

BTI 2014 | Lithuania Country Report

Status Index	1-10	8.98	# 7 of 129	
Political Transformation	1-10	9.25	# 8 of 129	➔
Economic Transformation	1-10	8.71	# 7 of 129	➔
Management Index	1-10	7.08	# 8 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. 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	3.0	HDI	0.818	GDP p.c.	\$ 23399.0
Pop. growth ¹	% p.a.	-1.5	HDI rank of 187	41	Gini Index	37.6
Life expectancy	years	73.6	UN Education Index	0.873	Poverty ³	% 0.4
Urban population	%	67.2	Gender inequality ²	0.157	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

During the period under review, Lithuania was in the process of recovering from its worst economic crisis since the transformation of the planned economy system in the early 1990s and the so-called Ruble crisis at the end of the 1990s. Lithuania continued to exercise financial discipline and its macroeconomic situation in early 2013 was in a good shape, with a positive medium-term economic outlook and realistic chances to join the euro zone by 2015.

However, economic progress came at a political price to the center-right government, which engineered fiscal austerity measures and upheld macroeconomic stability. That government lost the 2012 parliamentary elections to a center-left party. Moreover, one party of the previous governing majority, the Liberal and Center Union, failed to make it to the Lithuanian parliament (Seimas) at all, though the leading party, the Homeland Union, managed to come second and now leads a strong opposition. Thus, this report in essence is an assessment of its performance. Predictably, the previous government, while focusing on public finances and improving efficiency, under-delivered on other electoral campaign promises of 2008. Energy efficiency-related renovation of residential dwellings is perhaps the best example. While important steps were made on energy policy in order to diversify supply, build the necessary infrastructure, install diverse generation capacity and encourage competition, solidifying such progress very much depends on the course pursued by the new center-left government. Important initiatives were pursued to increase transparency of policymaking, particularly in corruption-prone areas, such as public procurement. These measures, did not result in improvement of public perception on corruption, however, which could be due to structural constraints, as a sizeable part of society is simply tolerant of corruption. The crisis left a hole in the finances of the social security fund and a long-term policy fix had not been fully reached by the end of 2012. While the previous government managed the financial crisis well and came up with many visionary initiatives, its implementation record was weak, which led to its failure at the polls. The new center-left coalition adopted a different, more conciliatory style in policymaking and remains rather popular so far. It faces the

same challenges, however, and soon its credibility will be tested under the weight of decisions to be made.

During the review period, despite the systemic ongoing reforms and improved overall performance, trust in the justice system declined following a scandal of alleged pedophilia in Kaunas. In the wake of the scandal, a newly established party (Way of Courage, *Drąsos Kelias*) that had raised allegations of judicial corruption, entered parliament in October 2012. Other than that, the remaining parliamentary parties are well-established. For the first time in recent Lithuanian history, the Electoral Action of the Lithuanian Poles, a Polish minority party, got elected on the proportional representation (party lists) ticket and is a member of the ruling coalition. The 2012 elections themselves, though free and fair, were marked by higher than usual instances of irregularities.

President Dalia Grybauskaitė, since her election in 2009, has enjoyed popular support, mostly for her direct approach to solving policy problems and a push against institutional sclerosis. However, while the president's office is popular, other political institutions, such as the country's political parties, the Seimas and the national government remain, in that order, the least-trusted national institutions.

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. The newly founded populist Labor Party achieved 28.44% during the parliamentary elections in 2004, and even became part of the government. The coalition with the Social Democrats ended in summer 2006, when two ministers of the Labor Party resigned amid allegations of corruption. 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. The problem here was not merely the planned economy, but the economy's orientation toward a system of planning defined by the regions of the Soviet Union. Some sectors of Lithuania's industry were too large, some too small and others almost nonexistent. Much of its technology was antiquated and several production processes relied heavily on human resources. At the start of the 1990s, the country attempted to pursue transformation without imposing heavy social costs. This strategy clearly backfired, as it initially slowed economic transformation and privatization. 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 was used as a forced opportunity to rationalize budgetary expenditures, introduce more transparency in policymaking and to restart much needed reforms in some policy areas.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

All citizens have the same civil rights; the nation state is accepted as legitimate. National minorities include Poles (6.6% of the population), Russians (5.4%) and Belarusians (1.3%).

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.

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.

Question
Score

Monopoly on the
use of force
10

State identity
10

No interference of
religious dogmas
10

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 the municipal elections in 2011 and parliamentary elections in 2012) was not questioned. There are generally few irregularities and the High Elections Commission deals with them effectively. However, in 2012 it had to cancel parliamentary electoral results in two single member electoral districts because of significant vote rigging. This decision was

Free and fair
elections
9

upheld by the Constitutional Court on appeal by some political parties. In addition, the Constitutional Court recommended to the Seimas cancellation of mandates of three elected deputies of Darbo partija (Labor Party) due to vote buying in the multimember district during the preferential voting for candidates on the party lists. The Seimas complied with this recommendation.

By January 2013, the Seimas has not yet voted on the introduction of direct election of mayors despite the promises of the previous center-right government and of President Dalia Grybauskaitė.

