

BTI 2016 | Lithuania Country Report

	scale	score	rank	trend
Status Index	1-10	9.15	# 6 of 129	
Political Transformation	1-10	9.30	# 6 of 129	➔
Economic Transformation	1-10	9.00	# 4 of 129	➔
Management Index	1-10	7.19	# 6 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	2.9	HDI	0.834	GDP p.c., PPP \$	26642.8
Pop. growth ¹	% p.a.	-1.0	HDI rank of 187	35	Gini Index	35.2
Life expectancy	years	74.2	UN Education Index	0.877	Poverty ³	% 0.0
Urban population	%	66.5	Gender inequality ²	0.116	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

During the period under review, Lithuania enjoyed the fruits of the painful fiscal austerity measures implemented in 2008-2009. As its macroeconomic fundamentals were in good shape and had good medium-term prospects, on 1 January 2015 Lithuania became the 18th member of the euro zone. The country was competent as president of the Council of the European Union in 2013 and is a non-permanent member of 2014-2015 U.N. Security Council; each case is a first for a Baltic state.

By 2015, Lithuania is well on the growth path again and has achieved nearly all of its goals from the early 2000's (membership in the EU, NATO, Schengen area and euro zone) except for energy security, where progress is visible yet not sufficient. It impressively advanced by 22 percentage points to the EU average (both current EU and EU15) in terms of GDP per capita (74% in 2014), improved its record in terms of the life expectancy and healthy life expectancy, but has yet to achieve a more equitable distribution of all these achievements across its population, about a third of which continues to be at risk of poverty or social exclusion.

The center-left government, in power since late 2012, is composed of diverse political parties. The Polish Electoral Action party left the coalition in 2014, but the remaining three parties, under the leadership of the Social Democrats, command a sufficient majority. They are likely to serve a full parliamentary term, which would be Lithuania's second consecutive such feat and a sign of political stability. This comes at a price of protracted policy-making and a lower number of reforms. However, on key issues this Government has demonstrated not only policy continuity, but also results. In addition to the abovementioned achievements in the international arena and introduction of the euro, fiscal discipline has been maintained and energy security projects were either implemented (such as the liquid natural gas (LNG) terminal in Klaipėda) or are well on their way to being so (two electricity power bridges with Sweden and Poland). The energy efficiency program finally took off. The conciliatory style of policy-making seems to be popular with voters. The approval rates of the government are respectable and its leading party, the Social

Democrats, won numerous municipal elections and the highest number of mayoral posts (16 out of 60, through direct elections for the first time) in March 2015.

President Dalia Grybauskaitė was re-elected in 2014 and is enjoying somewhat diminished, but still very high popular support. Most importantly, there seems to be a significant increase in the Lithuanian population's trust in state and political institutions as well as their satisfaction with their private lives (69%) and personal finances (65%), the country's highest such numbers since the re-establishment of statehood.

The main risk of this transformation lies in the increasing prevalence of populist economic policy proposals.

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 set the goal of becoming a free and independent state within the community of European democracies. With accession to the European Union on 1 May 2004, and to NATO in March 2004, Lithuania has 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 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 the governing coalitions led by the traditional parties, or (as in 2012) left at the margins of parliamentary politics.

Economic transformation led to massive social inequalities and imposed severe social burdens on most 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 nearly free of political pressures. This was also a factor in the economic boom, which came to a sharp end in early 2009. This last economic crisis of 2009–2010 was the biggest one since the collapse of the planned economy in the early 1990s, but Lithuania withstood through the sharp cuts in 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 some policy areas. However, policymakers confined themselves to only minor changes.

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 country's existence as a state, with adequately established and differentiated power structures. The state's monopoly on the use of force is not contested.

Question
Score

Monopoly on the
use of force
10

All citizens have the same civil rights; the nation state is accepted as legitimate. National minorities include Poles (6.6% of the population), Russians (5.8%) and Belarusians (1.2%), according to the latest population census in 2011 (data released in 2013).

State identity
10

The state is largely defined by a secular order. Religious dogmas have no noteworthy influence on politics or law. Nearly 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

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.

Basic
administration
10

2 | Political Participation

There are no constraints on free and fair elections. 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 parliamentary elections in 2012, presidential elections in 2014, elections to the European Parliament in 2014, and municipal elections in 2015) was not questioned. There are generally few irregularities and the High Elections Commission deals with them effectively. However, in 2012 it had to cancel

Free and fair
elections
9

parliamentary electoral results in two single-member electoral districts because of significant vote rigging. In 2015 municipal elections, there will have to be a re-run in three municipalities for the same reason. There were no irregularities registered during the presidential elections or the European Parliament elections in 2014. Since 2012, the electoral process has been monitored by a civic initiative called the White Gloves movement.

In June 2014, after ten years of deliberations, the Seimas amended the Law on Municipal Elections to introduce the direct election of mayors. Directly elected mayors will also be members of municipal councils. 76% of Lithuanians approve this change, though the legislation is unclear about how the newly elected mayors will perform in cases where there are opposing majorities in the municipal councils. This will have to be established in practice.

In November 2010, the Constitutional Court ruled that the provisions of the Law on Elections to the European Parliament violated the constitution, as they did not provide any other than party lists nominate candidates. To rectify this and norms in other elections laws that violated the constitution, the Seimas amended the Law on Elections to the European Parliament in November 2013 and the Law on Municipal Elections in June 2014. Candidates can now be put forward by electoral committees. One such electoral committee nominated a list of candidates for European Parliament in 2014, but failed to back it up by the required number of signatures (10,000).

It is worth noting that a procedure for a constitutional amendment was set in motion in the Seimas in December 2012. This amendment was to facilitate compliance with the January 2011 European Court of Justice ruling that found a 2004 ban imposed by Lithuania's Constitutional Court, which prohibited any impeached politician from running for any elected office, was excessively harsh. This directly affected Rolandas Paksas, the impeached president and now member of European Parliament, who despite being a chairman of Tvarokos and Teisingumo Partija (Law and Justice Party), could not run for parliamentary elections in 2012. However, there has thus far been no constitutional majority in the Seimas capable of passing the amendment, which prevented Rolandas Paksas from running for president in 2014.

Electoral turnout has been low but stable. 53% of eligible voters voted in the first round of the general elections in 2012 (49% in 2008). 52% voted in the first round of the 2014 presidential elections (the same as in 2009), 47% in the second round, which coincided with the elections to the European Parliament (in the "uncoupled" elections to the European Parliament in 2009, the turnout was just 21%) and municipal (as well as mayoral) elections in 2015.

There are 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 have unrestricted freedom of association and of assembly within the basic democratic order. 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 non-governmental organizations that contains a more precise definition of the status of NGOs working for public benefit.

Association / assembly rights
10

In July 2013, a march for tolerance involving gay rights groups took place in Vilnius, although public opinion about such parades continues to be polarized (62% are against them).

Unrestricted freedoms of expression and of the press and media are guaranteed by the constitution and also function in practice. Private media comprise a diverse selection of print and electronic outlets.

Freedom of expression
9

The 2014 Freedom House country report states that transparency regarding media ownership is “inadequate” in Lithuania. An increasing concentration of media was noted in a study commissioned by the Lithuanian Ministry of Culture in 2014. There are few if any ownership-disclosure requirements or sanctions for non-disclosure. There are no concentration restrictions whatsoever. There is no evidence to suggest that the situation improved following previously reported allegations of corruption in media advertising. However, the overall level of trust in the media somewhat rebounded from a historically low 33% in January 2013 (Vilmorus/Lietuvos rytas) to 45% in January 2015 (Vilmorus/Lietuvos rytas) but has not returned to the July 2010 benchmark of 55% (ELTA/Baltijos tyrimai).

Poor professional standards continue to be a source of concern, as evidenced by the abovementioned assessment commissioned by the Ministry of Culture. Further proof is indicated by the number of complaints reported to the Commission of Ethics of Journalists and Publishers as well as the Inspector of Journalists’ Ethics, which have established that various infringements occurred. This situation forced some media to adopt ethics standards and to communicate them publicly (e.g., BNS and delfi.lt in 2013).

The print media market is dominated by tabloids. According to a study conducted by the European Association for Viewers’ Interests (EAVI) in 2010, media literacy in Lithuania is about average for an EU country. Lithuania’s weak points were an insufficient availability of (quality) media and weak communicative abilities of media users to use social networks for access to and participation in the media.

In November 2013, Lithuania's Special Investigation Service (SIS) attempted to force the largest news agency in the Baltics, BNS, to identify its sources after allegedly obtaining access to the classified report by the State Security Department regarding Russia's plans to launch a misinformation campaign about President Dalia Grybauskaitė. The SIS obtained judicial permission to search and interrogate BNS journalists, whereby it confiscated several computers. This resulted in great public outcry followed by annulment of the permission by the court in December 2013.

