their owners.

Freedom of expression

9



The overall level of trust in the media has recovered from a historical low of 33% in January 2013, but continues to be relatively low, at 40% in October 2018. Media is the 12th most trusted institution in the country (Vilmorus/Lietuvos rytas survey).

The ethics commission for public information (a self-regulatory body established in 2015) analyses complaints against mass media and journalists, mediates conflicts between journalists and media management, and promotes critical assessment of information provided for the general public by mass media. In 2017, it found 93 publications and 12 journalists to be in conflict with ethics. Approximately one-quarter of these infringements were related to insufficient opportunities provided to



the targets of investigative reporting to express their points of view. Implementation of the law on public information is monitored by the inspector of journalists' ethics. In 2017, this office handled a record high 253 complaints, the majority of which concerned online publications and posts on social media. Every fifth complaint was upheld, mostly on the grounds of defamation, and infringement of privacy as well as misuse of personal data.

The print media market continues to be dominated by tabloids, but the importance of the press is declining. Only 50% of the population read print media at least weekly and only 8% do so daily. Internet news portals have become the main channel for news, followed by TV and radio. However, radio is the most trusted source, and internet portals are the least trusted (ministry of culture, 2017). Local (regional) media outlets are important, but they are financially dependent on local administrations that in a few cases have exploited this and have turned local newspapers into the mouthpieces of governing mayors or council majorities.

Since 2014, the Lithuanian television and radio commission (regulatory authority) monitors Russian propaganda on the TV and radio channels available in Lithuania. Propaganda primarily concerns Russia's war in Ukraine and the Soviet occupation of the Baltic states. These channels reach a regular audience of 405,000 people (15% of population). In 2017, broadcasting of the Russian TV channel CTVI was suspended in Lithuania (between 2015 and 2016 there were five similar suspensions of other Russian TV channels).

In 2017, the Seimas removed the institute of private accusation from the criminal court and now alleged defamation cases can reach the court only following successful pre-trial investigation by police and the prosecutor's office. This improves the working environment of journalists.

### 3 | Rule of Law

There are no constraints on the basic functions involved in the separation of powers, especially mutual checks and balances. The judicial system is independent of the executive and the administration is largely free from unjustified party-political pressure. Due to the parliamentary-presidential nature of the political system, governments are accountable both to the legislature and the president. Although occasionally there are discussions over the president's informal involvement or interference in policy areas traditionally handled by parliament or government, the president has thus far not formally exceeded her constitutional powers. The 2019 presidential elections were won by Gitanas Nausėda. When he assumes the presidency, he will likely need time to establish the extent of his soft power and develop his way of working with the government and governing majority in parliament.

Separation of powers

10



The judiciary is free of both unconstitutional intervention by other institutions as well as corruption. There are mechanisms for the judicial review of legislative and executive acts.

Proponents of reform of the judiciary call for it to balance its independence with greater openness and public trust. Since 2010, court seats have been rotated regularly and all judges have been subject to periodic performance reviews. Representatives of the general public were also granted the right to participate in assessing the performance of the courts, which was not the case previously.

The number of judges has been stable since 2010 and unaffected by the ongoing downsizing of the public sector. In order to reduce administrative running costs and strengthen the specialization of judges, in 2018, 49 district courts were reorganized into 12 courts and five regional administrative courts into two. Currently there are 22 courts in Lithuania (in addition to the Constitutional Court). The discipline and ethics of judges are improving, mostly due to the judicial commission for ethics and discipline, which has worked to raise awareness of judicial issues.

The Lithuanian chapter of Transparency International in cooperation with the national administration of courts (NAC) has established a portal – [atvirasteismas.lt](http://atvirasteismas.lt) (on the openness of the courts) - that tracks the performance of all courts and judges in Lithuania. This is one of the first such initiatives in Europe, enabled by the open data supplied by the NAC. The electronic portal of judiciary services of Lithuanian courts ([e.teismas.lt](http://e.teismas.lt)) appears to be functioning well, and an EU 2018 justice report puts Lithuania among the top performers in terms of employing the use of ICT in courts.

Public confidence in the judiciary institutions (courts and office of the prosecutor general) has continued to grow to around 30% in 2017 to 2018 (Vilmorus monthly public opinion polls). A Eurobarometer survey in 2017 found that 50% of Lithuania's residents and 53% of its companies evaluate the independence of its courts and judges to be good (EU 28 average was 56% and 48% respectively).

Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws and always attract negative publicity. During the review period the anti-corruption agency special investigation service (STT) maintained its focus on high profile corruption. The STT and prosecutor general's office initiate cases and are capable of withstanding political pressure.

The high impact investigation of the parliamentary national security and defense committee (NSGK) in the period 2017 to 2018 uncovered systematic abuse of office by representatives of several political parties which fell prey to undue pressure from Lithuanian and foreign financial groups. Although the scandal shook the party scene, the parliament approved the report of NSGK investigation, its conclusions and recommendations about the changes necessary to avoid such pressures in the future with a large majority in June 2018.

#### Independent judiciary

10



1

#### Prosecution of office abuse

10



1

Two large political corruption cases involving two parliamentary parties and several former and current high-ranking politicians reached the courts in 2018. Eligijus Masiulis, the former leader of the Liberal Movement (a parliamentary party), along with two party colleagues and a former deputy speaker of the parliament from the Labor Party, were charged in court with accepting bribes from deputy president of MG Baltic, one of the largest financial groups in Lithuania. In another (unrelated) case, former leader of the Law and Order Party, Rolandas Paksas, and member of the European Parliament, Gedvydas Vainauskas, the owner of important Lithuanian daily, Lietuvos rytas, faced charges of corruption.

During the review period, one mayor was forced to step down following a court ruling on office abuse through corruption. Three mayors were suspended on the charges of office abuse during a pre-trial investigation which continues. Potential misuses of public funds were investigated in the penitentiary system, state-owned road maintenance companies and Lithuania's Post.

There are no restrictions on civil rights in Lithuania. The overall number of complaints of rights violations, reported to the ombudsman of equal opportunities, has remained steady during the two previous review periods (261 in 2017). The new ombudsman appointed in 2015 has initiated more investigations than her predecessors. The ombudsman also introduced a possibility of individual written consultations (314 such requests were received in 2017, along with an additional 182 requests received via Facebook).

According to a 2016 public opinion poll by Spinter tyrimai (commissioned by the Lithuania-based Human Rights Monitoring Institute), 19% of respondents thought that their human rights had been violated, but 93% of them did not lodge any formal complaint, primarily because they did not believe that they would receive justice.

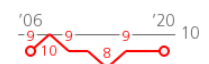
According to a 2015 Eurobarometer survey, sexual orientation is perceived to be the most common grounds for discrimination, followed by age and disability. According to PEW research in 2018, only 16% of Lithuanians would accept a Muslims as a member of their family, and only 41% would accept Jews. 85% are opposed to same sex marriages. (Opinions among the young are only marginally different).

According to official statistics provided by the ministry of interior, the number of criminal acts driven by ethnic, religious, linguistic, racial hate or hate based on sexual orientation has fallen since the last review period. 17 such criminal acts were registered in 2017 (compared with 45 in 2016), but human rights NGOs maintain that it is likely that some of the criminal acts go unreported to police.

With regard to gender equality, in 2017 Lithuania scored below the EU-28 average based on the Gender Equality aggregate index designed by the European Institute for Gender Equality (ranking 19th in the EU), although overall it recorded an improvement. Progress is occurring, but at a slow pace.

Civil rights

9



1

Domestic violence against women and children continues to be a significant problem, though it slightly decreased during the review period (by 14% in 2018; ministry of interior). The Seimas in February 2017 finally passed a law explicitly criminalizing all forms of violence against children. Its implementation, however, was not properly managed. It caused a large outcry and polarized opinion. Therefore, the parliament will now be asked to vote on clarifying amendments to the law in 2019.

The Lithuanian government was forced to extend the deadline for full modernization of prison and pre-trial facilities to 2022. It draws on significant financial and know-how assistance from Norway. The number of incarcerated persons per 100,000 people is on a downward trend but still double the EU average (235 vs 122 in 2017; ministry of justice). Although the conditions of prisons somewhat improved during the review period (one modern prison and four so-called half-way to freedom homes were opened in the period 2017 to 2018), most incarceration places still require renovation.

#### 4 | Stability of Democratic Institutions

The ensemble of democratic institutions in Lithuania continues to work effectively and efficiently. As a rule, political decisions are researched, made, implemented and reviewed by the appropriate authorities using legitimate procedures.

Though conflicts between the various branches of power are, in general, more likely to occur due to the semi-presidential political system, in which the president has partial responsibility over the executive, conflicts are infrequent. However, with the advent in 2016 of the new – previously untested – core of the ruling majority (Farmers and Greens' Union) outside the previous traditional ideologies either on the left (Social Democrats) or on the right (Homeland Union/Christian Democrats), parliamentary work and political debate has become increasingly polarized. Some observers claim this has come at the expense of the quality of democratic institutions.