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 channels to put forward candidacies but through party lists. To rectify this and other norms in other laws of various elections, which are in conflict with the constitution, the Seimas in February 2013 established a working group to draft a single electoral code.

It is worth noting here that a procedure for a constitutional amendment was set in motion in the Seimas in December 2012 in order to facilitate compliance with the ruling of the European Court of Justice in January 2011 that a ban imposed by the Constitutional Court in Lithuania in 2004 that prohibited any impeached politician for running for any elected office in Lithuania was excessively harsh. This affected the impeached president and now member of European Parliament Rolandas Paksas, who despite being a chairman of Tvarkos and teisingumo partija (Law and Justice Party), could not run for parliamentary elections in 2012. In order to pass, the amendment will have to be voted on twice with an interval of at least six months and each time a constitutional two-thirds majority will have to be obtained.

Low turnout continues to be a problem, but the turnout appears to have been stabilized. Fifty three percent of eligible voters voted in the first round of the general elections in 2012 (49% in 2008). In the 2009 presidential elections, 52% voted, while just 21% voted in the elections for the European Parliament in 2009 and 44% in the 2011 municipal elections.

There are no veto powers. Elected rulers have effective power to govern.

Effective power to govern

10

Citizens generally have the unrestricted freedom of association and of assembly within the basic democratic order. The government, however, continues to ban the Communist Party and other organizations associated with the former Soviet regime. In addition, for several years the government banned marches for tolerance, which involved gay rights groups, though the Vilnius municipality administration finally granted a permit for such marches in 2010. This decision was contested in several deliberations in the courts, before the High Administrative Court upheld it. The gay

Association / assembly rights

10

pride parade took place, albeit with a heavy police presence, and there were skirmishes caused by opponents.

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

According to the Department of Statistics, in 2011, 496 different magazine titles and 262 newspapers were published with the annual circulation of (correspondingly) 61.7 million and 176.2 million copies. Their annual circulation is on a continuous decline, however.

In 2011, there were 45 TV companies and 49 radio stations in Lithuania, including public TV and radio programs.

According to a report by Freedom House, provisions in the Council of Europe's Convention on Access to Official Document, signed by Lithuania in 2009, are not yet properly enforced in practice because of continued restrictions on information disclosures. The report also notes that in June 2011, the Law on the Provision of Information to the Public took effect, with provisions prohibiting media content that incites hatred on any grounds including age, race, sex, gender or sexual orientation. Its report also notes increased concentration of the media ownership over the last several years, with purchases of outlets by both domestic firms and foreign companies, mainly from Scandinavia. Corruption in media advertising in major newspapers of Lithuania was also reported in U.S. diplomatic cables and released by the WikiLeaks.

The public trust in the "Fourth Estate" has further declined since the last reporting period. The overall trust level in media went down from about 55% (July 2010, ELTA - Baltijos tyrimai) to just 33% in January 2013 (Vilmorus). The Commission of Ethics of Journalists and Publishers reports that the number of infringements on ethics has doubled (26 such rulings out of 112 cases in 2011 in comparison to 12 out of 126 in 2010). The print media market is dominated by tabloids. The commission acquired a right to recommend the waiver of preferential VAT treatment (9% currently as opposed to 21% full VAT rate) to print media if it is found guilty of three infringements.

According to the study conducted by the European Association for Viewers' Interests (EAVI) in 2010, in terms of media literacy Lithuania is around average of an EU country. The study assessed all EU member states and by 59 various assessment criteria, Lithuania scored 75% of EU average, while top performing Finland stood at 146%. The weak points for Lithuania were insufficient availability of (quality) media and weak communicative abilities of media users to use social networks to access and participate in the 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.

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. In 2008, the Seimas amended the law on courts and installed stricter and more transparent selection procedures of judges and the requirement that court cases be assigned randomly (by computer) to judges. Since 2010 at the insistence of the current president, real rotation of chairmen of the courts started. Various courts seem to be co-operating more. Since 2010 all judges have been 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.

In 2010, there were 787 posts of judges in all courts (except for the Constitutional Court; 779 in 2010), of which 773 were occupied. In their work, the judges were supported by 517 assistants (75% of the total demand for assistance). Fifty-one judges were subject to assessment in the Judicial Commission for Ethics and Discipline (114 in 2010). Of these, nine disciplinary cases were considered by the Judicial Court of Honor and four judges were found guilty of gross violations (11 and eight in 2010). Two judges were dismissed from the service by the president (four in 2010).

During the reporting period, Lithuania started preparatory technical work toward a move to the electronic case filing in the courts. According to the 2012 report of the European Commission for the Efficiency of Justice (CEPEJ), based on 2010 data, Lithuania was the top performing EU member state in the courts with regard to litigious civil and commercial cases (with disposition time of 55 days and a clearance rate of 102%).

In June 2011, the Seimas adopted changes to the Law on Prosecutor's General Office as initiated by the president. The term of office for senior management is limited to five years, with the maximum of two terms in the same position. The vacancy announcements are open and could be contested by candidates outside the system (e.g. by judges and other persons meeting qualification criteria). Specialization of

prosecutors according to the typology of crimes replaced the previous criterion of assignment to cases according to the stages of the code of criminal procedure. The number of higher-ranking prosecutors was decreased and a more flat management structure was introduced. At the same time, the previous structure of having 56 district prosecutors' offices under the Prosecutor General's (PG) office was replaced by five regional prosecutors' offices. In 2012, out of 43 thousand criminal cases, 52% cases were solved (45% in 2011), and 71.7% of these were solved within six months.