In 2014, the regulatory authority (Lietuvos televizijos ir radijo komisija) temporarily suspended the rebroadcasting of two Russian TV programs due to their slander concerning Russia's war in Ukraine and the Soviet occupation of the Baltic states. In order to counteract the Russian propaganda, the President of Lithuania proposed amendments to the Law on Public Information, which foresee monetary sanctions of up to 3% of annual turnover, temporary suspension, the revocation of licenses and/or lack of access to public funding for media companies found guilty of disseminating slanderous misinformation. Russian TV and radio channels are being watched and listened to on a regular basis by 405,000 people (15% of population). Recent public opinion research by Vilorus (commissioned by the regulatory authority) showed that inhabitants with Russian media as their primary sources of news tend to take on views very similar to the official Russian government position concerning the war in Ukraine.

In November 2014, the Seimas approved the establishment of a new self-regulatory body, the Ethics Commission for Public Information, to replace the Ethics Commission of Journalists and Publishers. The new body will have a bigger mandate; in addition to analysis of complaints against mass media and journalists, it will mediate conflicts between journalists and media management. It is also tasked with promoting critical assessment of information provided for the general public by mass media.

3 | Rule of Law

There continue to be 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 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 there are increasing discussions on 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.

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.

Independent
judiciary
9

Proponents of reform of the judiciary in Lithuania are asking that it balance the independence it enjoys with greater openness and public trust. Since 2010, court seats have been rotated regularly and all judges subject to periodic performance reviews (not limited to instances of promotion seeking, as previously). Also, a community of experts acquired the right to participate in assessing the performance of the courts, which was not the case before.

At the end of 2013, there were 787 posts of judges in all courts (except for the Constitutional Court) of which 773 were occupied (773 in 2011, 776 in 2012). Judges were supported by 628 assistants, a significant improvement over 2012. 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; in 2013, 36 judges were subject to assessment in this commission (51 in 2012, 114 in 2010). Of these, seven disciplinary cases were considered by the Judicial Court of Honor and four judges were found guilty of gross violations (9 and 4 in 2012, 11 and 8 in 2010). Turnover was limited to 3%; in 2013, there were 25 new appointments and 27 judges left the service, mostly as their terms expired or due to the pension age. Of these, two judges were dismissed from the service by the president (two in 2012, four in 2010) for gross violations. 25 judges were promoted in rank.

In 2013, an electronic system of submitting claims and other documents was introduced and the video recording of court proceedings began. In early 2015, the installation of video conferencing equipment in all of Lithuania's 13 detention facilities was nearing completion.

According to the 2014 report of the European Commission for the Efficiency of Justice (CEPEJ), based on 2012 data, Lithuania continued to be the top performing EU member state in the courts with regard to litigious civil and commercial cases (with disposition time of 44 days and a clearance rate of 100.5% (55 days and 102% in 2012). On the other hand, Lithuanians have a strong tendency to settle disputes in court, as in 2012 when they generated 3581 civil and commercial suits per 100,000 inhabitants, which puts Lithuania in Europe's top tier in terms of litigiousness.

The 2011 reform of the office of the Prosecutor General (PG) introduced fixed terms for its management, vacancy announcements, contestation of vacant positions by candidates outside the system, specialization of prosecutors according to crime typology, a flatter management structure and the consolidation of the offices of District Prosecutor into five regional offices under the PG. In 2013, 54.8% of the 46,500 criminal cases were solved, the best result in over 20 years of independent statehood.

Of particular importance is the fact that during the reporting period, all judiciary institutions except the Constitutional Court saw a significant rise in public confidence. Thus, in January 2015 (as reported by a Vilnius public opinion poll) the courts enjoyed the trust of 24.5% of the population (16% in 2012), and the PG 24.2% (21.6% in 2012). When moving beyond popular perceptions, i.e. to surveying those who were actual parties to court cases, the picture is even brighter. A survey by the Department of Psychology at Vilnius University in 2012 shows that within this group, trust in the courts was as high as 75%.

Officeholders who break the law and engage in corruption are prosecuted rigorously under established laws and always attract negative publicity. During the reporting period, the most notable case related to office abuse was the “blacklisting” of nine deputy ministers in June 2014 by President Dalia Grybauskaitė, which was based on information submitted by the anti-corruption agency, Special Investigation Service (SIS). All of them were forced to leave office, or were not re-appointed, during the government reshuffle after the presidential election. In October 2014, corruption charges were brought against five persons in the Ministry of Interior; the minister himself consequently resigned.

Prosecution of
office abuse
8

In the beginning of 2015, the courts found guilty of corruption and fined 29 customs officials at the Medininkai international border crossing point.

Corruption cases against the former mayors of Alytus, deputy mayor of Kaunas, deputy mayor, former MP as well as the director of the municipal legal department of Vilnius for accepting the bribes and services in kind (all initiated in 2011-2012) were still being examined by the courts in early 2015.

In 2013, after eight years of investigation and court procedures, the Vilnius regional court sentenced three members of the governing Labor Party for tax fraud. The honorary leader of the Labor Party and member of Parliament, Viktor Uspaskich, was sentenced to four years in prison, while other members received prison sentences or fines. This verdict was appealed and the case resumed only in spring 2015 after Uspaskich’s immunity as a member of European parliament was lifted.

The court case against the Labor Party, which in 2005 was accused of the falsification of party finances and tax evasion – which enabled the party to receive a state subsidy greater than that to which it was entitled – was reclassified as a case of fraud. Nevertheless, the case was dropped by the Vilnius regional court in 2013 after the Labor Party manipulated a loophole in the legal system by “ceasing” to exist as a legal entity due to its merger with a smaller party, thereby establishing a new and “clean” identity.

According to SIS data, the main anti-corruption body of Lithuania, in 2014 the courts sentenced or upheld their previous sentences of 100 people in corruption and office

abuse cases in which the SIS of the Republic of Lithuania (STT) conducted the pre-trial investigation (88 in 2012). 30% of all sentences involved imprisonment.

The Ministry of Interior's database of offenses and crimes shows that in 2014 there were 1593 registered cases of office abuse or violations of the public interest. Of these cases, 36% of pre-trial investigations were not pursued or dropped. Since 2008, the number of registered cases has doubled, the number of felonies increased more than thirty times and the number of criminal offenses tripled. This trend reflects both the hardening attitude of criminal justice concerning offenses counter to the public interest and office abuse (mostly involving corruption) as well as better work by law enforcement agencies.

In 2010, the criminal code was amended to tackle the unlawful acquisition of wealth, targeting mostly corrupt public officials and civil servants. The law now permits confiscation of wealth if the owners cannot prove that the means for acquiring it were legitimate. The application of the law was challenged in the courts and was appealed all the way up to the Supreme Court of Lithuania, which in April 2014 upheld the validity of the amendments but asked for careful substantiation of legitimacy. Since the beginning of 2011, 159 pre-trial investigations have been launched concerning the suspected unlawful acquisition of wealth totaling €3.2 million; 30 of these investigations were completed and transferred to the courts. In 2014, the Seimas approved additional changes to the existing legislation to close the loopholes detrimental to fighting the unlawful acquisition of wealth.

Since private or corporate donations to political parties by companies and individuals have been tightly restricted since 2011, the major source of party finances is the national budget.

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 been increasing during the reporting period (281 in 2013 compared to 203 in 2012).

According to the European Barometer survey in 2012, age is the most perceived grounds for discrimination (mentioned by 59% of respondents), followed by disability (45%) and sexual orientation (42%).

According to the 2012 public opinion poll by Vilnius (commissioned by the Lithuania-based Human Rights Monitoring Institute), 18% of respondents thought that their human rights had been violated (22% in 2010), but 78% of them did not lodge any complaints about it (the same as in 2010).

Intolerance in Lithuania, as measured by public opinion, remains quite high and has become entrenched. According to the official statistics provided by Ministry of Interior, the number of criminal acts driven by ethnic, religious, linguistic, racial hate

or hate based on sexual orientation decreased since the last reporting period. In this category, 152 criminal acts of were registered in 2013 and 102 in 2014.

In the political sphere, though, Lithuania is quite advanced with regard to gender equality. In 2009, Irena Degutienė became the first woman elected speaker of parliament, and in the same year, Dalia Grybauskaitė was elected the first female president of Lithuania. Dalia Grybauskaitė was re-elected for a second term in 2014, and Loreta Graužinienė assumed the speaker's post in 2013. With regard to the number of women in parliament, 24% of the current members of the Seimas are women (34 out of 141, up from 27 in 2008-2012).