There are no actors – even on the margins – who question whether constitutional democracy is a legitimate form of government. The problem of vote rigging in the 2012 parliamentary elections and 2015 municipal elections were not repeated on a significant scale (necessitating re-runs) in the 2016 parliamentary elections. This was due to the strengthened legal framework with enhanced oversight and enforcement. It is noteworthy that in Lithuania (as in other Baltic states) the lack of popular support for democracy is offset by strong support for it among the political elite. Some 64% of the political elite are satisfied with the functioning of democracy in Lithuania, 80% trust parliament, 82% trust the government and 85% trust the president (data from a 2014 survey of the political elite by the Institute of International Relations and Political Science, University of Vilnius and ESTEP).

Performance of democratic institutions



Commitment to democratic institutions



## 5 | Political and Social Integration

Although party system fragmentation has increased since 2000 and electoral volatility remains high by Western European standards, political parties can still be classified as falling into one of three ideological camps (conservative, social democratic and liberal). The main parties represented in the Seimas are well-established and have clearly identifiable socio-demographic bases of support. While populist parties have been able to attract many votes in the last 15 years, their influence has recently diminished as they were either co-opted into the system or contained outside of it.

The most recent elections in 2016 produced another center-left governing majority but for the first time since 1990 without either the conservative Homeland Union (TS-LKD) or the Social Democrats (LSDP) at the helm. The Lithuanian Farmers and Greens Union became a pivot of the new coalition with LSDP. In late 2017, LSDP's ideological reorientation to the traditional left following a party leadership election and its subsequent withdrawal from the ruling coalition led to a split and the formation of a new Social Democratic Labor Party (LSDLP). The popularity of both parties plummeted and the prospects of the once powerful "party of government" are uncertain. Due to the protracted ongoing corruption trial, the Lithuanian Liberal Movement (LRSL) has lost many prominent members to newly formed electoral committees for municipal elections scheduled for March 2019. The rise of electoral committees since the municipal elections in 2015 is likely to cause further debilitation to the existing party system. Electoral committees attracted the largest share of votes (28%) in the municipal elections in March 2019. However, the committees cannot participate in parliamentary elections.

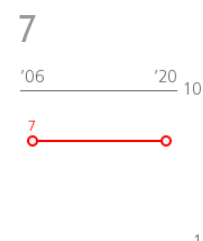
Political parties remain the least trusted institution in Lithuania, close to an all-time low of 4.9% (December 2018, Vilorus survey).

Lithuania is home to a close-knit network of interest groups that are fundamentally cooperative, reflect competing social interests and tend to balance one another.

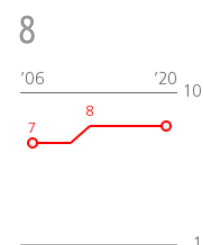
Lithuania has an established tradition of policy deliberation through a tripartite council, which consists of the representatives of the government, business associations and trade unions. The influence of these groups on the decision-making process is much stronger compared to that of the NGOs. Though smaller in number, business associations continue to be the most influential non-governmental players by far.

Some business groups have disproportionate access to policy-making, notably in the energy and development sectors, which tend to dominate municipal politics. The number and nature of corruption scandals over the past decade, which have mostly occurred at the municipal level involving local politicians being bought off by business interests, are evidence of this influence. For example, in 2017, the mayor of

Party system



Interest groups



Šakiai resigned after he was found guilty of political corruption. During the review period, the undue and corrupt political influence of big business on the branches of central executive power was exposed during parliamentary investigation.

From 2010 to 2015, the government implemented three special EU-financed programs for strengthening social dialog and partnership as well as for capacity-building to increase cooperation with NGOs. Overall, it spent €10 million on 51 such projects. For the period 2017 to 2020, more than €7 million has been allocated for these purposes.

In 2018, the Seimas voted to award the trade unions an exclusive right (along political parties, but not civil society organizations) to benefit from 1% of residents' income tax, which they can allocate during their annual declaration of personal income.

There is broad consensus that democracy is the most acceptable form of governance; there are no powerful groups or individuals who either openly or covertly question the existing constitutional framework.

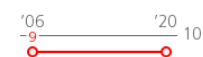
However, public satisfaction with the efficacy of Lithuanian democracy has fluctuated with the country's economic outlook. In 2018, public satisfaction stood at 34% (Eurobarometer), below the EU average of 57%, Lithuania's pre-crisis high of 44% in 2007, or the levels seen during the early years of independence in the 1990s. On the other hand, 65% of the population is satisfied with the functioning of democracy at the EU level, in contrast to only 49% across the EU.

There seems to have been a significant increase in trust in the state and political institutions since 2014, and Lithuania has moved significantly closer to the EU average. In 2016, 71% of all citizens trusted state and municipal institutions. The rate (81%) was higher among those who had been in contact with them (63% of population). This constitutes a 20% surge since the previous survey commissioned by the ministry of interior. According to the Eurobarometer, 61% of Lithuania's citizens in 2018 were satisfied with public and administrative services, above the EU28 average.

Among all surveyed institutions, political parties, the Seimas and the government continue to receive the lowest trust scores, and trust in them somewhat declined midway through the electoral cycle (respectively 5%, 10% and 21% in December 2018, compared with 10%, 15% and 28% in January 2017, all data by Vilmorus).

Approval of  
democracy

9



1

Civic culture has yet to be fully consolidated, although incremental progress has been made. The web of autonomous groups, associations and organizations is robust but heterogeneous, and it enjoys solid trust among the population.

According to the World Giving Index 2018 by the Charity Aid Foundation (CAF), Lithuania ranked 138th in the world, slightly lower than neighboring Poland (112), Latvia (137) and Estonia (109). According to this survey, 19% of Lithuanians donated money or their time for volunteering activities during the previous month (up from 11% in 2016). According to most assessments, Lithuania still belongs in the category of low volunteer activity within the EU, but the level is increasing incrementally.

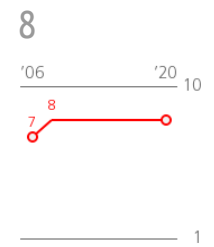
Participation in civic engagement activities has undergone no significant changes during the last decade; if anything, it is somewhat lower than now. A survey by the civil society institute found that in 2016, 42% of Lithuanians provided donations to charities, 37% of the population participated in environmental clean-up campaigns and 27% participated in activities in their local communities. Participation in social and civic campaigns was 8%.

A 2017 survey by Socialinės Informacijos Centras, commissioned by the ministry of culture, found approximately 25% of people in Lithuania agreed that “other people could be trusted,” while at the beginning of the democratic transition in 1989, over 60% of respondents agreed with this statement.

The NGO sustainability index by USAID, which uses a seven-point scale (score of one indicating strongest possible development), has rated Lithuania 2.7, unchanged since 2002. According to various sources, the number of functioning NGOs (including charities and foundations) in Lithuania is 12,000 to 14,000. 40% of NGOs operate on an annual budget less than €3,000 and more than half employ staff on a fixed term basis, which points to financial vulnerability (2016 data by Vilmorus). Most NGOs rely on public funding and private donations are low despite the 2% personal income tax allowance which is offered to taxpayers.

Public (European Rural Development Fund) funding explains the mushrooming of village level groups. Their number (1982 in 2017) and membership (over one million) has increased by 20% since the last review period. €114 million was allocated to fund their activities during the period 2014 to 2020.

#### Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Lithuania's level of development grants adequate freedom of choice to all citizens. Poverty and social exclusion are limited and not structurally embedded.

Since re-establishment of independence in 1990, Lithuania's score in the Human Development Index (HDI) has been on a continuous rise and now places the country in the very high human development category. During the review period, the score rose to 0.858 in 2017, up from 0.839 in 2015. In inequality adjusted terms, however, Lithuania scores lower than the neighboring countries of the region (Estonia, Latvia and Poland).

While the economy has been growing strongly since 2010 and its performance is among the EU's best, high inequality persists. In 2017, Lithuania's Gini coefficient was 37.6 (the second worst in the EU according to Eurostat) and has not improved since 2010 (when it was 37.0%).

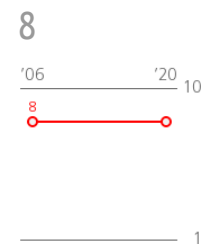
The percentage of those at risk of poverty (after social transfers) was among the highest in the EU and this figure has deteriorated during the review period (22.9% in 2017, up from 22.2% in 2015; Eurostat). However, the levels of absolute poverty decreased by 2 percentage points between 2016 and 2017 to 13.8% of residents (defined by income €238 per month or less for individual persons and €500 per month for a family of two; Lithuania's department of statistics).