Public trust in the judiciary remained very low and continued to decline during the reporting period. According to a public opinion poll by Vilmorus in 2012, only 16% of Lithuania's citizens trust the courts (20% in 2010). This low trust at least partially has to do with a highly publicized case of a judge who allegedly delayed the proceedings in a case of infant abuse. The Constitutional Court is the only exception as in November 2012 it enjoyed 42% of popular support (51% in 2010). However, when moving beyond popular perceptions, i.e. to surveying those who were actual parties to court cases, the picture is totally different. 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% (defined as a sum of categories of from "distrusting" to "fully trusting"). The public's trust in the Prosecutor's General Office went up from 12% in 2010 to 21.6% in 2012.

During the reporting period, high-profile cases of office abuse occurred, mostly at the municipal level, though some prominent politicians are also facing corruption charges. A corruption case against the former mayor of Alytus was ongoing in early 2013, and a case against the deputy mayor of Kaunas (initiated in 2011) reached the court. In 2012, corruption cases were initiated against Vilnius' deputy mayor and director of the municipal legal department of Vilnius for accepting the bribes. At the end of 2012, the criminal service of the customs department uncovered the biggest case ever reported of systemic corruption at Medininkai international border crossing point which led to the arrests of 30 customs officials for taking bribes while "managing the queues" at the border with Belarus. Seven officials in the migration department were charged with taking bribes in return for issuing residence permits to non-EU nationals.

According to the data of the Special Investigations Service, the main anti-corruption body of Lithuania, in 2012 the courts sentenced 88 people and acquitted 16 in corruption and office abuse cases in which the Special Investigation Service of the Republic of Lithuania (STT) conducted the pre-trial investigation (56 of the sentenced persons were civil servants).

The previous practice by ministers of using public funds for political and personal publicity campaigns has by and large stopped thanks to a stricter government regulation. Dainius Kreivys was forced to resign as Minister of Economy in 2011

Prosecution of
office abuse

8

because he failed to disclose the potential conflict between his private interests and his official function.

The latest available data by the Ministry of Interior shows an increase of the number of reported criminal acts of corruption. In 2009, 890 such cases were registered, which is 23% more than in 2008 (724). Also, in 2009, 479 persons were registered as suspects in corrupt activities, or about 10% more than in 2008 (435). It is not known whether this increase has been caused by a better fight against corruption or the by a rise in corrupt activities.

Several corruption cases have involved high-profile figures. For example, the leader of the Labor Party leader and member of parliament Viktor Uspaskich, along with two other Labor Party members of parliament have been under criminal proceedings since 2005 on charges of tax fraud. The case has been delayed many times due to various immunities granted to Uspaskich (two times as MP in 2008 and 2012 and once as an MEP in 2009). The court was expected to finally announce a verdict in spring 2013.

In 2012, the tax inspection office forwarded a list of 160 names of people to the Prosecutor General's office who are suspected of unlawful acquisition of wealth, including several members of the previous parliament and municipal councils. The PG started pre-trial investigations, but seemingly will be hindered by the existing legal loopholes. The president initiated changes to the existing legislation that targeted these loopholes. If the proposals are adopted by the Seimas, all loans exceeding LTL 50,000 will be deemed valid only if they are conducted via notaries.

There are other signs that transparency is increasing. In 2012, for the first time, the declarations of personal finances of civil servants and public officials were submitted to the High Official Ethics Commission (HOEC) via electronic means (through the portal of the Tax Inspectorate), and 79,828 such declarations were submitted. This number does not include the declarations filled by those running for public office (who report to the High Electoral Commission directly). This process needs improvement in terms of capacity of the HOEC to analyze the data, but it was a step forward. Previously, such declarations (except for those of the high officials) were stored with the public institutions themselves. The rulings of the HOEC are increasingly challenged in the court. The courts generally uphold decisions of the HOEC.

In 2012, the HOEC completed 105 investigations (85 in 2011) and passed verdicts against 137 persons, 80 of whom were high ranking municipal officials and management of municipal public enterprises. In 44 cases comprising 50 officials, the commission found they had violated law. It is notable that one investigation was made against the prime minister who was charged (by an opposition party) for promoting the interests of one commercial company before Gazprom but was not found to be in

conflict with the law. In 61 investigations conducted by other public administration institutions, or jointly by HOEC and institutions, 31 officials were found in conflict with the law on conciliation of public and private interests.

It should be noted that officeholders who break the law and engage in corruption are prosecuted rigorously under established laws and always attract negative publicity.