After the manifold increase of recorded cases of domestic violence following its criminalization in 2011 (4582 in 2012 as opposed to only 334 in 2010, according to the Ministry of Interior) and the launch of pre-trial investigations without a statement from the victim, this number has again increased during the reporting period but has stabilized somewhat (5467 in 2014 after a record 5704 in 2013). 85.5% of all registered cases are about violence against women.

The prevalence of sexual harassment in the workplace remains a problem. About 25% of employees report harassment in the workplace as a source of stress (2012 study of the Lithuanian Institute of Hygiene), which is more than the EU average.

According to the U.S. Department of State's 2013 report on Human Rights in Lithuania, the most pressing issues continue to be poor prison conditions (resulting from overcrowding in three prisons, while police pre-trial detention centers are reported to be of adequate capacity; Lithuania tops the EU in the number of incarcerated persons per 100,000 members of the population) and intolerance to sexual and ethnic minorities. Reconstruction of five prison facilities was underway in early 2015, and in 2014, the government decided to build a new prison near Vilnius and relocate the capital's main prison (Lukiškių).

Persons belonging to Lithuania's ethnic Polish minority are obliged to use the Lithuanian spelling of their names in official documents, which some find discriminatory. A solution has still not been found despite the fact that in 2012-2014 the Polish Electoral Action party participated in the center-left ruling coalition.

4 | Stability of Democratic Institutions

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

Performance of
democratic
institutions
10

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 not frequent. The last issue occurred after the parliamentary elections in 2012 between the president and the winning coalition regarding the composition of the ruling majority, but it was resolved soon after. There are occasional arguments between municipal governments of the major cities and the central government about the fairness of existing redistributive system of tax revenues, as it does not favor the municipalities. The powers of new mayors elected in direct elections may need redefinition; in about one-third of municipal councils, mayors will face opposing majorities. Whether this indeed poses a problem is yet to be determined.

There are no players, even on the margins, who question constitutional democracy as the legitimate form of government. That being said, authorities should resolve the issue of attempted vote rigging, which was a problem in the last parliamentary and municipal elections.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

The party system is fundamentally established even though its fragmentation has increased since the 2000 national elections. Nevertheless, political parties fall clearly into three ideological camps of conservative, social democratic and liberal, are well-established and represented in the Seimas, and have clearly identifiable voter profiles that fall along socio-demographic lines. Electoral volatility remains quite high by western European standards, and during the last decade, populist parties have been able to attract many votes. However, in recent years, their influence diminished as they were either co-opted into the system or contained outside of it. Indeed, during the last parliamentary elections, one established party (Liberal and Center Union) failed to pass the electoral threshold and the populist party (National Resurrection Party) vanished altogether before elections of 2012 as it was absorbed by the members of the previous ruling center-right coalition. One new anti-establishment party (The Way of Courage) arose from popular outrage over a judge who allegedly delayed legal procedures in a pedophilia case and managed to secure seven seats in the Seimas. The national elections in 2012 produced a center-left governing majority of four parliamentary parties, led by the Social Democrats. The two governing parties, the Labor Party (LSDP) and the Order and Justice Party hold 30 and 10 seats

Party system
7

respectively. The conservative Homeland Union (TS-LKD) holds 33 seats and is the biggest opposition party. The Lithuanian Liberal Movement (LRLS) captured 10 seats.

Trust in political parties has somewhat increased but remains very low. The latest public opinion survey by Vilmorus in January 2015 found that only 5.9% of respondents trust political parties (6.4% in December 2012, 3.2% in April 2010). Likewise, voters distrust politicians. A representative public opinion survey conducted in 2011 by Kaunas University of Technology shows that only 6.2% of respondents believe that elected politicians are acting for the public good, while 72.7% oppose that view.

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

Interest groups
8

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 in comparison to that of the third-sector, or NGOs. Though smaller in number, business associations continue to be the most influential non-governmental players by far.

Some business groups continue to 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 mostly occurred at the municipal level and involved local politicians being bought off by business interests, are evidence of this influence.

From 2010-2015, the government implemented three special EU-financed programs for strengthening social dialogue and partnership as well as for capacity building to increase cooperation with NGOs. Overall, it spent €10 million on 51 such projects; as of 2015, the remaining project activities were still ongoing.

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

Approval of
democracy
9

Yet public satisfaction with the efficacy of Lithuania's democratic regime has fluctuated with the country's economic outlook. It was low in the past, but according to a Eurobarometer survey in 2014 there seems to have been a significant increase in the Lithuanian population's trust in state and political institutions as well as their satisfaction with their private lives (69%) and personal finances (65%), the country's highest such numbers since the re-establishment of statehood. Along with economic recovery, Lithuanians' satisfaction with democracy has also improved. In July 2014,

39% were satisfied with the way democracy functions in Lithuania, while 51% were not (Baltic Surveys data; 20% satisfied in 2012, 44% in 2007).

Mistrust of the Lithuanian state's political institutions still persists. Among all surveyed institutions, political parties, Seimas and the government continue to receive the lowest trust scores, although trust in the Seimas (9.4% in January 2015) and the government (24.7%, data by Vilmorus) improved since the last reporting.

In contrast, popular support of Lithuania's membership in the European Union has been consistently very high.

It is noteworthy that in Lithuania (as in other Baltic states) the lack of popular support is offset by strong support among the political elite. Some 64% of the political elite are satisfied with the functioning of democracy in Lithuania, 79.7% trust parliament, 82.4% the government and 85.1% 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).

According to a 2011 survey of the World Bank and the European Bank for Reconstruction and Development (EBRD), only 40% of Lithuanians preferred democracy to any other form of government (55% support in 2006) and just 34% of Lithuanians preferred market economy to any other form of economic organization (40% in 2006).

The occasional success of anti-democratic or anti-state actors (e.g. Drasos kelias) is a cause of concern, especially given the potential for expanding future Russian destabilization efforts in Lithuania.

Lithuania has yet to achieve a consolidated civic culture, although it has been making incremental progress toward this goal. The web of autonomous groups, associations and organizations is robust but heterogeneous, and it enjoys the population's solid trust.

According to the last available representative survey by the Socialinės informacijos centras (Social Research Center), in 2010 61% of the population participated in voluntary activities (46% in 2008). According to the survey, 25% of respondents felt positive encouragement to perform such activities by their employers, including paid working time. A survey by the Civil Society Institute (Pilietinės visuomenės institutas) showed that in 2014, 50% of the population participated in environmental clean-up campaigns, 56% provided donations to charities and 33% participated in activities in their local communities, with no significant changes from 2012.

Yet, institutionalized civic engagement is not increasing in any significant way. In 2011, the share of unpaid volunteers stood at 9% (Civil Society Institute), while in 2014 membership in non-governmental organizations was 12% (data by Socialinės

informacijos centras and ESTEP Vilnius). According to 2012 estimates by the Ministry of Social Security and Labor, the contribution of volunteers to national wealth amounts to 1.5% of GDP. According to most assessments, Lithuania still belongs in the category of low volunteer activity within the EU, but the level is increasing incrementally.

Charitable donations in 2013 rebounded to pre-economic crisis levels and have now already exceeded them slightly.

According to the recent EBRD (European Bank for Reconstruction and Development) survey (Life in Transition 2010), there has been a significant drop in people's trust in each other in Lithuania. Only about 40% in 2010 and 24% in 2014 (survey by Socialinės informacijos centras and ESTEP) said that "other people could be trusted," while at the beginning of the transition in 1989 over 60% of respondents agreed with this statement.

The number of registered NGOs has gone up every year since 1994 and in 2012 reached 22,246, according to data collected by the State Enterprise Center of Registers (Registru centras). Only about 10,000 NGOs are active, however. Given that the participation rate has only risen somewhat, this increase indicates fragmentation of the NGO sector.

The number of village communities in Lithuania further increased, totaling 1,700 in 2013 (83,000 people).

II. Economic Transformation

6 | Level of Socioeconomic Development

Lithuania's level of development permits adequate freedom of choice for all citizens. Poverty and social exclusion are quantitatively and qualitatively minor and not structurally embedded.

During the reporting period, Lithuania advanced in the Human Development Index (HDI) of the United Nations Development Program from 0.810 (2011) and the rank of 40 out of 187 countries, to 0.834 and the rank of 35 in 2014. Lithuania maintained membership in the very high human development category.

While the economy has been growing for several years in a row and its performance is one of the EU's highest, inequality persists unchanged. In 2014, Lithuania's Gini coefficient was 34.6 (third worst in the EU) based on Eurostat's Survey of Income and Living Conditions, an improvement over 2009 (35.5, second

Question
Score

Socioeconomic
barriers

8

worst), but a drop since 2012 (32). However, about 90% of Lithuanians own their own homes, most of them without a mortgage, indicating a less unequal distribution of assets.