The UNDP gender inequality index for Lithuania has improved from 0.135 in 2013 to 0.123 in 2017.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	41516.7	42973.4	47544.5	<b>53251.4</b>
GDP growth	%	2.0	2.4	4.1	<b>3.5</b>
Inflation (CPI)	%	-0.9	0.9	3.7	<b>2.7</b>
Unemployment	%	9.1	7.9	7.1	<b>6.0</b>

Question  
Score

Socioeconomic  
barriers





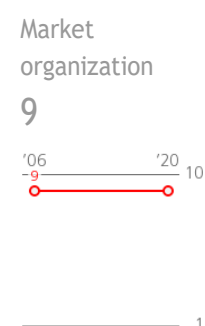
Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	2.3	2.2	2.5	<b>1.6</b>
Export growth	%	0.9	4.0	13.6	<b>5.1</b>
Import growth	%	6.8	3.8	12.0	<b>4.3</b>
Current account balance	\$ M	-946.3	-344.7	463.1	<b>817.3</b>
Public debt	% of GDP	42.6	39.9	39.4	<b>34.2</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-0.6	-0.2	0.3	-
Tax revenue	% of GDP	16.7	16.9	16.7	-
Government consumption	% of GDP	17.2	17.0	16.4	<b>16.5</b>
Public education spending	% of GDP	4.2	4.0	-	-
Public health spending	% of GDP	4.3	4.4	-	-
R&D expenditure	% of GDP	1.0	0.8	0.9	-
Military expenditure	% of GDP	1.1	1.5	1.7	<b>2.0</b>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

In Lithuania, market competition is unconstrained, the role of the state is limited, and prices are fully liberalized. However, a downward trend can be observed. First, state- and municipality-owned enterprises continue to exert undue influence on the market and create barriers to entry, especially for small privately owned businesses. Second, the government has imposed and now enforces severe restrictions (500 ha) on the acquisition of agricultural land for new market players, while allowing incumbent landowners to maintain their much larger estates. Now similar restrictions are proposed on forests. In the World Bank's Ease of Doing Business 2019 report, Lithuania ranks 31st out of 190 countries in the category "starting a business." It takes four procedures, 5.5 days, costs 0.5% of per capita income and requires a minimum capital of 17.5% of per capita income to start a business.

Many analysts concur that "going informal" was one of the dominant strategies of Lithuanian businesses in order to cope with the shock of economic crisis in 2008 –



2009. The size of the informal economy has been declining since, although it still represents between 15% and 22% of GDP according to latest estimates (2018). An OECD assessment in 2016 concluded that the size of the informal economy creates an uneven playing field for firms and increases inequalities.

Lithuania has a coherent and effective anti-monopoly policy, supported by trade policies that are consistent with non-discrimination principles. The competition council enforces these policies, and the legal and institutional framework fully complies with EU norms. Legal foundations as well as enforcement practices were screened in the period 2015 to 2017 by the OECD competition committee as a part of Lithuania's accession to the OECD (June 2018).

The competition council in 2017 had 68 staff members, of whom 47 worked directly on competition enforcement issues. However, it remains one of the smallest and least financed competition authorities in the EU. In early 2017, the competition law was amended to enable the competition council to claim direct financing from businesses for competition clearance in order to boost its budget. In 2017, €141,000 was collected. The annual return on the competition council's work in 2017, according to OECD methodology, was €10 per €1 of budgetary financing.

In 2017, the competition council cleared 23 economic concentrations, detected five restrictive agreements and issued €13.5 million worth in fines for competition infringements. Since 2017, the competition council has been authorized to issue fines to public administration institutions for infringements on competition law.

In-house procurement for the majority state-owned enterprises was banned by law from July 2017. However, this remains possible for municipality-owned companies and causes concerns, especially as regards to supplying fuel to municipal transport systems and the creation of new municipal energy generation capacity with the construction of new biofuel facilities.

In 2016, the competition council was granted greater powers, in the form of monetary sanctions, to ensure that its decisions regarding the obligation of the public administration institutions to ensure a competitive level playing field are complied with by municipalities in a timely fashion. Since July 2017, the law governing municipalities requires ex ante permission to engage in new economic enterprises or to expand the activities of existing ones.

The amount of state aid has traditionally been low but has increased during the review period, mainly due to the state aid schemes approved for the energy sector (renewable energy and projects related to security of supply, such as liquefied gas) and tax incentives for the film industry. According to the European Commission, state aid in Lithuania granted to agriculture, industry, transport and horizontal objectives of common interest (total amount of state aid) was €459.2 million or 1.05% of GDP in

Competition policy

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2017, up from €294 million or 0.78% of GDP in 2015). This is the highest amount ever and above the EU28 average of 0.72% of GDP.

Since its membership to the European Union, Lithuania has not had an independent foreign trade policy and follows the Common Commercial Policy of the European Union. Lithuania is an open liberal economy, and its export/import volume ratio to GDP exceeds 100% (131% in 2018).

While the majority of trade policy is handled by the EU, voices and initiatives against free trade are on the rise. For example, the government is launching an “e-voucher” scheme that would create financial incentives for Lithuanians to purchase locally grown agricultural produce. Various other initiatives to limit international trade have also been proposed.

The institutional foundations have been laid in Lithuania for a solid banking system oriented toward international standards, with functional banking supervision, minimum capital requirements and market discipline. Capital markets are open to domestic and foreign capital with sufficient resilience to cope with speculative investment.

With eurozone membership from January 1, 2015, Lithuanian banks are members of the EU banking union. Their situation is financially sound, as confirmed by the European Central Bank comprehensive assessment published in October 2014, which found the three largest banks at that time in possession of high capital adequacy ratios. The capital adequacy ratio for the entire banking sector at the end of 2017 was 19.1% – one of the highest in the EU. (Capital to assets ratio in 2017 was 9.4%). Bank stress testing results indicate that the banking sector would comply with capital and liquidity requirements, even when faced with a significant shock.

In 2018, six banks and eight foreign bank branches operated in the country. The concentration of the banking sector is one of highest in the eurozone and has increased further during the review period. The three biggest banks (SEB, Swedbank and Luminor) are Scandinavian owned, and represent 82% of total banking sector assets in 2018, up from 75% in 2016. The rest of the market is controlled by two domestic banks (Šiaulių bankas and Medicinos bankas) and nine branches of foreign banks and credit unions. Assets of the banking sector in 2018 represented 61% of GDP (down from 64% in 2016 and 70% in 2014). This is far below that in the other Baltic countries. The Bank of Lithuania actively encourages the entry of new participants into Lithuania’s market. In 2017, three institutions, as well as some credit unions under restructuring, applied for a specialized bank license. The number of electronic money institutions rapidly increased, which reduced concentration in the payments market.

#### Liberalization of foreign trade

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#### Banking system

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The loan portfolio of Lithuania's banks amounted to €19.8 billion at the end of 2018 (9.4% higher than two years ago), as the share of non-performing loans shrank to 3.1%, the lowest since 2008 (Lietuvos bankas).

## 8 | Monetary and fiscal stability

Lithuania has pursued a consistent budgetary and monetary policy. The country adopted the euro in 2015. In 2017 inflation (as predicted) rose to 3.7% (compared to a mere 0.7% in 2016) due to a considerable increase in excise duties and energy prices as well as an increase in the prices of services pushed by the rise of the minimum monthly wage. Inflation is forecast to fall to 2.6% in 2018 and 2.2% in 2019 (Lietuvos bankas). This is due to the expected moderation of contributing factors (and especially fuel and food products).

The review period has been characterized by strong economic growth driven by a substantial rise in exports, the rebound of private investments and domestic demand (3.9% in 2017 and 3.6% in 2018, Department of Statistics of Lithuania, preliminary data for 2018). The forecast for 2019 is 2.8% (Lietuvos bankas, October 2018), weakened by slowing EU demand, but bolstered by strong internal investment, including the accelerated absorption of EU funds.

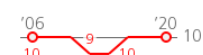
Government debt fell significantly during the review period to 34.8% GDP in 2018 (from 41.1% in 2012). It will represent up to 37.9% of GDP in 2019 due to the planned redemption of the Eurobond issue in 2020 that will need refinancing (ministry of finance and European Commission).

In November 2014, Lithuania adopted the rules of the European Union fiscal compact that makes balanced budgets a constitutional requirement. The fiscal council, established within the state audit office in 2015, and the European Commission have been providing external scrutiny for draft budgets and the government has by and large responded constructively. General government balance recorded surpluses of 0.3% in 2016 (although net borrowing was still at 0.1% GDP) and 0.5% of GDP in 2017. It is expected to stay in surplus during the period 2018 to 2021, although the budget (including state, municipal, state social security and mandatory health insurance budgets) will record a surplus of 0.3% GDP in 2018 and 2019 only in terms of the structural primary balance (i.e., only when excluding one-off and other temporary measures; European Commission).

After chronic budget deficits, the state-run social security system (Sodra) registered its first surplus in 2017. This increased further to €154 million in 2018 (total expenditure €4.1 billion). The debt accumulated during the economic crisis years was in part covered and in part transferred to the state budget in 2018. A reserve fund was

### Monetary stability

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### Fiscal stability

10



established within Sodra in 2018 to mitigate the effects of potential future economic crises.