In December 2011, the Seimas banned donations by companies and individuals to political parties other than voluntary contributions of 1% from personal income tax. In 2012, about 50,000 voters exercised such a right (It is interesting to note that 44 registered parties have 106,000 registered members). During the year of political campaigning, individual candidates can contribute to their own political campaign, though the amount may not exceed income from their salary for 20 months. Individuals can support the independent candidates with up to 10% of their annual income. The rest of financing to political parties comes from the national budget. The total amount disbursed to all political parties from the national budget in 2012 comprised LTL 20.3 million. This total was only slightly higher than in 2009 (by LTL 700,000), the only difference being that in 2009 about 30% of the volume was contributions from private donors. The top three parties by expenditures incurred for political campaign during the parliamentary elections were Darbo partija (Labour Party), Tėvynės Sąjunga - Lietuvos krikščionys demokratai (Homeland Union – Lithuanian Christian Democrats) and Liberalų ir centro sąjunga (Liberal and Center Union) – with LTL 2.6 million, LTL 2.5 million and LTL 2.4 million respectively.

The court case against the Labor Party, which in 2005 was accused of false accounting of party finances (underreporting of LTL 25 million) and tax evasion (of LTL 3.8 million) –which enabled the party to receive a state subsidy of LTL 6 million greater than that to which it was entitled – was still ongoing at the time of reporting. The Prosecutor's General office had reclassified the charges into the category of fraud. The court was expected to make a decision in 2013.

Officially, there are no restrictions on civil rights in Lithuania. The type of complaints of rights violations and their overall number (203 in 2012), reported to the ombudswoman of equal opportunities, has been stable during recent years. Complaints based on gender, social status and age were the most frequent, followed by disability, nationality, language, religious beliefs, ethnicity and sexual orientation. In November 2011, the government approved an inter-institutional work program to combat discrimination in 2012 – 2014, which is mostly aimed at education.

According to the European Barometer survey in 2011, 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 Vilmorus (commissioned by the Lithuania-based Human Rights Monitoring Institute), 18% of respondents thought

Civil rights

8

that their human rights had been violated (22% in 2010, 18% in 2008), but 78% of them did not lodge any complaints about it (the same as in 2010). On the other hand, awareness about human rights issues has been growing – 52% respondents replied that they have enough information about such issues (54% in 2010, 43% in 2008).

Intolerance in Lithuania, as measured by public opinion, remains quite high and has become entrenched. Several consecutive public opinion studies (2007 – 2011) by the Institute for Ethnic Research show that about 60% of respondents do not like Roma and former prisoners living in their neighborhoods; about 50% have negative opinions about homosexuals and the mentally disabled; about 40% feel the same way about Muslims, refugees and Chechens; and about 20% have negative opinions about black people, Asians and Jews.

According to data from the Prosecutor General's Office, the number of registered violations of civil rights and cases of hate speech have increased during the past years. According to the official statistics provided by Ministry of Interior, the number of criminal acts in this category increased significantly in 2011. There were 335 registered criminal acts. Of those, 123 criminal cases were transferred to the courts, most of them being hate speech cases on the Internet.

Although men and women enjoy the same legal rights, and, according to the 2011 Gallup survey, the same share (70%) claim that they can work as much as they wish, the wage gap has not narrowed; women earn 12% less on average than men in comparable jobs. According to the 2012 annual Gender Equity Index by Social Watch, Lithuania, with other Baltic states, came in the joint eighth place among EU member states in terms of the aggregate standing (joint 17th place in the world). It scored very high in terms of educational attainment of women, but low in terms of empowerment (measured by the proportion of women in the management positions).

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. With regard to the number of women in parliament, 24% of the members of the newly elected members of the Seimas are women (34 out of 141, up from 27 in 2008 – 2012).

The number of recorded cases of violence against women has increased manifold. In 2012, 4582 such cases were recorded, while in 2010 this number was only 334, according to the Ministry of Interior. This is an area of important legal development, as in 2013 Lithuania lost a case in the European Court of Human Rights for failing to protect a victim. At the end of 2011, the new law on protection against domestic violence went into effect. Importantly, in addition to criminalization, it enables the launch of pre-trial investigation without a statement from the victim.

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 2011 report on Human Rights in Lithuania, the most pressing issues were poor prison conditions (resulting from overcrowding) and intolerance to sexual and ethnic minorities. In 2009, the government adopted a program to modernize prisons, planning to invest LTL 602 million for this purpose. The program would result in an increase in living space for detainees from an average of 3.65 square meters in 2009 to five square meters in 2017, but the first tangible improvements are not expected until 2014-2015, when construction and modernization should be completed.

One final issue of relevance here is that those belonging to Lithuania's ethnic Polish minority are obliged to use the Lithuanian spelling of their names in official documents, which some find discriminatory. At the time of reporting, there has been no solution found to this issue, though the new center-left ruling coalition, composed of the Polish Electoral Action political party, claims that they will challenge this rule in the Seimas. (In April 2010, the Seimas turned down such a draft law and in 2011 the European Court of Justice found that the Lithuanian legislation on this issue did not violate the EU law).

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.

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.

All relevant political and social players continue to accept democratic institutions as legitimate. There are no players, even on the margins, who question constitutional democracy as the legitimate form of government. That being said, by buying votes during the parliamentary elections in November 2012, the Labor Party has indicated its readiness to ignore democratic rules and manipulate democratic procedures.