The employment rate continued its upward trend during the period under the review. In 2014, it stood at 66.1% (57.8% in 2010, 60.7% in 2011), according to Lithuania's Department of Statistics. The unemployment rate contracted from a peak of 17.8% in 2010 to 9.5% in 2014 and is forecasted to further decrease to 7.9% in 2016 (European Commission). Almost half of the unemployed have been so for more than one year.

During the economic boom, the percentage of citizens at risk of poverty improved slightly, while it deteriorated in 2008. Interestingly, it did not change much during the economic crisis and in its aftermath, only fluctuating insignificantly. In 2013, the percentage of those at risk of poverty was 20.6%.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	26126.8	37095.8	46403.2	48172.2
GDP growth	%	-	1.6	3.3	2.9
Inflation (CPI)	%	2.6	1.3	1.0	0.1
Unemployment	%	8.3	17.8	11.8	-
Foreign direct investment	% of GDP	4.6	2.3	1.5	0.8
Export growth	%	-	18.9	9.4	3.4
Import growth	%	-	18.7	9.0	5.7
Current account balance	\$ M	-1872.1	-119.2	753.7	58.5
Public debt	% of GDP	18.3	36.3	38.8	40.9
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-1.6	-24.9	-	-
Tax revenue	% of GDP	59.2	45.1	-	-
Government consumption	% of GDP	18.3	19.7	16.8	17.0
Public expnd. on education	% of GDP	4.9	5.4	-	-
Public expnd. on health	% of GDP	4.0	5.0	4.2	-
R&D expenditure	% of GDP	0.75	0.80	-	-
Military expenditure	% of GDP	4.0	3.0	2.6	2.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

The fundamentals of market-based competition were fully established in 2001, when the European Commission finally recognized Lithuania as a functioning market economy. The legal and institutional framework was further strengthened before Lithuania became an EU member in 2004. As in all EU member states, the role of the state is limited in order to guarantee compliance with the rules of market competition. Prices are fully liberalized.

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 late 2008 and especially in 2009. The size of the shadow economy has been declining ever since, although estimates of its size vary between 15% and 28% of GDP. Nevertheless, all evaluation sources point to a downward trend.

Lithuania made a modest advancement in the World Bank rankings for ease of doing business. According to the 2015 Doing Business report, Lithuania now ranks 24th of 189 countries surveyed (compared to 27th out of 185 countries in 2013 and 23rd out of 183 in 2011). It nevertheless trails its Baltic neighbors, Estonia (17th) and Latvia (23rd).

The amount of state aid granted by Lithuanian authorities in accordance with EU state aid law traditionally has been low. According to the European Commission’s 2014 Scoreboard on State Aid in the EU, in 2013 state aid in Lithuania granted to agriculture, industry, transport and horizontal objectives of common interest (non-crisis aid) amounted to €205 million or 0.6% of GDP (0.7% in 2011), while the EU-28 average was 0.5% of GDP. From 2008-2013, Lithuania spent €230 million or 0.7% of GDP for financial crisis aid (recapitalization and asset relief). EU27 collectively spent 4.87% of GDP for all financial crisis relief instruments.

Market-based
competition
9

There is a coherent and effective anti-monopoly policy supported by trade policies that are consistent with non-discrimination principles. The Competition Council of Lithuania enforces these policies, and the legal and institutional framework fully complies with the norms of EU law.

Anti-monopoly
policy
10

In 2010, the National Audit Office of Lithuania published a performance audit report on the competition policy effectiveness and institutional capacity of the Competition Council of Lithuania. In response to this evaluation, in December 2012 the government adopted a policy document to strengthening the competition policy. Among other things, the policy envisages strengthening the competitive environment in universal service obligation areas, such as the postal service, energy, gas, railways, health protection, as well as social and educational services. It also prohibits public subsidies, including from the EU structural funds, to private businesses, though subsidies may be used in exceptional cases for businesses to adapt to a change in the regulatory environment (presumably, higher environmental standards).

However, two years on, only incremental progress can be reported; the main impediment to strengthening competition in various sectors of the economy remains the insufficient research and investigative capacity of the Competition Council, whose lack of adequate funding prevents it from properly identifying problems or proposing proper solutions. The council's 2014 budget was €1.36 million, while the annual benefit from its work (calculated according to OECD methodology) was €9.31 million.

Some important achievements can be reported in the energy sector. In 2014, the opening of the liquefied natural gas (LNG) terminal in Klaipėda forced Russia's Gazprom, which formerly enjoyed a monopoly as a gas supplier, to offer lower rates.

Since its membership in the European Union, Lithuania has not had an independent foreign trade policy and follows the Common Commercial Policy of the European Union.

Liberalization of
foreign trade
10

Lithuania is an open liberal economy, and its export/import volume ratio to GDP exceeds 100%. In 2013, this ratio was 147%.

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.

Banking system
9

With the membership of Lithuania in the euro zone as of 1 January 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 (Swedbank, SEB and DNB) in possession of high capital adequacy ratios (2-3 times exceeding the required 8%).

Five Scandinavian banks dominate the Lithuanian banking sector with a market share of around 90% of total assets. The rest of the market is controlled by two domestic banks (Šiaulių bankas and Medicinos bankas), eight branches of foreign banks and credit unions. Assets of the banking sector in 2014 were close to 70% of GDP, which is far below that of the other Baltic countries. In 2014, the central bank (Lietuvos bankas) carried out a stress test and found that Lithuania's banking system would withstand a crisis comparable to that in 2008-2009, i.e. contraction of economy by 16% of GDP over two years and retrieval of deposits by 39%. Its good resilience is due to the improved structure of banking loan portfolios, a result of maintaining the responsible lending requirements set by Lietuvos bankas in 2012. Nonperforming loans as a percentage of total loans decreased to 9.9% in 2014 (IMF data). Local savings dominate the liabilities of the banks – in 2014, they stood at 70% of total banking liabilities.

Weaknesses in regulatory and supervisory framework exposed by the 2008-2009 crisis were addressed by the 2011 macro-prudential instrument to avoid the re-emergence of unsustainable credit and housing price developments. Responsible lending and improved financial supervision were key factors. As of January 2012, financial supervision is centralized entirely within the central bank (Lietuvos bankas), which is now tasked with supervising commercial banks, other credit and payment institutions, securities and insurance markets. The service is also responsible for investigating disputes between consumers and financial institutions.

Not only was this system of financial supervision tested by the bankruptcy of two medium-sized domestically owned banks, Snoras (2011) and Ūkio bankas (2013), but four credit unions went under between 2012 and 2014. The central bank took immediate action and maintained confidence among consumers and investors and ensured that other banks were not affected.

8 | Currency and Price Stability

Lithuania has pursued a consistent budgetary and monetary policy. Lithuania adopted the euro in 2015. Inflation decreased in 2012 to 3.2%, driven by lower commodity and food prices, as well as by weaker domestic demand (affected by external uncertainty). It further decreased in 2013 to 1.2% and in 2014 dropped to a mere 0.2% (forecast), mainly due to the fall in world prices for primary energy products (especially oil), a price cut for imported gas from Gazprom, low prices for processed food, and wage moderation. The forecast is 0.4% for 2015 and 1.6% for 2016 (European Commission). In 2014, Lithuania comfortably met the inflation criteria for membership in the euro zone as of 2015.

Anti-inflation /
forex policy

10

The review period has been characterized by economic growth (3.3% of GDP in 2013, 3% in 2014). The forecast for 2015 is 3% and 4% for 2016 (European Commission, driven mostly by domestic demand), which are among the best estimates in the EU and euro zone. However, downward corrections might apply in the event of a worsening of the geopolitical situation in neighboring countries or a heightening of surrounding trade restrictions stemming from the sanctions on and by Russia.

Macrostability
10

The shortfall of budgetary revenue during the economic crisis in 2009-2010 was partially covered by borrowing in the financial markets during the crisis; government debt reached 41.1% of GDP in 2012, in comparison to 30% in 2009. In 2014, it stood unchanged (41.1% of GDP). It is expected to rise to 41.8% in 2015, and then fall to 37.3% in 2016.

In November 2014, Lithuania incorporated the rules of the European Union Fiscal Compact into a constitutional law and two additional laws amending existing legislation. This legislation has been in force since 2015 and places the structural budget-balance rule at the constitutional level. The 2015 budgetary cycle will be the first test of this new fiscal framework. The government predicts a balanced budget in 2017.

However, the debt of state-run social security system (Sodra) continues to increase. The debt is around €3.5 billion, which is owed to the state without any feasible prospects of repayment. Moreover, there have been increasing attempts (some of them successful) to force the state budget to repay certain compensations and wages reduced in 2009-2010. This creates additional drain on public finances, as does the rapidly increasing minimum wage driven by political rhetoric.