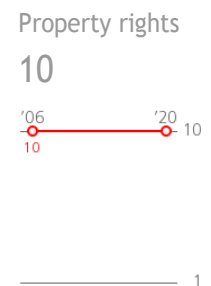
The social security system reforms during the period 2017 to 2018 (including a gradual increase of insurance period for full entitlements of basic old-age pensions to 35 years by 2027, introduction of a simplified pensions formula, a new pension points system and other changes) will strengthen its long-term sustainability. However, Lithuania spends only 6.8% of its GDP on pensions and 11.2% of GDP in total on social security (2016), far below most other EU member states. Lithuania's tax revenues were only 29.8% of GDP. Without significantly improved revenue collection it will be hard for Lithuania to solve the current low pension adequacy and forecasted additional annual costs of 2% of GDP by 2040 (OECD) due to the deteriorating demographic outlook.

## 9 | Private Property

Property rights and the regulation of the acquisition of property are well-defined in terms of acquisition, benefits, use and sale. Property rights are limited solely and rarely by the overriding rights of the constitutionally defined “public.” In 2017, the government pledged to settle all remaining claims for land restitution in kind and through financial compensation by January 1, 2019. It managed to do so in rural areas where just 0.2% of contested land remains to be settled and restitution has been fully completed in 46 municipalities out of 60. In cities, 8.7% of contested land has not been settled yet (National Land Service data, October 2018).

In November 2017, the Seimas (parliament) abolished excessive restrictions on the purchase of land such as prior engagement in agricultural activity for three years, declaration of agricultural assets, registration of a farm, diploma in agricultural sciences, at least 50% of annual income derived from agricultural activities and economic viability. These restrictions had been challenged by the European Commission through an infringement procedure against Lithuania. Importantly, the Seimas also tightened requirements when calculating the ownership cap (500 hectares) of agricultural land by extending it to land owned by related persons (family members). In 2018, the national land service started to monitor land transactions far more closely to determine whether the capping rule is being obeyed.

Implementation of the law on compensation for real estate formerly owned by Jewish religious communities in Lithuania (adopted in 2011) has resulted in the disbursement of funds from Holocaust era accounts. Disbursement is on target to reach €37 million by 2023 for various projects and subsidies as compensation to the Jewish community.



Private companies are seen as the primary engines of economic growth and enjoy appropriate legal safeguards. In 2015, the general government sector accounted for 12.5% of total GDP (department of statistics). Since 2005, the role of SMEs have been stable and highly significant. SMEs comprise over 99% of the total number of all enterprises and generate approximately 73.3% of total employment (beginning of 2019, department of statistics).

## Private enterprise

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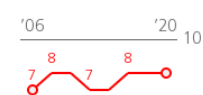


## 10 | Welfare Regime

A solid social network compensates for social risks and the national health care system is robust. Like many European nations, Lithuania faces challenges in sustaining its social benefits, especially in the face of the worsening demographic outlook (Lithuania is the fastest aging country in the EU).

## Social safety nets

### 8



The average monthly old age pension in late 2018 was €319, 44% of average net salary or 25% higher than in early 2016. However, the risk of poverty or social exclusion rates for the unemployed and people of pension age are very high and among the bottom five in the EU28 at 49.5% and 40.3% respectively (2017). Working age people with disabilities experience a very high risk of poverty or social exclusion (65.7% in 2016). Moreover, the employment gap between people with and without disabilities in 2015 was 38.4%, among the highest in the EU (EU SILC). These trends suggest that Lithuania's welfare system, despite the efforts taken to reform it, is failing to keep pace with economic growth, and that the current social transfers are not effective in alleviating poverty.

Lithuania's social security system was reformed in 2017 to 2018. Old age pensions were indexed and linked to wage changes in the economy. The retirement age is set to reach 65 years for both men and women in 2026. The required length of service for eligibility for a full old age pension is set to be 35 years by 2027. These and other measures have put the state social insurance fund (Sodra) on a sustainable path in the long run. However, they do not address the 2% GDP gap that is forecasted to emerge by the late 2030s resulting from demographic decline and low adequacy of pensions as more than 40% of pensioners live in poverty or social exclusion.

In 2017, the system of unemployment benefits was reformed, broadening coverage, prolonging the length of assistance to nine months and increasing the benefits themselves. In January 2018, the monthly state supported income was increased for the first time since 2008 by 20% to €122. An annually-variable minimal consumption needs level was established and is linked to basic social indicators from 2019, including the monthly supported income, basic social allowance, pension allowance (for those who have not earned old age pension), and social allowance for care of disabled people. These measures will reduce rate of people deemed at-risk of poverty by at least by 1 percentage point, but overall are insufficient to bring Lithuania closer to the EU average.

A universal child benefit scheme was introduced in 2018, allowing low-income earners to fully benefit from child support. The European Commission estimated that it will reduce the at-risk-of-poverty rate, especially for families with three or more children (by more than 10 percentage points) and single parent families (by 4 percentage points).

Life expectancy is increasing slowly but is still almost six years below the OECD average, with a large gender gap. Admission rates and physician visits are well above OECD averages and unmet needs are just below the OECD average. However, the overall expenditure on health care is low (6.5% of GDP). Inequalities of access are compounded by widespread informal payments (a fifth of patients) and more limited availability of general practitioners in rural areas.

There are sufficient institutions to compensate for gross social inequality. The rights of ethnic and religious minorities are protected by the constitution. Access to higher education and public office are determined by one's ability. Nevertheless, socioeconomic status and regional differences have a great influence on student performance.

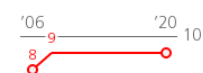
According to the 2017 Index of Social Justice (Bertelsmann Stiftung), Lithuania's overall score of 5.61 places it 18th in the EU and below the EU average of 5.85. Its position and score have worsened somewhat since 2016, most notably because of deterioration of its performance in poverty prevention and health outcomes. Of the six dimensions measured, Lithuania ranks among the top five EU countries in terms of equitable education and intergenerational justice, and among the bottom five on poverty prevention. On the issues of social cohesion and non-discrimination and labor market access it scores the same as the EU average, and below it on health. While in terms of equitable education Lithuania scores high among the EU member states, the urban/rural- and class-divides are visible in terms of student achievement. To a lesser extent, girls perform better than boys.

According to Eurostat, the employment rate for women aged 20 to 64 in 2017 was 75.5% and for men it was 76.5% (the lowest employment gender gap in the EU). The unemployment rates in 2018 for women and men in 2018 stood at 5.7% and 7.1% respectively.

Men and women enjoy the same legal rights and the unadjusted wage gap between them in Lithuania in 2017 was 15.2% (Eurostat; slightly increased from 12% in 2012). However, according to the synthetic Eurostat measure of gender overall earnings gap, Lithuania performed the best in the EU with 19.2% (2014). Women in Lithuania in 2018 held only 10.8% of senior management positions, far below the EU28 average of 26.7% (European Institute of Gender Equality). According to the World Bank Development Indicators, in 2017 the ratio of female to male enrollment

Equal opportunity

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in primary and secondary education was 1, and in tertiary it was 1.4 (women more advantaged than men).

National minorities have access to education in their own languages. However, the Roma continue to be seriously disadvantaged in terms of access to education and to the labor market (2015, the office of equal opportunities ombudsperson).

## 11 | Economic Performance

Lithuania is on a solid track of sustainable growth. The economy grew by 3.9% in 2017 and by 3.6% in 2018 (preliminary data). Real GDP growth lived up to its potential in 2013 and has exceeded it since. In 2017 it was 2.3%; in 2018 2.4% (estimate). Lithuania's economic recovery, which started in 2010, was largely derived from a recovery in external demand, although now growth is primarily driven by a mix of exports, domestic consumption and private investment.

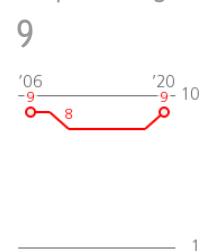
Solid economic performance has led to a significant rise in GDP per capita, meaning Lithuania is now catching up with the EU average. In 2017, Lithuania's GDP per capita (in terms of purchasing power parity) was 78% of the EU28. It was 46% at the time of its EU accession in 2004. Inflation in 2018 was 2.5%. It is being driven upward by prices of services, which reflect rising wages: their growth in 2018 was highest in the EU. The unemployment rate further declined to 6.4% in 2018 (Eurostat).

Exports have been negatively affected by two events this century: the economic crisis in 2009 and Russian economic sanctions in 2015. Since 2015, they have performed well. In 2017, exports grew by 9.3%, and between January and October 2018 by 8.5%. The forecast for 2019 is 5.3% growth and 4.6% growth for 2020 (Lietuvos bankas). The current account balance in 2017 was 0.7% GDP and the estimates for 2018 and 2019 are (correspondingly) -0.2% and -0.8% (Lietuvos bankas).