Performance of
democratic
institutions
10

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 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 produced a center-left governing majority of four parliamentary parties, led by the Social Democrats. In total, 27 parties contested the elections, but only seven managed to clinch the 5% electoral threshold. Electoral Action of the Lithuanian Poles became the first ever political party of ethnic minorities to get elected into the Seimas on the party lists. The last parliamentary elections confirmed the dominant trend of shifting ruling coalitions, that is, no governing majority has been re-elected since 1990, except the Social Democrats (LSDP) in 2004 but with a different composition of the ruling coalition. The conservative Homeland Union (TS-LKD), which led the last cabinet, was the first one to serve a full term in 2008 – 2012. After the elections in 2012, LSDP is the biggest and most dominant party in parliament with 40 seats in the 141 seat legislature. The TS-LKD holds 33 seats and is the biggest opposition party. The two governing parties, the Labor Party and the Order and Justice Party hold 30 and 10 seats respectively. 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 December 2012 found that only 6.4% of respondents trust political parties (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.

Party system
7

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 policymaking, notably in the energy and development sectors, which tend to dominate municipal politics. The number and nature of corruption scandals over the past five years, which mostly occurred at the municipal level and involved local politicians being bought off by business interests, are evidence of this influence.

During 2007 – 2011 the government implemented a special EU-financed program for strengthening social dialogue. Eighteen centers for coordination and training and 24 bipartite and tripartite councils were established.

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 and remains low overall. Overall, individual satisfaction and perceptions of one's own welfare now and in the future are declining. In January 2012, 20% were satisfied with the way democracy functions in Lithuania, while 67% were not (Baltic Surveys data). In 2007, the percentage of satisfied Lithuanians was still 44%.

A deep mistrust of the Lithuanian state's executive institutions persists. Among all surveyed institutions, political parties, Seimas and the government continue to receive the lowest trust scores. Importantly, the trust in the presidential institution has increased since President Dalia Grybauskaitė assumed the office in July 2009, which may demonstrate a preference for a strong leader among voters.

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

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).

Volunteerism has been slowly rising. According to a representative survey by the Socialinės informacijos centras (Social Research Center), in 2010 61% of the

Social capital
8

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 2012, 54% of the population participated in environmental clean-up campaigns (40% in 2009), 48% provided donations to charities and 37% participated in activities in their local communities.

Yet, another 2010 study by the same institute shows that only 11% of the population during the previous year donated their time to institutionalized civic campaigns, for example, participating in activities of civic movements. In 2011, the share of unpaid volunteers stood at 9%.

Overall, charitable donations decreased by 24% in 2010 in comparison to the previous year, mostly because of the economic hardship. From LTL 295 million in 2010 they rebounded to LTL 362 million in 2011 (of which about 30% as usual went to sport clubs and sporting activities, according to the Department of Statistics).

Donations through the 2% income tax redirection (tax-payer donations to non-profit organizations, which was introduced in 2004 to support civil society) experienced a big setback in 2010, as the rate of personal income tax was lowered from 24% to 15% in 2010.

Lithuania has yet to achieve a consolidated civic culture, although it has been making slow progress toward this goal. The web of autonomous groups, associations and organizations is robust but heterogeneous, and it enjoys the population's solid trust. As mentioned above, the legal and regulatory framework for NGOs is solid.

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% said that "other people could be trusted", while at the beginning of transition in 1989 over 60% of respondents agreed with this statement.

Citizens' involvement in civil society remains low, however, despite Lithuanian NGOs' good organizational and managerial capacities. The number of registered NGOs has gone up every year since 1994 (when there were 1,320) to 22,246 in 2012 (according to data collected by the State Enterprise Centre of Registers (Registrų 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 and now totals 1,700 as of early 2013 (comprising 83,000 people). This development was significantly facilitated by the access to EU structural funds, notably through the

LEADER program. In the budgetary period 2007 – 2013, these communities have been able to use €137 million to facilitate their activities.

In 2010, the Ministry of Social Security and Labor approved the development program of communities for 2011 – 2013 and allocated about LTL 7 million to each to finance projects facilitating administrative capacity and sharing of best practices of community groups.

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.

The last available Human Development Index (HDI) of the United Nations Development Program for Lithuania is 0.810 (2011), ranking it 40th out of 187 countries assessed and, for the first time, in the very high human development category. In comparison to 2010, the progress is notable, but Lithuania's HDI is still at the bottom end of the European Union, as it surpasses only Portugal, Latvia, Croatia, Romania and Bulgaria.

In 2011, Lithuania's Gini coefficient was 32.9 based on Eurostat's Survey of Income and Living Conditions, which is an improvement since 2009 when Lithuania's score of 35.5 was the second highest in the European Union.

After a dive to 57.8% in 2010, the employment rate stood at 60.7% in 2011, according to Lithuania's Department of Statistics. Unemployment rose sharply from 4.3% in 2007 to a peak of 17.8% in 2010. It subsided somewhat in 2011 to 15.4% in 2011, but is expected to decrease gradually to 9.8% in 2014, the European Commission predicts. Approximately one third of the unemployed have been so long-term (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.