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 overriding rights of the constitutionally defined public. Land restitution is nearing completion, although in the cities it will still take some time to finish despite the pledges of the government to settle it by 2013.

Property rights
10

According to National Land Service data, land restitution in rural areas has by and large been completed. In cities since 1 January 2013, arrears have been cut by approximately one-third. On 1 January 2015, the titles had not yet been granted to 9,000 claimants (17.4% of all claims in cities) and 5657 hectares (14.3% of all claimed land). In October 2013, the Constitutional Court ordered financial compensations for titles that cannot be returned in kind.

On 1 May 2014, a ten-year transitional period (stipulated in the EU Accession Treaty) restricting sale of agricultural land to EU nationals expired amidst tense opposition. The matter of reversing the enabling clause in the Constitution was even put to referendum in June 2014, but it was declared invalid due to insufficient turnout (15%). In 2014, parliament adopted a law limiting the sale and purchase of agricultural land by individuals and companies. The EU started an infringement procedure against this law.

In June 2011, the Seimas adopted the Law on Compensation for Real Estate for property formerly owned by Jewish religious communities in Lithuania; in 2012, the government established a Good Will Foundation. By 2023, it will disburse €7 million for various projects and subsidies as compensation to the Jewish community. By 31 December 2014, this foundation paid symbolic benefits to the surviving Jewish victims of totalitarian regimes.

Private companies are seen as the primary engines of economic production, and are given appropriate legal safeguards. According to the data from the Department of Statistics, 77.2% of GDP was generated from the private sector in 2009. It is the main engine of economic growth. Since 2005, the role of small and medium-sized enterprises (SMEs) has been rather stable and very significant. These companies make up over 99% of the total number of all enterprises and generate about 75% of total employment (data for the beginning of 2014 from the Department of Statistics of Lithuania).

Private enterprise
10

10 | Welfare Regime

There continues to be a solid network to compensate for social risks, and national healthcare is especially robust. Like in many European nations, however, Lithuania is faced with problems in sustaining its social benefits, especially in combating the effects of the financial crisis of 2009-2010 and the worsening demographic outlook (Lithuania is the most quickly aging country in the EU).

Social safety nets
8

Basic pensions are scheduled to be increased in 2015 (for the first time since 2008) and (maximum monthly) unemployment benefits will be restored to the pre-crisis level (€301/month). The average monthly pension returned to pre-crisis levels in 2013, when the ratio of an average pension to an average salary stood at 37.7%. Despite these overall improvements, the European Commission noted that relatively minor measures have been adopted for the recommended comprehensive pension reform, but these fall short of addressing the medium-term challenge of pension system sustainability.

Lithuania's social security system is posing several challenges. Firstly, its pension system needs to be reformed to become sustainable in the long run, while

safeguarding its adequacy aspects. Secondly, the financial crisis has exposed a sizeable number of people to the risk of poverty or social exclusion and resulted in greater income inequality.

In June 2011, parliament amended the Law on State Social Insurance Pensions and approved a gradual increase in the pension age to 65 years for both men and women by 2026. In late 2013, the provision of supplementary voluntary contributions was introduced. 30.5% of all those insured chose supplementary voluntary contributions to the second pillar, which are matched by additional transfers from the state budget. (This is mandatory for all those newly insured since 2013).

Around one-third of the Lithuanian population is at risk of poverty or exclusion – the fourth highest value in the EU – as they live in households with very low work intensity or are materially deprived. Single parents, families with three or more children, unemployed persons, single adults and retired persons are particularly vulnerable. The relatively low level of social assistance benefits, together with limited quality training and active labor market policy measures, put vulnerable groups particularly at risk of long-term exclusion. In the European Commission assessment of Lithuania in 2015 as part of the European Semester, risk of poverty and social exclusion is mentioned as one of the key areas of concern.

In 2014, municipal governments received full authority to decide on social assistance benefits. Evidence by the results of a pilot scheme introduced in 2012 suggests that it should improve the targeting, but wider assessments of its impact will be needed.

While 77% of Lithuania's inhabitants are happy with the services provided by family doctors (2012 public opinion survey by Socialinės informacijos centras, commissioned by the Ministry of Health), access in this area needs improvement through a denser network in rural areas and organizational improvements in towns and cities. The access and quality of second-tier healthcare services (hospitals) are viewed by the population as good and very good.

Family and village structures, particularly in rural areas, still play some role in providing a special kind of "social welfare" not visible in standard statistics, but their share is declining.

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.

Equal opportunity
9

According to the Social Report of Lithuania (2013-2014) published in 2013 by the Ministry of Security and Labor, the employment rate for women aged 15-64 was 62.8% (versus 64.7% for men), while unemployment rates for women and men stood at 10.6% and 13.4% respectively.

Although men and women enjoy the same legal rights and, according to the 2011 Gallup survey, the same share (70%) claim they can work as much as they wish, the wage gap between men and women in comparable jobs has increased slightly to 12.5% in 2013 (from 12% in 2012).

National minorities have access to education in their languages. However, Roma continued to be seriously disadvantaged both with regard to access to education and to the labor market.

11 | Economic Performance

Lithuania is on a solid track of sustainable growth. The economy grew by 3% in 2014 and is expected to grow by 3% in 2015 and 3.4% in 2016. Actual GDP growth lived up to its potential in 2013 and exceeded it by 0.4% in 2014 (European Commission).

Output strength
8

The main export partners of Lithuania have not changed since 2010 and were as follows: Russia, Latvia, Germany, Poland and Estonia. Lithuania's economic recovery starting in 2010 to a very big degree was related to recovery of external demand, although now growth is primarily driven by domestic consumption. Exports have been rising steadily since 2002 and dipped only once, in 2009. The current account balance turned positive (5.5% of GDP in 2013), reflecting a surplus in the trade balance.

Stock of foreign direct investment (FDI) decreased from €10.3 billion in 2008 to €9.2 billion in 2009, but has since reached only €1 billion in 2011 and €1.8 billion in 2014, thanks to campaigns abroad by the members of the previous and current government targeting high value-added generating sectors. In 2014, FDI flow turned negative.

The unemployment rate declined to 9.5% in 2014 (European Commission).

12 | Sustainability

Although ecologically sustainable growth is considered essential to economic activity, it is occasionally subordinated to growth efforts. During the reporting period, the Lithuanian population's awareness of environmental protection has become more balanced after having been subordinate to economic growth. According to the State of Environment Report 2015 by the European Environmental Agency, GDP grew faster than growth in greenhouse gas emissions in Lithuania, which amount to an annual 4-5 tons per capita and are among the lowest in the EU; total emissions in 2012 were 55.6% below 1990 levels. The energy sector remains a major source of greenhouse emissions (61.7% in 2010), as well as agriculture (21.4%) and industry (10.8%).

The energy produced from renewable sources amounted to 17.3% of primary energy and has doubled over the last decade, while the target for 2020 is 23%. The annual average concentrations of major air pollutants in urban areas in 2012 did not exceed the set limits; in fact, the amount of main air emissions in 2011 fell by 7% compared to the previous year. In 2012, up to 97% of wastewater from households and industry has been cleaned to target standards. Effective wastewater treatment has a positive effect on surface water bodies, and particularly on the largest Lithuanian inland body of water, the Curonian Lagoon, which is highly susceptible to pollutants from rivers. During the last decade, downward trends were recorded for all pollutants except nitrogen inflow (no clear trend), which largely consists of diffuse pollution from agriculture; this is more complicated to control and was facilitated by crop growing subsidized by the EU Common Agricultural Policy. Inadequate energy efficiency remains another area of concern contributing to pollution.

In 2012, the Yale University declared Lithuania the country with the best forest protection and management system in the world over a 15-year period. Maintaining this rating will require ensuring the sustainable use of forest resources.

Since 2013, penalties have been increased tenfold for damages to the environment, including biodiversity. To ensure a decrease in environmental damage, the government is taking action to modernize the environmental supervision system.

Meeting recycling and waste management obligations within the EU context remains difficult, although the situation is slowly improving. According to the Ministry of Environment, 35% of all municipal waste in 2014 was recycled and reused.

Lithuania complies with international agreements and with the requirements of EU law concerning environmental policy. Indeed, EU membership has played a large role in these improvements.

Environmental
policy
9

The state and the private sector ensure a national system of education and training, a dynamic research and technology sector, and viable educational infrastructure. State investment in education and training in 2015 was forecast to stand at 4.59% of GDP (5.64% in 2009 according to Eurostat). Though in absolute terms the investment has been slowly increasing; according to the Department of Statistics, expenditure per student in 2013 at all levels of education reached €2,600, while economic growth outpaced education expenditure.