At the end of 3rd quarter of 2018, the cumulative stock of foreign direct investment (FDI) reached a record high of €15.5 billion (up by €2.6 billion on the 2nd quarter of 2016). FDI has been steadily rising since the 2015 crisis, and recently growth has been experienced not just in services but also in manufacturing green-field investments as well as startups and fintech thanks to an attractive start-up ecosystem and fintech development program (the latter supported by Lietuvos bankas).

However, the investment level at around 18% of GDP is still deemed insufficient for a developing economy (European Commission), hampered by the lack of a qualified labor force and insufficient resources invested in research and innovations. Investment is expected to pick up due to anticipated better absorption of public (EU) funding, but in the longer run, it will very much depend on the effective implementation of the required structural reforms.

Output strength



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## 12 | Sustainability

Although ecologically sustainable growth is rhetorically considered essential, it is occasionally subordinated to growth efforts. The Lithuanian population's awareness of environmental protection has increased. 67% of Lithuanians separate waste for recycling, and 31% have cut the use of single use plastic during the past 12 months (approximately at the level of EU average; Eurobarometer 2017 survey).

According to the 2018 environmental performance index by Yale University, Lithuania scored 69.33 and ranked 29 out of 180 evaluated countries (second in the East Central Europe region).

According to the state of environment report 2015 by the European environmental agency, greenhouse gas emissions amounted to an annual 4 to 5 tons per capita, among the lowest in the EU; total emissions in 2014 were 59.3% below 1990 levels. The energy sector accounted for 55% of greenhouse emissions in 2015, down from 61.7% in 2010. In 2016, 25.6% of energy was produced from renewable sources as a total of primary energy (above the 23% 2020 target). Energy intensity of the economy (gross inland consumption divided by GDP) has decreased by more than 30% between 2010 and 2016, but is still almost double the EU28 average (118.6 kg). The final energy consumption in transport is increasing despite a higher use of public transport; Lithuania is below the 2020 target of 10% for renewable energy in transport (3.6 % in 2016, European Commission).

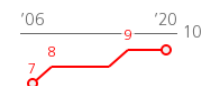
Up to 97% of wastewater from households and industry has been cleaned to target standards. During the last decade, downward trends were recorded for all pollutants except nitrogen inflow, which largely consists of diffuse pollution from agriculture. Emissions of several air pollutants have decreased significantly, but air quality is still affected by high levels of fine particulate matter.

Lithuania complies with international agreements and with the requirements of EU law concerning environmental policy. Indeed, EU membership has played a significant role in these improvements. According to the first EU environmental implementation review (2017), the status of the environment and especially air and water quality is good in Lithuania. However, Lithuania remains a resource and energy intensive country making only its first steps toward developing a circular economy. In the view of the European Commission, good compliance (with the EU law), with few complaints and infringements, is a point of excellence for Lithuania to be emulated by other EU member states.

Meeting recycling and waste management obligations within the EU context remains difficult, although the area of situation is improving. According to Eurostat, in 2016 43.3% of all municipal waste was recycled and reused (recycled, incinerated and composted), while 56.6% was disposed in landfill. A landfill tax and excise duties on

Environmental  
policy

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natural gas were introduced in January 2016. The landfill tax could encourage resource efficiency in waste management and divert waste from landfill, which in Lithuania still significantly exceeds the EU average of 25.0%. Planned construction of two new combined heat and power plants in Vilnius and Kaunas (supported by EU funds), which will significantly rely on incineration of waste, is likely to put Lithuania at risk of not meeting EU waste recycling targets for 2020 (50% target). Green taxation opportunities remain underexploited, especially with regard to vehicle taxation that could support a modal shift from private to public transport. Environmental taxation stands at 1.9% of GDP, which is far below the EU average of 2.4% of GDP (European Commission, 2018).

The state and the private sector ensure a national system of education and training, a dynamic research and technology sector, and viable educational infrastructure. According to the 2018 EU innovation scorecard, Lithuania performs below the EU average, falling into the group of moderate innovators, although its performance has improved since 2010. Its research and development expenditure declined from 1.04% GDP to 0.88% of GDP in 2017 (Eurostat). Since only 35.0% of this investment came from the business sector (EU 28 target is 66%), it is almost certain now that the previous ambitious target of spending 1.9% of GDP on research and development by 2019 will not be met.

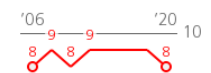
Bottlenecks related to skill supply are acute, especially given the shortage of labor that already reduces investment and potential for production development. This is most severe in remote regions. These bottlenecks must be addressed because of skills shortages caused by two recent waves of emigration, mostly of persons aged between 18 and 44. Adequate skill supply has been flagged by the European Commission as an acute problem and an area of priority action for the government for several review periods. The situation however has not improved.

The Lithuanian education system faces major challenges of quality and efficiency in virtually all areas. The share of public expenditure spent on education has declined from 5.4% of GDP in 2015 to 4.9% in 2017 (EU average in 2016 was 4.7%). Lithuania's 15-year-old students performed below the EU average according to OECD's program for international student assessment (PISA), and the number of pupils with low competences has increased since 2012, except in mathematics. Educational performance correlates with socioeconomic status and the urban rural divide. Despite a low overall rate of early school leavers, Lithuania has a high rate of early school leavers among pupils with disabilities (44.6% vs. the EU average of 22.0%).

With 58.7% of 30- to 34-year-olds holding a tertiary education degree in 2016, Lithuania was the EU leader in educational attainment (EU average: 39.1%). Nevertheless, there are significant efficiency and quality challenges. In 2017, minimum entry requirements were introduced to increase the quality of entrants to tertiary education. However, reforms in institutional consolidation and funding are

Education policy /  
R&D

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essential. The 16.0% decrease in the number of students enrolled between 2013 and 2016 was not fully matched by a decrease in the number of programs or institutions, although consolidation of universities is underway (albeit on a voluntary basis).

The attractiveness of vocational education and training (VET) remains moderate despite many modern sectoral practical training centers. Apart from attractiveness and flexibility, the main issue in vocational education and training is insufficient provision of work-based learning.

Enrollment rates in early childhood education and care continue to grow, and at 91.8% (2017) was close to the 95% national target. However, the urban-rural gap in enrollment stands at 50%. The quality of care is affected by low salaries (expected to rise following recent strikes) and the absence of any national monitoring of outcomes. Participation in lifelong learning has stalled at 5.9%, substantially lower than the EU average of 10.9% (2017). Lithuania appears not to be investing adequately into lifelong learning and paying insufficient attention to the learning of disadvantaged groups with typically low participation levels.

Lithuania's UN Education index is one of the highest among the countries covered by the Bertelsmann Transformation Index. It improved from 0.863 in 2007 to 0.879 in 2017.

## Governance

### I. Level of Difficulty

There are moderate structural constraints on governance. With the construction of a liquefied natural gas (LNG) terminal in the port of Klaipėda in 2014 and two electricity power bridges to Sweden and Poland in 2015, Lithuania effectively ended structural dependency on Russian energy resources, especially natural gas. In June 2018, the heads of state and governments of the Baltic states and Poland as well as the president of the European Commission signed an agreement envisaging the switching of the electricity systems of the Baltic states from the Russian grid to ENTSO-E (European network of transmission system operators for electricity) through Poland by 2025.

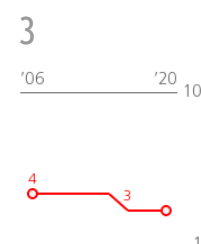
Structural constraints



The negative demographic outlook in Lithuania remains a significant challenge. The working age population is shrinking rapidly and this already poses a threat to growth. It will also exert pressure on public finances in the foreseeable future. Population decline is due to negative demographic developments but is aggravated by net emigration and, in the context of the EU, low life expectancy and high morbidity rates. The aggravating factors in turn very much depend on high social inequality, which during the review period has not improved.

Civil society traditions are relatively strong in Lithuania. These traditions date back to the dissident movements during Soviet times and the struggle for independence. For example, the Lithuanian independence movement was led by civic associations like Sajūdis (the Reform Movement of Lithuania) that stood for violence-free resistance and civil disobedience. Since independence, civil society organizations have established stronger roots in society. The number of organizations has increased, although not all registered NGOs are active. Volunteering and donations have recently increased. On the other hand, interpersonal trust remains low and has even decreased.

Civil society traditions

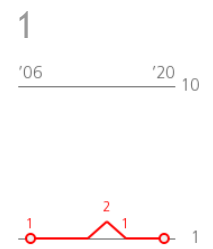


In 2010 only 40% of people in Lithuania agreed that “other people could be trusted” (EBRD, Life in Transition survey), a figure which fell to 25% by 2017 (survey by Socialinės Informacijos Centras, commissioned by the ministry of culture). This contrasts with the 60% of respondents who agreed with this statement at the beginning of the transition in 1989. This trend shows the difficulties faced by Lithuanian society and the government in transforming an otherwise relatively satisfied population (70% satisfied with their lives in 2018; Eurobarometer) and growing welfare provisions into greater social capital.