Question
Score

Socioeconomic
barriers

8

Economic indicators		2009	2010	2011	2012
GDP	\$ M	36846.2	36644.6	42890.9	42086.6
GDP growth	%	-14.7	1.5	6.0	3.6
Inflation (CPI)	%	4.4	1.3	4.1	3.1
Unemployment	%	13.7	17.8	15.4	-
Foreign direct investment	% of GDP	0.1	2.4	3.4	1.6
Export growth	%	-12.7	16.9	15.1	11.4
Import growth	%	-28.4	17.8	12.6	7.7
Current account balance	\$ M	1462.4	14.9	-619.1	-230.4
Public debt	% of GDP	29.3	37.9	38.5	39.6
External debt	\$ M	32037.5	29814.6	29988.1	-
Total debt service	\$ M	6364.4	8758.1	6749.0	-
Cash surplus or deficit	% of GDP	-9.0	-7.3	-5.1	-
Tax revenue	% of GDP	14.0	13.2	13.3	-
Government consumption	% of GDP	21.9	20.4	18.7	17.6
Public expnd. on edu.	% of GDP	5.7	5.4	-	-
Public expnd. on health	% of GDP	5.5	5.1	4.7	-
R&D expenditure	% of GDP	0.84	0.80	-	-
Military expenditure	% of GDP	1.4	1.1	1.0	1.0

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

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.

According to a survey of the Lithuanian Free Market Institute (LFMA), Lithuanian experts estimated that the informal economy's share shot up to an estimated 28% GDP in 2010, and began to contract slowly to 26% in 2012 (and forecasted to 25%

Market-based
competition

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in 2013). 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. Such practices have not been eliminated since. According to the estimates of Swedbank, the tax losses of such a shadow economy, at the current taxation rate in 2012, constituted about LTL 7.5 billion annually and LTL 8.3 billion in 2010 alone.

According to the World Bank’s 2013 Doing Business report, Lithuania ranks 27th out of 185 countries for ease of doing business, (compared to 23rd in 2011 of 183 and 28th in 2009 of 181 countries). Among the new EU member states, Estonia (21st) and Latvia (25th) surpassed Lithuania.

The amount of state aid granted by Lithuanian authorities in accordance with EU state aid law has been low, although slightly higher than during the pre-crisis period. According to the European Commission’s 2012 Scoreboard on State Aid in the EU, in 2011 the state aid in Lithuania granted to industry in services amounted to €120 million or 0.4% GDP (up 0.2% in comparison to 2006 – 2008; 0.42% in 27 EU countries in 2011).

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. President Dalia Grybauskaitė, promised during her political campaign in 2009 to curb what she labeled to be “oligarchic monopolies”. She appears to be showing initiative to carry out this promise, especially with regards to the energy and central heating sectors. However, a December 2010 performance audit report by the National Audit Office of Lithuania revealed numerous still-existing weaknesses in the competition policy and institutional capacity of the Competition Council. De facto the council does not enjoy sufficient independence from political steering, rarely takes initiatives to investigate the most important markets, and imposes relatively mild fines on business entities for violations of competition. When violations occur the council does not do an assessment of damage to the market and consumers, with the result being that fines fail to serve as a deterrent for future violations. Crucially, the Competition Council does not enjoy sufficient funding to perform its activities. Picking up recommendations mentioned in the audit report, in March 2012 the president of Lithuania called on the Seimas to pass a new Law on Competition which inter alia enabled the Competition Council to establish its own annual work plan based and focus on investigating the most damaging cases for the economy (a right and practice similar to that enjoyed by the State Audit Office since membership in the EU). 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

Anti-monopoly
policy
10

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, the main impediment to strengthening competition in various sectors of the economy remains insufficient research and investigative capacity of the Competition Council, not only to identify the problems but also to propose the right solutions.

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%.

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

Foreign-owned banks, in particular Scandinavian banking groups, play an important role in Lithuania's financial sector. In total, foreign subsidiaries manage 90% of the banking system assets, and the three largest banks control 69% of the system. The financial crisis severely hit the banking system, but it managed to absorb adverse economic shocks, thanks to support from parent foreign banks and determined policy action by the Lithuanian authorities. As a result, in 2011 banking profits reached pre-crisis levels and the loan portfolio quality started improving. The share of non-performing loans fell to 21.1% in 2011 from 23.3% in 2010 (compared to the EU average of 7% in 2010) as clients that had previously been regarded as insolvent started to repay both business and consumer loans. Capital and liquidity ratios are well above the regulatory minimum for the banking system as a whole, with the capital adequacy ratio standing at 13.5% and the liquidity ratio at 44%.

Lithuania started to address the weaknesses of its regulatory and supervisory framework. It has adopted a new macro-prudential instrument to avoid re-emergence of unsustainable credit and housing price developments. The central bank's Regulation for Responsible Lending went into effect on 1 November 2011 and has these objectives: protecting the population against too high a financial burden, and insulating the financial system – and ultimately the Lithuanian economy – against shocks. Furthermore, the regulation forces credit institutions to respect clear limits when they evaluate the solvency of clients and issue loans.