Investment in R&D in Lithuania is still below the EU target, but has increased somewhat during the reporting period. According to the Department of Statistics, in 2013 it stood at 0.95% of GDP (0.79% in 2010), 24% of which came from the business sector (29% in 2010, 16.7% in 2003) – a figure well below the EU target of 66%.

Lithuania's well-educated labor force is a strong attraction for foreign investors. In fact, according to Eurostat, Lithuania's 2014 tertiary education attainment rate of 51.5% (for ages 25-34) is significantly above the EU average of 36.9% and third in the EU (surpassed by Cyprus and Luxembourg). In terms of leaving school early, in 2014 Lithuania had a share of 5.9% (8.7% in 2009) among those 18-24 year of age with lower education and not engaged in further education or training. However, Lithuanian schools have an above-average rate of low achievers in basic skills, notably, reading and mathematics, which was determined by 15-year-olds' 2012 performance on the standardized test known as PISA (Program for International Student Assessment). The 2010 assessment by the European Commission found the skills mismatch index (i.e. the gap between the average proportions of low-, medium- and high-skilled individuals of working age and the corresponding proportions currently employed) in Lithuania to be 3.3%, the highest in the EU. Adult participation in lifelong learning was among the lowest in the EU (5.6% in 2013 compared to the EU average of 10.5%). To address some of these issues, the government plans to encourage the development of multifunctional education centers comprising schools and early childhood education facilities. The law on non-formal education and lifelong learning was amended to establish principles for the recognition of non-formal learning and self-learning.

Due to relatively weak performance, a complex reform aimed at increasing the quality of higher education, its effectiveness, efficiency and access was launched in 2009. The measures related to improvement of the governance of universities have been implemented by 2015, but questions remain about the quality of what is offered.

Almost all of the five integrated centers of science, business and research (in the so-called "valleys" of Saulėtekis and Santara in Vilnius, Santaka and Nemunas in Kaunas, and Jūrinis in Klaipėda) have been opened by early 2015.

Investment in R&D is below 1%. There are many individuals who complete tertiary education but lack relative skills. Spending per student in tertiary education is one of the lowest in the EU. Higher education reform that implemented school choice and a voucher system has been effectively rolled back. Secondary education is staffed with increasingly older employees. The state wastes resources and hinders the development of successful schools by delaying reforms that may optimize the network of state-run secondary schools.

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate overall. However, in general there were no major changes in the types of structural constraints to governance reported in the previous country assessments. Nevertheless, two constraints are worth emphasizing.

Structural
constraints
1

One major structural constraint for Lithuania is its energy dependency on a single supplier; for a long time, Lithuania was completely dependent on the import of Russian energy resources, drawing 100% of its gas supply from Russia. This dependence only intensified following the closure of the Ignalina nuclear power plant at the end of 2009. In 2014, a liquefied natural gas (LNG) terminal was built in the port of Klaipėda; Lithuania (along with the other Baltic states) now has an alternative to natural gas from Russia, which formerly had a monopoly on the energy source. An electricity power bridge with Sweden is on target to be completed in 2015, while a similar link with Poland is expected to be built in 2016. While still a significant challenge, this pressure is easing.

Another sizable challenge is Lithuania's negative demographic outlook. The working age population is shrinking rapidly and will be soon threaten growth. 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.

Civil society traditions are relatively strong in Lithuania. These traditions date back to the 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). It is also noteworthy that these groups and organizations stood for violence-free resistance and civil disobedience. In Soviet times, there was also a rather strong dissident movement in Lithuania. 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, while interpersonal trust remains low and has even decreased.

Civil society
traditions
3

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, the restoration of Jewish collective property and Roma settlement in Vilnius, are being solved within the existing legal framework.

Conflict intensity
1

II. Management Performance

14 | Steering Capability

Question
Score

There is no doubt a general consensus in Lithuania about maintaining the current political and economic system, and a commitment of all political parties to constitutional democracy and a socially responsible market economy. Even though administrations have changed rather frequently (so far, only the last center-right government was able to serve its full four-year term), the degree of policy continuity has been very high, especially on foreign and defense/security policy. Lithuania achieved all its strategic priorities in 2004, gaining membership to NATO and the European Union. Lithuania's new strategic priorities include firmly establishing its membership in the EU and in NATO (through membership in the Schengen area and euro zone), active foreign policy beyond its immediate neighbors, making the economy more competitive – especially through health and education reforms and paving the way for more value-added generating sectors– and ensuring energy security and efficiency.

Prioritization
9

The current center-left government broadly continues (with some minor adjustments) the long-term agenda set by the previous government known as National Development Strategy Lithuania 2030 and its operational National Development Program 2014 – 2020. In the second half of 2013, it led a successful presidency of the EU Council. It continues, albeit at a slower pace, the established process of strategic planning, which since 2008 evolved toward greater emphasis on evidence-based policy-making and performance indicators. 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 can still implement many of its reforms effectively, although its record is not as solid as it was prior to EU accession. Motivation of civil servants was affected by pay-cuts during the economic crisis of 2008 – 2009 (though they may be raised again in 2014), layoffs and internal restructuring, known as “optimization.” Still, administrative structures are quite strong with sufficient capacity to implement many of the envisaged reforms.

Implementation
8

Some of the reform-oriented initiatives of the previous government were implemented as planned, namely, fiscal consolidation, transparency of the central government, higher education reform, reduction of excessive regulation of business and reform of the management of state-owned enterprises. The current center-left government also completed construction of the liquefied natural gas (LNG) terminal in Klaipėda as well as planned and achieved membership in the euro zone as of 1 January 2015. It has maintained fiscally responsible policy-making and implementation. In many areas, however, its record was at best mixed or progress only very incremental. In some cases, implementation fell short of the initial ambitions, especially in fighting corruption, ensuring energy efficiency, increasing overall efficiency and accountability of the civil service, further decentralizing policy-making and increasing the flexibility of labor.

Lithuania continues to maintain a good record of transposition and implementation of EU law, as evidenced by the low transposition deficit (0.4% in 2014) and a relatively small number of infringement cases initiated for non-transposition, or incorrect transposition, by the European Commission (11 cases in October 2014, third lowest among the EU28).

At the same time, implementation still clearly insufficient, especially when it comes to mobilization of the public administration to implement large-scale, long-term projects and to achieve results. While the euro was successfully introduced in 2015 and the LNG terminal built in Klaipėda in 2014 (and two electric power bridges with Sweden and Poland within reach), the future of the Rail Baltic project and the new nuclear power plant in Visaginas are uncertain. On a smaller scale, the incremental style of policy-making and implementation has not yet produced breakthroughs in many policy areas, especially in the social sphere.

The renovation of old, energy-inefficient apartment blocks has finally been improved through the use of funding provided by the Joint European Support for Sustainable Investment in City Areas, or JESSICA fund. Of 34,000 apartment blocks built prior to 1993, 7.3% have been refurbished or are undergoing refurbishment.

The current center-left government demonstrated its ability to learn from past mistakes, notably concerning the introduction of the euro, the renovation of old homes for energy insulation and tackling cultural policy as a means to improving the stock of social capital within the country. However, in other policy areas it is hindered by ambition to achieve more than just a continuation of business as usual. While decisions are not rushed through the parliamentary and executive agenda, the government's policy of active consultation with society and interest groups regarding policy decisions has not been thoroughly carried out, despite the pledges of several governments to do so. However, all draft decisions, with explanatory material, are published on the Seimas website (www.lrs.lt) at the time of their submission for

interagency consultation, so the minimal standards of transparency and policy input are observed.

The Butkevičius government re-established the Strategic Planning Committee and retained some institutional arrangements created by the previous government to promote policy reforms (such as the State Progress Council or the Sunset Commission, which was renamed the Public Management Improvement Commission).

Lithuania aspires to join the OECD and is expected to begin membership negotiations in 2015. This should also increase policy-learning opportunities, especially in areas less available through EU membership. Lithuania's presidency of the EU Council in the second half of 2013 also provided many networking and policy-learning opportunities for Lithuanian civil servants, who made good use of them.

15 | Resource Efficiency

The government generally uses all available resources efficiently. Even though there is occasionally a debate in the Lithuanian media about excessive bureaucracy, personnel expenses are in fact not very high relative to the services offered by the state. During the economic crisis, the civil service underwent an internal devaluation, as the number of civil service and contract posts in public administration institutions was cut by 12.4% (to 52,474 posts in 2011). It has since rebounded to 52,614 in early 2015 (Data of the Civil Service Department). The payroll was cut by 17%. The number of institutions reporting to the government was reduced from 521 in 2008 to 355 in 2011.