There are no major ethnic, religious or social conflicts that threaten the existing political or economic systems. The remaining important issues for ethnic communities, such as the spelling of Polish names, and Roma settlement in Vilnius, are being solved within the existing legal framework. After a protracted stalemate, some small but important (though incomplete) progress can be noted on the issue of spelling.

Political polarization in the Seimas (parliament) has noticeably increased since 2016 as the new (first time ever) governing Union of Farmers and Greens attempts to impose their policy agenda, sometimes at all costs. The political process is clearly falling within the limits of the constitution and established procedures and occasional conflicts are unlikely to spill over into popular mobilization.

Conflict intensity



## II. Governance Performance

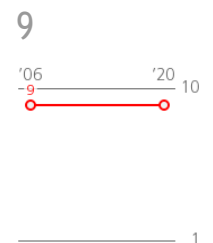
### 14 | Steering Capability

The degree of policy continuity in Lithuania has been very high, especially in the areas of foreign and defense/security policy. Lithuania achieved all its strategic priorities in 2004, gaining membership to NATO and the EU. Lithuania's new strategic priorities include consolidating its membership in the EU and in NATO, active foreign policy beyond its immediate neighbors, improving the competitiveness of its economy – especially through health and education reforms and paving the way for more value-added generating sectors – and ensuring energy security and efficiency.

For the first time since independence in 1990, the government is not led by traditional parties (Homeland Union/Christian Democrats or Social Democrats). Since December 2016, the long-term agenda set by the previous governments (National Development Strategy Lithuania 2030 and its operational national development program 2014 to 2020) has been broadly continued, though this strategy is understandably no longer specifically referenced, as the new government's rhetoric emphasizes discontinuity. The new government continues to stress its desire to address demographic decline, improve public administration efficiency and quality of services, promote healthy lifestyles, culture and education, bridge the gap between the rich and poor, and better manage state-owned assets and the fight against corruption. The new government was initially less keen on policies in the areas of the economy, innovations and competitiveness, which are vital to escape the medium income trap. However, by its mid-term in office (end of 2018) it began to focus on these policy areas too. Above all, against important backsliding elsewhere in Central and Eastern Europe, Lithuania (like other Baltic states) is not deviating from its

Question  
Score

Prioritization



democratic ideals and is in fact deepening the quality of democracy. It continues the established process of strategic planning, which since 2008 has evolved toward greater emphasis on evidence-based policy-making and performance indicators. Since 2014, the new priority, in the wake of assertive Russian expansionist policies, is to build up military defense and resilience capabilities across a broad spectrum of policy areas.

The government implements many of its reforms effectively, although generally in a piecemeal rather than comprehensive manner due to low external pressure to reform (since EU accession) and a lack of political leadership or its fragmentation. During the review period, some of the reforms implemented were driven by Lithuania's OECD accession process.

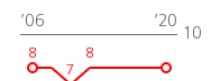
The current government continues fiscally responsible policy-making and implementation and prioritizes the strengthening of Lithuania's defense capabilities and societal resilience to intrusions of foreign authoritarian governments and social media operations in the "post-truth" environment. It has completed two important policy initiatives started by the previous government – the "new social model" meant to increase labor flexibility and reform of the management of state-owned forests. It successfully continues its renovation program of old, energy-inefficient apartment blocks, although the speed of implementation should be faster. Despite the clear pursuit of its own electoral promises, in the middle of a parliamentary cycle the record of achievement of the current government is uneven. It implemented reforms addressing excessive alcohol use and the protection of children's rights (with evidence of real improvement yet to be seen). It began a vigorous overhaul of the management of state-owned enterprises in the transport sector (railways, procurement of roads construction and postal services). However, in some cases, implementation fell short of initial ambitions such as reforms to the pay model for teachers in secondary schools.

The number of infringement cases initiated in Lithuania for non-transposition, or incorrect transposition of the EU law by the European Commission is the fourth lowest in the EU (34 cases at the end of 2017).

While Lithuania has a solid track record in building "hard" infrastructural objects, it lacks the knowledge on how to implement so-called soft projects to nudge the behavior of citizens and social groups to achieve better social outcomes and cohesion (e.g., in secondary education, children and social protection and healthy lifestyles). Successful social innovations and pilot-experimentation are not yet scaled up into sound public policies, while policy design and implementation are often rigid and bureaucratic because of a risk averse administrative culture. On the whole, administrative structures are relatively strong, with sufficient capacity to implement many of the proposed reforms. The biggest obstacle to implementation is the lack of political leadership and insufficient care for either ex ante impact assessments or ex-post evaluation of implemented reforms.

#### Implementation

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Despite lacking governing experience, the government of the Farmers' and Greens' Union has demonstrated an ability to correct policy mistakes and to compromise reasonably with the opposition over some important reforms, such as a package of anti-alcohol laws, reform of the management of state-owned forests and implementing the “new social model.” However, the government’s policy of active policy consultation with society and interest groups is not being thoroughly conducted despite pledges. Still, minimum standards of transparency and policy input are observed as all draft decisions, with explanatory material, are published on the Seimas website at the time of their submission for inter-agency consultation.

There are two structural challenges related to policy learning – the high turnover of members of parliament and the middle-income trap. Firstly, more than 50% of members of parliament elected in 2016 were parliamentary novices (up from 39% in the previous parliament). As none of the governing parties have ever been reelected (with a partial exception of the Social Democrats in 2004), new governments are keen to display quick wins to satisfy electoral pledges instead of engaging with elaborate, evidence driven and policy-learning corrected strategies. As a result, approximately 50% of all laws in the current parliament are adopted through fast track procedures (state audit office). The second challenge derives from the developmental path of Lithuania. It has reached the point of finding itself in a potential middle-income trap and escaping it will require more sophisticated policy measures and more advanced learning than has been necessary in the past.

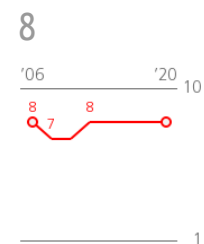
Policy learning in some policy areas (such as health care) is hindered by the lack of properly designed evidence gathering to evaluate efficiency and impact of reforms (OECD health care assessment of Lithuania, 2018). Lithuania still performs below the EU average in promoting open data, i.e., the open access to public data. It also lacks a proper strategic vision for developing a data-driven public sector (European Commission, 2018).

In 2018, Lithuania joined the OECD, which has increased policy-learning opportunities.

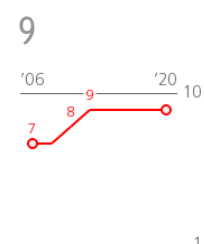
## 15 | Resource Efficiency

The government generally uses all available resources efficiently. Even though the Lithuanian media occasionally claims an excessive bureaucracy, personnel expenses are not very high relative to the services offered by the state. In recent years, in line with the (worsening) demographic trends and to release resources for salary increases, the number of posts in the public administration sector was cut by 10% to 20%. By 2020, the government plans to centrally manage 60% (up from the current 4%) of all state-owned land zoned for construction using the state enterprise Turto bankas.

### Policy learning



### Efficient use of assets



Since 2009, the government has opted decisively for results-driven public management and evidence-based decision-making. The current government pursues a reduction of the public administration sector and the centralization of certain administrative support functions in public administration institutions. However, it is less focused on the efficiency of the regulatory environment. The elaborate use of performance indicators for strategic activity planning continues, but other evidence gathering tools, such as impact assessment or functional reviews, have either fallen out of use or are applied only formally (when required by EU funds).

Reform of the management of state-owned companies (SOE) started in 2011 and has been essentially completed (assessment of the country specific recommendations 2015, European Commission). It was an exemplary reform in which Lithuania set the pace for states in the Baltic region and all of East Central Europe. However, the depth of the SOE reforms varies in different policy areas. In the energy sector, the reforms have been exemplary. During the review period, the governing coalition significantly advanced reforms in railways, state-owned forest management and road maintenance. According to an OECD review on corporate governance in Lithuania (2018), the government should now focus on ensuring a level playing field between SOEs and private enterprises (including the conversion of several commercially oriented SOEs into limited liability enterprises). In four years, the number of SOEs has more than halved, from 139 in 2015 to 55 in 2019. However, similar standards are not applied to municipal companies where the independence of management boards is not ensured (state audit, 2017). In fact, all performance criteria (return on capital, return on assets and profitability) in 2017 for the municipal company sector were negative. Only the three biggest cities (Vilnius, Kaunas and Klaipėda) have started to take action to address this.

The state audit office continues to be outspoken in its reports and recommendations to the Seimas. Since 2014, it has also assessed the quality of draft state budgets and has presented the assessments to parliament. It has criticized almost every draft budget as too ambitious in terms of expenditures. Though its recommendations are not legally binding, the government usually takes action over some of them.