As of January 2012, financial supervision was centralized entirely within the central banks (Lietuvos bankas). A new supervision service within the central bank is 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. The new model of supervision is expected to be more effective, as well as cost-efficient, and should lead to reinforced stability of the financial system. It will put more emphasis on macro-prudential systemic risk supervision, and on consumer protection and education.

The new system of financial supervision was tested in the wake of several bankruptcies or near bankruptcies: Snoras, a domestically owned, medium-sized bank, underwent bankruptcy in November 2011; Ūkio bankas suspended its activities (with bankruptcy as the most likely outcome) in February 2013; and three credit unions went belly up between 2012 and 2013. 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. Since 1994, Lithuania's currency, the litas, has been under a currency board regime, which has been pegging the litas to the euro for over a decade. Lithuania narrowly missed the Maastricht criterion for inflation in 2006, and since then, the combination of a somewhat looser, pro-cyclical, expansionary budgetary policy; the credit boom and the corresponding import of cheap credit from Scandinavian mother banks; and the steep rise in demand for primary energy sources (oil and gas, all of which Lithuania must import) led to a rise in inflation to 5.8% in 2007 and to 11% in 2008. Inflation has gone significantly down since (4.5% in 2009, 1.3% in 2010), but it rose to 4.1% in 2011 on the back of higher energy and food prices. 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).

Anti-inflation /
forex policy

9

The review period has been characterized by recovery following the contraction caused by the global financial and economic crisis. The previous center-right government made preservation of macroeconomic stability its top priority and swiftly made the necessary fiscal corrections through tax reforms and sharp cuts in public expenditures, including social benefits (the so-called "internal devaluation"). The combined value of fiscal correction in 2009 and 2010 amounted to 12% GDP.

Macrostability

9

The shortfall of budgetary revenue was partially covered by borrowing in the financial markets during the crisis, and the public debt reached 41.1% of GDP in 2012, in comparison to 30% GDP in 2009. It is expected to stay stable at around 40% in 2013 – 2014. Also, the fiscal deficit increased from 3.3 % of GDP in 2008 to 9.2% GDP in 2009, but subsequently was brought down close to the Maastricht limit in 2012. The deficit is expected to stay below the limit in 2013 – 2014 at 2.8% and

2.3% GDP, while the structural deficit should be 0.1 percent lower than these estimates.

Contrary to various electoral promises, which tended to be on expansionary side, the new center-left government, which assumed office in December 2012 has been exercising good fiscal restraint so far. Its margin to maneuver is in fact very small. It will be further restrained by its commitment to introduce the euro in 2015. Its only real action so far has been a 17.6% increase to the minimum wage (to LTL 1000). This measure targeted replacement of a significant part of informal wage payments, and should thus have limited impact on the labor market. The current account balance went from a deficit of 13.1% GDP in 2008 to surplus of 4.2% GDP in 2009. However, as the economy recovered, so did imports, and a negative balance was recorded again in 2011 (3.7% GDP). It is projected to reach 3.0% of GDP in 2013 and 3.6% in 2014.

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 has further advanced, during the reporting period and is nearing completion, although in the cities it will still take time to finish despite repeated pledges of the government to settle it by 2013.

Property rights
10

According to National Land Service data, land restitution in rural areas has been by and large completed (97% of claims and 99% of claimed land area have been granted). However, despite progress, the government has not completed restitution in the cities. Overall, 76.4% of titles and 79.7% of claimed land have been restituted as of 1 January 2013.

Lithuania continues to maintain restrictions on the sale of agricultural land to foreigners, which were negotiated with the European Union, but are contrary to the EU law. In 2011, the government applied for a prolongation of an additional three years until 1 May 2014 of a transition period (stipulated in the EU Accession Treaty), which the European Commission granted.

In terms of protecting foreign investors, Lithuania made an improvement since 2011 World Bank's Doing Business report. It improved its standing in the index from 5 to 5.7 (out of 10) and moved up from the 93rd place in 2011 to 70th in 2013.

In June 2011, the Seimas of Lithuania adopted the Law on Compensation for Real Estate formerly possessed by the Jewish Religious Communities in Lithuania.

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

Private enterprise
10

Statistics, 77.2% of GDP was generated from the private sector in 2009. It is the main engine of economic growth. The role of small and medium enterprises (SMEs) has been quite stable since 2005. They make up over 99% of the total number of all enterprises (99.51% in 2012) and generate about 75% of the total employment in the private sector (608,000 employed in 2012 or 47% of the total number of employed).

10 | Welfare Regime

There continues to be a solid network to compensate for social risks, and national health care is especially robust. Like in many European nations, however, Lithuania is faced with problems in sustaining its social benefits, especially in the wake of the financial crisis. The deficit of the State Social Insurance Fund (Sodra) in 2012 was approximately 2% of GDP and its cumulative debt was about 10% of GDP. Basic indicators regulating assistance, such as the basic pension and the minimum unemployment benefit, have remained unchanged since 2008. The average monthly pension went back to pre-crisis levels. The ratio of an average pension to an average salary stood at 37.7%.

In 2008, the government took some very decisive steps to include a wide selection of professions into the social security system, such as sports professionals and self-employed individuals. From 2011, they now fully contribute to the state social insurance fund and the health insurance fund.