Since 2009, the government has decisively opted for results-driven public management and evidence-based decision-making. It implemented a large-scale project aiming at introduction of evidence-based policy-making, introducing a more systematic use of performance indicators, improvement of results-oriented budgeting, functional review and improvement of the impact assessment system in Lithuania. The work of the so-called Sunset Commission improving governance quality, under the auspices of the prime minister's office, was revitalized by the government in 2009 and continues to function, although more by inertia than by decisive push. Functional reviews still occur, although improvements are carried out only a small scale. Notable initiatives include attempts to reduce the number of the market surveillance inspectorates and to improve governance of state-funded cultural organizations, although changes there have yet to take place.

Reform of the management of state-owned companies (SOE) was initiated in 2011 and can now be considered more or less complete (assessment of the Country Specific Recommendations 2015 for Lithuania by the European Commission). It was an

Efficient use of
assets

9

exemplary reform in which Lithuania set the pace for states in the Baltic region and all of East-Central Europe. However, similar reforms are needed for municipal enterprises, where better state management could create sizable gains in efficiency.

The State Audit Office continues to be very outspoken in its audit reports and recommendations to the Seimas. It publishes and provides comments on various important audit reports, which resonate well both in the general public and in the Seimas. Under the fiscal discipline law, from 2014 onwards it acquired the additional role of assessing the quality of the government's draft budget and presenting its assessment to parliament. In 2014, the office criticized the draft budget as too ambitious in terms of expenditures and urged a faster approach toward a balanced budget.

The government generally coordinates its policies effectively and coherently. To improve inter-ministerial coordination, the Butkevičius government re-established a cabinet committee concerned with strategic planning. However, the variable achievement of policy results should be attributed to the government's political strength and will (or lack of it), rather than to the system itself.

Policy
coordination
8

The government, through the Office of the Government, significantly enhanced coordination and monitoring of the government's key priorities and their associated activities. However, the "non-priority" policy agenda is less coordinated due to the consolidation of the doctrine of ministerial responsibility, and hence, autonomy. The "whole of government" approach is particularly difficult to implement for the current government, which comprises three diverse political parties. Thus, only major political priorities – such as the introduction of the euro, the construction of the LNG terminal and beefing up military defense capabilities – could be achieved, and only with some push or mediation by the President. Smaller-scale breakthroughs are unlikely until the next general elections in autumn 2016.

Despite the fact that all integrity mechanisms are in place, functioning, and supported by the government, corruption continues to be a serious problem in Lithuania.

Anti-corruption
policy
8

In recent years, noteworthy transparency efforts targeted a number of sectors and institutions, among them party financing and electoral campaigns, territorial planning (through the simplification of various procedures), police, public procurement, market surveillance systems and the work of special institutions, such as the intelligence services and the High Commission on Ethics in Office (HOEC).

Since 2012, the declarations of personal finances of civil servants and public officials are submitted to the HOEC via electronic means, except for categories of (security) officials whose declarations are classified by law. However, the welcome processes of centralized storage and increased public access to electronic declarations have not been matched by the resources and capacity of the HOEC to analyze the data.

In 2013, the HOEC completed 116 investigations and passed verdicts against 141 persons, more than half of whom were high-ranking municipal officials and or managers in municipal public enterprises. The commission found that 53 of them had violated law on conciliation of public and private interests. The trend of rulings by the HOEC being challenged in court has been reversed; in 2013, only seven decisions were appealed. The courts generally uphold decisions of the HOEC.

However, all these important efforts have not changed the perception or, more importantly, the experience of corruption, a significant chunk of which comes from contact with healthcare institutions. The European Commission, in its first-ever report on anti-corruption in the member states in 2014, recommends the development of public procurement service capabilities in detecting corruption – especially at the municipal level and in healthcare. It also recommends a strategy against informal payments in healthcare as well as the strengthening of the monitoring and enforcement capacities of the High Official Ethics Commission, the Central Electoral Commission (as regards party financing) and the Special Investigation Service in investigating high-level corruption.

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. The latest such example was in March 2014, when all parliamentary parties agreed to raise defense spending to 2% of GDP (0.77% of GDP in 2012) by 2020, with an immediate increase 1.26% of GDP in 2015.

All major political actors concur in their commitment 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 – 2020, adopted in November 2012, as well as the National Reform Program, which was first adopted in 2005 and has been updated annually. The latter serves as a document for policy dialogue with the European Commission on economic competitiveness issues during the so-called European semester. The current center-left government has endorsed the long-term development strategy and its operational program with minor amendments.

Consensus on goals
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There are no anti-democratic veto actors in Lithuania. The populist parties or parties with clearly identifiable populist appeal have been co-opted into the system and are playing by democratic rules, and 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. On the other hand, the potential for populist or protest votes did not decline significantly in the 2008 national elections, but it was split among several competitors (the Labor Party, the Law and Order Party, and the National Resurrection Party) and therefore could not be pooled together. In 2012, a protest party (the Courage Way) managed to obtain six seats in the Seimas. Populist influence on policy direction has been minimal and is typically controlled by the major traditional party of any governing coalition, the Social Democrats or Homeland Union. Nevertheless, the Lithuanian party system is not yet immune to populist appeals, especially given great voter apathy, as national election turnouts remain low (53% in the first round of the 2012 national elections).

Anti-democratic
actors
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It is worth mentioning that in 2011 the leader of the Socialist People's Front was fined by the court for denying the January 1991 Soviet military crackdown in Vilnius, and lost his appeal before the Supreme Court in 2012.

For most of the first decade after independence, the main division in Lithuanian society (and thus the basis for the party system's structure) was based on attitudes toward Lithuania's Soviet past. Since then, this dominant line has been replaced by socioeconomic differences, as issues other than the Soviet system gained more weight in society. Interestingly, these lines cut across all social groups for a long time and did not coincide, keeping the polarization of society and the party system moderate. This led to a paradoxical situation in which many transition "losers" tended to support reforms and even faster integration into the European Union. Just before the completion of the transition to a fully functioning democratic and market system, however, the Law and Order party of the impeached president Rolandas Paksas tapped into the potential of disillusioned voters (those who have reaped little from the benefits of transition), thus polarizing both the party system and society.

Cleavage /
conflict
management
8

The conflict created by the Paksas impeachment in 2003 – 2004 seems to have subsided, partly because Paksas himself and his party have de facto (though not in rhetoric) accepted the verdict of the Constitutional Court and Seimas and seek to redress what they see as an injustice through democratic means. In January 2011, the European Court of Human Rights ruled that the lifetime ban for the impeached president to run for any office, which requires an oath to the Lithuanian state, violated the principle of commensurability. Compliance with the ruling of the European Court of Human Rights (ECHR) will require an amendment to the constitution. The Seimas has thus far been unable to agree on the amendment to the Constitution, leaving the issue unresolved.

In 2006-2008, other populist pressures were contained by partial co-optation and by a subsequent de facto coalition of the two biggest political parties (the Homeland Union and Social Democrats) in support of the minority government led by Prime Minister Gediminas Kirkilas. The potential for a polarization of society remains, however, as a significant portion of voters does not vote for established parties. The introduction of austerity measures triggered a series of protests in early 2009, but the situation soon de-escalated. The government negotiated measures needed to maintain economic and financial stability with various socioeconomic partners in autumn 2009 through the so-called National Agreement. While the economic crisis reversed the previous easing of social inequality, social peace was by and large preserved, also because large segments of Lithuanian businesses and society found an “exit strategy” by either turning to the informal economy or emigrating. Furthermore, deep cleavages have been avoided because Lithuania’s leadership has engaged in a policy style of seeking compromise, mitigating conflict and expanding consensus across dividing lines.

Since 2010, a new line of polarization in Lithuanian society has 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 a judge. A political party was organized around the issue and managed to secure six seats in 2012 in the new Seimas. As of 2013, the conflict about the alleged involvement of judges in the scandal and the damaged integrity of the judicial system seems to have subsided and the new party is not likely to survive for long (it failed to obtain a single seat during municipal elections in March 2015), though the case demonstrated the potential for the mobilization of a disillusioned electorate. During the reporting period, the traditional party system was challenged yet again by a group of ideologically diverse fringe parties and movements (mostly of nationalist and euro-skeptic orientation), which managed to collect 300,000 signatures demanding a referendum extending the ban of sale of agricultural land to foreign nationals. Such an extension would have been a violation of Lithuania’s EU accession treaty. The referendum was held in July 2014 but was declared invalid due to insufficient voter turnout (15%).

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, when the government introduced a requirement that all draft decisions along with accompanying documents (such as explanatory letters, impact assessments and other supporting documents) have to be made publicly available on the Seimas website no later than at the time of beginning of inter-ministerial consultations over the draft decisions. Importantly, this rule seems

Civil society
participation

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to have been extended to municipal draft decisions, which can be accessed from the same website before the vote in municipal councils.