Efficiency in the public procurement system is improving, especially at the central level, although challenges remain. Transparency in public procurement is increasing, as is the use of digital and web publishing. The government has obliged contracting authorities to publish online information on initiated tenders, the successful bidders and the contracts awarded (with an exception for the lowest value procurement). 98% of all procurement purchases are carried out electronically. Cross-border procurement remains low, with a potential negative impact on prices. At the municipal level, concerns remain with regard to adequate procurement planning, transparency and in-house procurement.



The government generally coordinates its policies effectively and coherently. Interministerial coordination is managed through a cabinet committee tasked with strategic planning. However, the variable results should be attributed to the government's political strength and will (or lack of it), rather than to the system itself. Policy fragmentation, especially with regard to its implementation, continues to be a problem in the areas of social capital, namely, social security, culture, and to a lesser degree, in education and health care.

In the early 2010s, the government, through the office of the government, significantly enhanced coordination and monitoring of its key priorities and their associated activities. However, the non-priority policy agenda is now less coordinated due to the consolidation of the doctrine of ministerial responsibility, and hence, autonomy. It is also affected by governing party coalitions that can often be ideologically diverse. Unlike in Scandinavia, the “whole of government” approach has not yet taken the root in Lithuania, as institutional allegiances continue to prevail. Despite this, major political and policy priorities have been achieved in the past.

The technocratic government of the Farmers and Greens Union and Social Democrats appears to be performing best in the areas and issues which do not require the legislative support of parliament, as members of parliament from the ruling coalition want to impose their own views on the government's policy agenda instead of supporting it.

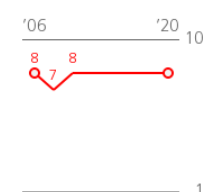
All integrity mechanisms are in place, functioning and supported by the government, but corruption continues to be a serious problem. According to popular perception measured in 2016 at the request of the Special Investigation Service, corruption is the fifth most important issue for the general population (56% agree that it is very serious problem) and business (35% agree that it is very serious problem).

Perceptions of corruption are still very high according to Eurobarometer surveys. In 2017, 93% of the population thought that corruption was widespread in Lithuania, although 20% agreed that it had decreased over the previous three years (a significant (14 percentage points increase in comparison to 2014). Direct experience of corruption has dropped considerably among the general public to 8% (17 percentage points less than in 2013) and business (7%). In 2017, 52% of Lithuanians did not tolerate any forms of corruption (favor, gifts, money), up from just 29% in 2013.

In recent years, noteworthy efforts to increase transparency targeted a number of sectors and institutions, among them party financing and electoral campaigns, territorial planning, police, public procurement, market surveillance systems and the work of special institutions, such as the Special Investigation Service (STT) and the High Commission on Ethics in Office (HOEC). During the reporting period, new legislation introduced protections for whistleblowers in the public and private sectors.

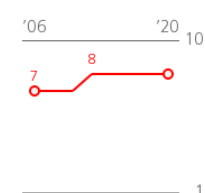
#### Policy coordination

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#### Anti-corruption policy

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This protection had already been used during investigation of corruption in the prison system.

Since 2012, declarations of personal finances by civil servants and public officials are electronically submitted to the HOEC. The declarations of security officials are classified. 107,000 officials are obliged to declare assets and interests, of which almost 41,000 declarations are made public. However, the HOEC has struggled to monitor, analyze and verify this large volume. Their difficulties are compounded by the fact that the declarations are not in the open data format that makes large-scale analysis impossible. This issue will be alleviated after the creation of a single registry of private interests (by the end of 2019). Under the new system, declarations will be linked to the data from other registries, making them easier to complete and track.

The STT stepped up its operations targeting high-level corruption and maintained its higher-caliber focus during the review period. 127 persons (in 68 court cases decided in 2017) were given court sentences for corrupt activities, of whom 40% were politicians, top managers in public sector, judges and defense lawyers. In 2017, two parliamentary political parties (Lithuanian Liberal Movement and Justice and Order Party) were indicted for corruption and their cases reached the court in 2018. In 31 cases, pre-trial investigation was completed and transferred to the court with 56 persons to stand trial (of whom 59 were top-level executives). This level of activity by the STT were similar or slightly higher than its activity in 2015.

Measures have been taken to improve the corruption prevention framework, but difficulties remain with its implementation. A new lobbying law came into force in 2017, but its implementation will be challenging since it applies a rather broad definition to lobbying activities and contains significant loopholes for avoiding registration. The law obliges all companies that are willing to engage in lobbying activities to register on a website. However, it does not impose similar obligations for high-level public sector officials or members of parliament (European Commission, 2018).

## 16 | Consensus-Building

All major political actors clearly agree on the goals of democracy, although ideas about the values and policies to be prioritized in Lithuania's democracy differ among political actors. Political parties have an established tradition of inter-party agreements on the most important policy issues. In March 2014, all parliamentary parties agreed to raise defense spending to 2% of GDP (from 0.77% of GDP in 2012). This goal was reached in 2018 and a new target set of 2.5% of GDP spending on defense by 2030.

All major political actors are committed to a market economy. In practical terms, this is expressed through three key documents, namely the long-term development strategy of the state of Lithuania 2030 adopted by the Seimas in 2012, the operational national progress program 2014 to 2020, adopted in November 2012, and the national

Consensus on goals

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reform program, which was first adopted in 2005 and has been updated annually. The latter serves as a document for policy dialog with the European Commission on economic competitiveness issues during the so-called European semester.

There are no anti-democratic veto actors in Lithuania. The populist parties or parties with clearly identifiable populist appeal traditionally have been co-opted into the system and play by democratic rules. Some have already been voted out of Seimas. For example, the social liberal New Union, which relied on populist slogans in the 2000 elections, subsequently became a system-oriented party and in July 2011 merged with the Labor Party. The latter was completely wiped out from parliament during the 2016 national elections. So too was a protest party (the Courage Way) which had six seats in the Seimas during the period 2012 to 2016. On the other hand, the potential for populist or protest votes did not decline significantly during the last few parliamentary elections, which added to the fragmentation of the party system. In the 2016 national elections, many populist votes landed went to Lithuania's Farmers and Green Union (a traditional and historical party), unexpectedly leading to its strong performance (it captured 59 seats out of 141).

Populist influence on policy direction has been minimal, and in the past was typically controlled by the major traditional party of any governing coalition, the Social Democrats or Homeland Union until late 2016. For the first time since independence, the parliamentary majority and the government is being led by neither of these two parties.

For most of the first decade after independence, the main division in Lithuanian society (and the basis for the party system) was based on attitudes toward Lithuania's Soviet past. This divide has been replaced by socioeconomic differences, as other issues gained more weight in society. Interestingly, these lines cut across all social groups for a long time and did not coincide, moderating the polarization of society and the party system. This led to a paradoxical situation in which many transition "losers" tended to support reforms and even faster integration into the European Union.

Since then, there have been three attempts to mobilize disillusioned voters through sharp rhetoric aimed at polarizing both party system and society. In 2003 to 2004, the Law and Order party led by the president, Rolandas Paksas, campaigned against elitist governance of Lithuania and for justice, but the president was impeached by the Seimas (parliament) for breaching the constitution.

In the early 2010s, a new line of polarization in Lithuanian society appeared, again a recast version of striving for justice, but this time triggered by a so-called pedophilia scandal that erupted in Kaunas and resulted in several killings, including of a judge. A political party (Way of Courage) was organized around the issue and secured six seats in the Seimas in 2012, but flopped in parliamentary elections in 2016. In 2014, the party system was challenged again by a diverse group of fringe parties and movements (mostly nationalist and Euroskeptic), who forced a (failed) referendum on extending the ban of sale of agricultural land to foreign nationals.

Anti-democratic actors

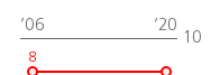
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Cleavage / conflict management

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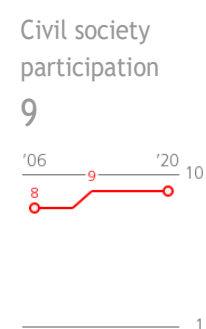
The potential for the polarization of society remains, as a significant portion of voters do not vote for established parties. In 2016, many voters supported the Party of Farmers and Greens (an established small party) because they were disappointed with the hitherto leading parties and were attracted by promises of strengthening public integrity, reducing brain drain and combating alcoholism. While in fact displaying continuity rather than rupture in public policies, to consolidate its hold on power and ensure its candidate was elected president in 2019, the Party of Farmers and Greens positioned itself as an anti-elite party of disadvantaged voters with a socially conservative profile that does not shy away from political and institutional conflict with other political forces. For the first time ever, openly Euroskeptic political movements will be contesting presidential and European Parliament elections in 2019. It remains to be seen whether any of these conflict lines will become entrenched in Lithuanian politics.

The political leadership continues to assign an important role to civil society actors in deliberating and determining policies.