The government also introduced stricter requirements to promote public consultations. Proponents of legislative initiatives are required to organize consultations and some ministries are indeed producing non-technical documents and placing them on their websites and/or organizing public discussions for consultations on major policy decisions. The government's EU membership information management system (LINESIS), which is partially open to non-governmental actors and which allows tracking of Lithuania's positioning on EU issues and implementation of EU law continues to be used.

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 and their role in decision-making. In 2010, the government adopted a strategy for development of the NGO sector and established a commission for NGO issues, led by the Deputy Minister of Social Security and Labor. The commission met regularly; however, changes in the law in 2014 replaced the commission with a council for NGO issues, which was formed in 2015. In 2014, the Minister of Social Security and Labor approved a 2014-2016 plan for supporting NGOs.

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 clearly 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. Together with many other new EU member states, the government of Lithuania was actively encouraging the European Union to officially proclaim Stalinism as a criminal regime. In 2009, the government achieved a recognition of 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" and a commitment of the European Commission to promote remembrance of Stalinist crimes. Domestically, the Seimas in June 2010 amended Article 170 of the criminal code to make it a criminal offense to public condone, deny or grossly trivialize international crimes committed by the USSR or

Nazi Germany against the Republic of Lithuania or residents thereof (punishable up to two years in prison).

The lustration process for former KGB agents and reservists was largely completed in 2013 with respect to known persons and evidence. Since then, the officially designated Lustration Commission has switched from active pursuit of lustration to standby mode, 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. Over 36,000 personal files are known to have been destroyed at independence in 1990 and 8,539 of the most important files have been transferred to Russia. Only about 0.62% of the whole former KGB archive remains in Lithuania and is publically accessible. Since 2000, when voluntary admission about collaboration was instituted, 1,589 persons came forward and admitted their collaboration. Since then, the Lustration Commission has analyzed about 500 cases and passed its verdict. Even if politically the lustration is closed, the so-called “moral path” to admitting collaboration will continue, and surviving KGB documents will continue to be published on the website (www.kgbveikla.lt).

In January 2013, the Supreme Court of Lithuania passed the final verdict in the case of the leader of the Socialist People’s Front leader Algirdas Paleckis, who was found guilty of denying Soviet aggression against Lithuania in 1991.

In 2014, the Genocide and Resistance Research Center of Lithuania finished compiling a list of 2,055 Lithuanian citizens who are potential Nazi war criminals. In 2014, 876 Lithuanian carriers of Righteous Among the Nations status were awarded the title of Lithuanian Freedom Fighter; the surviving 98 persons were granted a right to receive Lithuanian state pensions of the second degree as of 1 October 2014.

17 | International Cooperation

Transfers from the EU budget continue to be an important source of public investment in Lithuania, contributing to about one-third of the national budget and constituting over half of all capital public investment. While in real terms (comparative prices) transfers from EU structural funds will decrease somewhat from 2014-2020, this will be offset by higher direct payments in line with EU Common Agricultural Policy.

Lithuanian authorities are using EU support effectively. In early 2015, Lithuania’s absorption rate of EU structural funds was top in the EU from 2007-2013, (over 90%, implementation ongoing until the end of 2015). A synthetic counterfactual analysis shows that without EU membership (which offers both budgetary transfers and, even more importantly, the opportunities attendant to a single market), Lithuania’s GDP since the beginning of EU membership would have been 13.7 percentage points lower (or 1.03% of GDP on an annual basis).

Effective use of
support
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Irregularities in utilizing EU financial support are not significant considering the overall amounts absorbed and, where present, are responded to quickly by the authorities. The process of absorption is being monitored by the European Commission and the State Audit Office, the supreme audit institution of Lithuania.

Lithuania is regarded as a credible and reliable partner by the international community. It completed its transition to the status of a democracy and fully functioning market economy in the late 1990s and is now actively working with the international community (especially within the EU) in stabilizing the region and encouraging its neighbors to reform, especially in the format of the Eastern Partnership of the European Neighborhood Policy. In 2014-2015, Lithuania is a non-permanent member of the U.N. Security Council, a first for a Baltic state.

Credibility
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Lithuania promotes regional and international cooperation, and actively and successfully builds and expands as many international relationships as possible.

Regional
cooperation
9

In addition to its bilateral foreign policy agenda, Lithuania continues to cooperate with its Baltic neighbors within the framework of the Baltic Council and Baltic Parliamentary Assembly, and, together with Latvia and Estonia, as a member of the Nordic-Baltic Six (NB6) and the Nordic-Baltic Eight (NB8, including Iceland and Norway).

Despite Lithuania's Polish Electoral Action party membership in the ruling coalition in 2012-2014, Lithuania's bilateral relationship with its historical ally and neighboring state of Poland has not improved, although the countries co-operate very well in the within the EU's Eastern Partnership. But various bilateral issues have yet to be resolved, such as the right of persons belonging to the Polish minority in Lithuania to have their names written in official documents in correspondence to Polish-language spelling rules.

Lithuania is 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 Ukraine in its fight against the Russian invasion in 2014. Its bilateral relationship with authoritarian Belarus has been pragmatic while 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.

In 2011, Lithuania held the presidency of the Organization for Security and Cooperation in Europe (OSCE) and presided over the Council of the European Union from 1 July to 31 December 2013.

Strategic Outlook

Lithuania is back on track for sustainable economic growth and is forecasted to be one of the fastest-growing EU member countries for the next reporting period. Due to the diverse composition of the current Government, major reforms are not likely until its term expires at the end of 2016; at best, only piecemeal progress could be expected. That said, it delivered where and when it mattered: Lithuania competently and efficiently presided over the Council of the European Union in 2013, maintained fiscally prudent policies, introduced the euro in 2015 and built a liquefied natural gas (LNG) terminal, thus creating an alternative to Russian-supplied natural gas. It was also generally successful in starting an energy-efficiency housing renovation program, although the number of completed and ongoing projects as a share of all potential beneficiaries is still low (7%). In general, the continuity of main policies was maintained despite the ideological changeover of governing coalitions after the parliamentary elections in 2012.

It is more than likely that the trajectory of development for the next reporting period will be mostly affected by external uncertainties. The Lithuanian economy is much more diversified and better integrated in various regional markets than it was a decade ago. Thus, it is now far better prepared to withstand an economic standoff between the EU and Russia caused by Russia's aggression against Ukraine in 2014. This crisis has thus far not affected investors and local consumer confidence. However, it is very likely to become protracted, leaving uncertainties as to its economic impact. Russia's open rivalry with the international democratic community has other geopolitical implications as well, including military aspects for the NATO frontier state. While NATO's collective security guarantees have been operationally scaled up to protect the Baltic states, it is clear that Lithuania must spend more on military security and to keep a level head. The present European geopolitical crisis also offers opportunities for Lithuania (and other Eastern frontier states) to mobilize its efforts and to address previously neglected policy areas: resilience to Russian propaganda and other channels of influence, anti-corruption policy, energy efficiency and security (within a pan-EU effort to achieve energy union), cybersecurity, better integration of ethnic minorities etc. Although it is still too early to assess, the Russian threat could be increasing societal cohesion. Lithuanian citizens' sudden rise in satisfaction with their lives and the situation in the country (contrary to the long-established trend of negative assessments) could be a sign.

Regarding internal issues, social inequality should dominate the political agenda: about one-third of the population lives with the risk of poverty, a figure that has remained steady for a decade. No government, regardless of its ideological clout, has been able to address the issue successfully. Previous reports have emphasized low trust in public institutions and low civic empowerment, aggravated by depleted social capital and an aging population (eventually in need of more public services); this is a big challenge for the Lithuanian political establishment in pursuit of reforms. This conclusion is still valid, although the problem seems less acute than it was. The fight against

corruption needs improvement, but it will most likely be incremental and qualitatively visible only in the long term, as it has been in the past decade).

The issues to follow in the future include energy efficiency, the promotion of competition in the domestic energy market and security, green growth and a generally more efficient use of existing resources, as well as improved healthcare, i.e. bridging the quality gap between preventive healthcare-to-healthcare services. The ongoing energy security projects are set to be completed in 2015-2016; however, new the Visaginas nuclear power plant is not likely to go ahead given the position of the current government and the project's rejection in a 2012 referendum. The main obstacles to economic growth are manifold. The shortage of labor will become more prominent given the aging population and the effects of emigration (13% loss of population over the last decade). Furthermore, Lithuania has almost fully exploited its potential for low-cost labor and adaptation of existing technologies as the main drivers of growth. Advancement into the category of high value-added growth will require improvements to the education system at all levels and the corresponding modernization of the public administration system.