The role of the tripartite council in consulting on major socioeconomic policy decisions is formally assured and is honored in practice. Transparency of decision-making has increased since 2009: now all draft decisions (governmental, parliamentary and municipal) along with accompanying documents (such as explanatory letters, impact assessments and other supporting documents) are made publicly available on the Seimas website no later than at the start of interministerial consultations over the draft decisions. A single access public consultations portal is administered by the office of the government, although adherence to the standards of proper consultations varies.

NGOs do have some influence on decision-making, but business groups and, to a lesser degree, trade unions are more influential players. The government is determined to strengthen the development of the NGOs through an improved regulatory framework. They also want to boost their role in decision-making as well as provide some financial assistance (in the region of €4 million annually). Since 2015, NGO development issues are regularly deliberated in the NGO council (established by law and composed of NGO, governmental and municipal representatives). However, according to Transparency International, NGOs often lack transparency, as only 27% of them publish reports on their activities, and just 21% publish financial reports (data from 2016).

The government and individual ministries routinely use the technical expertise of various scientific institutions and individual experts for broader policy setting. Various experts have been drawn into the formulation of the long-term development strategy of Lithuania until 2030 and are consulted on various policy issues. Most of these studies are publicly available on official websites.



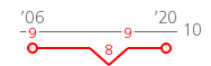
While attitudes toward Lithuania's communist past still vary, Lithuanian society is not divided in any significant way by these issues. Importantly, communist attitudes have ceased to be the most important cleavage line in party politics, even if it remains one of the best predictors of voter preferences. Historical research into resistance and collaboration under Soviet rule continues. In 2009, together with other EU member states from Central-East Europe, the government achieved recognition from the general affairs council that "in order to strengthen European awareness of crimes committed by totalitarian regimes, the memory of Europe's troubled past must be preserved, as reconciliation would be difficult without remembrance." The European Commission also made a commitment to promote remembrance of Stalinist crimes. Domestically, the Seimas in 2010 made it a criminal offense to publicly condone, deny or grossly trivialize international crimes committed by the USSR or Nazi Germany against the Republic of Lithuania or residents thereof.

The lustration process of former KGB agents and reservists was largely completed by 2013 with respect to known persons and evidence. Since then, the officially designated lustration commission has ceased its active pursuit of lustration and only responds to requests for clarification and information. It is estimated that from 1940 to 1991 about 118,000 individuals in Lithuania collaborated with the KGB. During the reporting period, surviving KGB documents and data from the inventory book of KGB agents in Lithuania continue to be published on the website of the Genocide and Resistance Research Center of Lithuania (LGGRTC, [www.kgbveikla.lt](http://www.kgbveikla.lt)) on a regular basis. This includes the entire surviving index of the KGB agents' personal files, with short accompanying information about collaboration.

In 2014, LGGRTC finished compiling a list of 2,055 Lithuanian citizens who were potential Nazi war criminals, although it is not yet clear whether, when and how this list will be published. In 2017, there were 893 Lithuanian carriers of righteous among the nations status and in Lithuania hold the title of Lithuanian freedom fighter; the surviving 98 persons in 2014 were granted a right to receive Lithuanian state pensions of the second degree. Following recent publication of several high public books analyzing complicity of Lithuanians in the Holocaust, and commemorative events in 2016 dedicated to the 75th anniversary of massacres of the Jews in the Lithuanian shtetls, public debate about the Holocaust is open and vigorous. Lithuanian society has accepted the Holocaust victims and perpetrators of war crimes as part of Lithuanian society, bearing all the implications.

## Reconciliation

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## 17 | International Cooperation

Transfers from the EU budget continue to be an important source of public investment in Lithuania, contributing to approximately one-third of the national budget and constituting over half of all capital public investment. EU support and membership in the internal market was instrumental in the rapid progress of Lithuania toward the EU average. Analysis shows that without EU membership, Lithuania's GDP in 2014 would have been 13.7 percentage points lower (Nauro Campos, Fabrizio Coricelli and Luigi Moretti, 2014). Since Lithuania's GDP per capita (in PPP terms) exceeded 75% of the EU average in 2014, in the next EU MFF (2021 – 2027) Lithuania will be reclassified as a country in transition away from the EU financial support. As a consequence of this reclassification, EU assistance from structural and agricultural funds is likely to decrease by a third (Lietuvos bankas).

Lithuanian authorities use EU support effectively for a fully self-determined agenda set out in the national long-term development strategy Lithuania 2030 and its various operational policy plans and programs. In the period 2007 to 2013, Lithuania's absorption rate of EU structural funds was the highest in the EU and the State Audit Office in 2018 found only 0.44% improper expenditure for that period (well below the 2.0% threshold tolerated by the European Commission). However, in the 2014 to 2020 period, programming and disbursement were subject to delays. At the end of 2018, about 69% of €9.9 billion in EU investments were allocated to Lithuania, of which only 33% were actually spent in the country. These figures are on par with the EU average for both accounts (data from the European Commission's DG REGIO). On the other hand, despite massive investments from the EU Social Fund, social inequalities remain at one of the highest levels in the EU.

Lithuania is regarded as a credible and reliable partner by the international community. It had become a full democracy and fully functioning market economy by the late 1990s and is now actively working with the international community (especially the EU) to stabilize the region and encourage its neighbors to reform, especially through the Eastern Partnership of the European Neighborhood Policy. In 2014 to 2015, Lithuania was a non-permanent member of the United Nations Security Council, a first for a Baltic state. It complies with existing international agreements and is a reliable and trustworthy partner in the institutions that monitor compliance with these agreements.

Effective use of support



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Credibility



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In addition to its bilateral foreign policy agenda, Lithuania continues to cooperate with its Baltic neighbors. It does this within the framework of the Baltic council and Baltic parliamentary assembly in various social, cultural and economic fields, and during the period of review, notably in energy and transport infrastructure. Together with Latvia and Estonia, Lithuania is a member of the Nordic-Baltic Six (NB6) and the Nordic-Baltic Eight (NB8, including Iceland and Norway). It also participates in the framework of the EU Strategy for the Baltic Sea Region (since 2009).

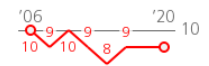
After a decade of stagnation, Lithuania's bilateral relationship with its neighboring ally Poland improved due to the initiative of the government and a breakthrough in some of the old bilateral issues, such as the pricing of railroad carriage of refined oil products and access to the railway network. The work of the bilateral governmental commission on educational issues resumed work in 2018, and a bilateral parliamentary assembly met in Warsaw in February 2019. The issue of spelling of non-Lithuanian names in official documents has been resolved for newly naturalized citizens following recent court decisions, but not for the majority of ethnic Poles who were born in Lithuania to Lithuanian citizens.

While relations with Poland improved, Lithuania's bilateral relationship with authoritarian Belarus has been pragmatic. In the context of the EU, it has enabled the current leadership of Belarus to maintain a certain degree of maneuverability vis-à-vis Russia. Lithuania continues to oppose the plans of Belarus to open a nuclear power plant in Astravas (Ostrovets), only 50km from Vilnius, in 2019 to 2020. The Lithuanian parliament adopted a law prohibiting the purchase of electricity from Ostrovets NPP and declared the NPP to be a threat to national security, environment and public health.

Lithuania continues to be an active participant and promoter of the EU's engagement with its eastern neighbors under the eastern partnership initiative. Together with Poland, Estonia and Latvia, Lithuania has staunchly supported Ukraine, Georgia and Moldova in their aspirations for European integration (new generation EU association agreements with these countries were signed in June 2014) and has supported Ukraine in its fight against the Russian invasion that began in 2014.

## Regional cooperation

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## Strategic Outlook

Lithuania's economy is forecast to continue to grow in the medium term. It will do so at a more modest rate than in the mid-2000s, but still at a healthy 2.5% to 3% per year. In economic terms, especially regulatory policies and developing administrative capacity, Lithuania has been successfully bridging the gap with EU averages and in some areas has caught up or surpassed the Southern European member states. However, persistent internal divides have not allowed Lithuania to bridge the social and value gaps with Western and Northern European EU member states. As a result, it is "locked" behind the "Berlin wall" with other Baltic and Central Eastern European countries. Meanwhile, in contrast to several Central and Eastern European states, Lithuania and the other Baltic states remain the beacons of hope in the region. They continue to make incremental advances in the areas of democracy and management of transformation.

However, in order to continue its development and avoid the middle-income trap Lithuania will need to address its structural vulnerabilities more effectively. It has exhausted almost all potential for labor-intensive growth and must switch to a higher value-added path based on the utilization of knowledge and innovations. In order to continue attracting high value-added generating investments, the government must invest more in human capital (especially health protection and education) and address the problem of demographic decline. Social peace and political stability require the effective alleviation of poverty and social exclusion, which have remained high and particularly affected the most vulnerable social groups. The tax and benefits system so far has had little impact on addressing inequalities and regional disparities. Lithuania will need to raise more money and spend it more effectively on desired social, cultural and economic outcomes. In a geopolitically challenging neighborhood, this is also imperative for external security.