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. Also, in 2013, the government decided to reform the pension funding system and promote the provision of supplementary voluntary contributions, which so far had been used only by 0.1% of the labor force. By 30 November 2013, all current participants will have to choose one of the three options, namely, a) to fully abandon second pillar pension funds and pay instead into the Sodra, b) to continue participating in the second pillar as previously and c) in addition to participation in the second pillar, to begin one's own contributions and to receive additional transfer funds from the state budget. All those newly insured from 2013 on will only be able to participate in the scheme with their own contributions (option c) which will be at a 2% (Sodra) +1% (own contribution) +1% (transfer from the state budget) rate

Social safety nets

7

during 2014 - 2015, and at a 2%+2%+2% rate from 2016 onwards. The Sodra rate will increase to 3.5% in 2020.

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. Among the EU member states, income inequality is one of the highest. Its causes have not received a lot of policy attention until now. Some measures have been taken to ensure more equity, such as a tax-exempt threshold, introduction of equivalent scales into the social benefits scheme and compensations. As mentioned earlier, the new center-left government increased the minimum wage from LTL 800 to LTL 1000 as of 1 January 2013. In 2012, the average gross wage returned to the pre-crisis level (it stood at LTL 2171 at the end of 2012 and was LTL 2174 in 2008).

In 2011, Lithuania amended the Law on Cash Social Assistance to reform the social support system as of January 2012. The new law has launched a pilot model of social support distribution, changed the method for calculating the amount, introduced certain work incentives and increased coverage. As of 2014 the pilot model will be converted into a new system, whereby municipal governments will have the full authority to decide on social benefits. As evidenced by the results of the pilot scheme in 2012, it should improve the targeting.

Access to good health care services need improvement, particularly in rural areas. Family and village structures, particularly in rural areas, continue to play a role in providing a special kind of “social welfare” not visible in standard statistics.

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.

With regard to gender equality, the female unemployment rate of 13% was significantly smaller than the male unemployment rate of 17.4%, according to Social Report of Lithuania 2011 – 2012 by the Ministry of Social Security and Labor. In 2010, female managers constituted 30% of managers of all economic entities (and 35% of individual enterprises). Likewise, according to the data of Department of Statistics, more women than men pursue higher education. In 2009, 22,000 women graduated from higher education establishments and made up 65% of the total number of graduates.

National minorities have access to education in their languages. However, Roma continued to be seriously disadvantaged both with regard to education and to the labor market, although there are no new data since the last report.

Inequality of opportunity seems to be most pronounced among the disabled and/or students with special needs.

11 | Economic Performance

After a long period of uninterrupted growth, in 2009, the economy sharply contracted by 14.7%. However, thanks to swift measures taken to stabilize public finances and a rebound in the export markets, in 2010 it grew by 1.5%, and in 2011, it exceeded expectations by registering a 5.9% growth. According to preliminary estimates from the European Commission in 2012, GDP increased by 3.6%. It is expected to grow in 2013 by 3.1%, a forecast of the Bank of Lithuania, which coincides with that of the European Commission. According to central bank estimations, the actual GDP is expected to match potential in 2013.

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. Exports have been rising steadily since 2002, and dipped only once, in 2009.

Stock of foreign direct investment (FDI) decreased from €10.3 billion in 2008 to €9.2 billion in 2009 and rebounded to €9.6 billion in 2010 and reached €11 billion in 2011, thanks to the personal campaigns abroad by the members of the previous government targeting high value added generating sectors.

12 | Sustainability

Although ecologically sustainable growth is considered essential to economic activity, it is often subordinate to growth efforts. Environmental protection awareness is clearly overshadowed by the economy's upswing, urbanization and the population's changing attitudes.

The government has in many areas been able to decouple environmental degradation rates from economic growth. This is true for the areas such as urban air pollution, manufacturing waste and greenhouse gas emissions. In fact, the volume of CO₂ emissions in Lithuania grew by 30%, but GDP grew by more than 65%, meaning CO₂ volume per unit of GDP decreased by 25%. Likewise, the volume of fuel spent for producing a GDP unit in transport services decreased by 3.4 times.

Output strength
8

Environmental
policy
8

Lithuania complies with international agreements and with the requirements of EU law concerning environmental policy. Indeed, EU membership has played a large role in improvements in this regard. Overall, protecting the environment has to date been viewed as an obstacle to economic development, but not as potential solution via the “greening” of the economy, which needs redirection and more energetic efforts. Road transportation pollution improved though Lithuania still tops the 27 EU countries by the proportion of travel is done by road (90%). Other major concerns are insufficient energy efficiency and pollution stemming from agriculture (especially crop raising facilitated by the subsidies of the EU Common Agricultural Policy). Meeting its recycling and waste management obligations within the EU context will be difficult as well (in 2012, only 25% of all waste was been recycled and reused; in 2011, 79% of all waste was disposed in landfills, according to Eurostat).

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 increased to 6.8% of GDP in 2009. Regarding investment in R&D, however, Lithuania has stagnated to around 0.75-0.8% of GDP since 2005 (0.79% in 2010, the last available data by Eurostat), which is a ways below the EU average of 2% in 2010. In 2010, 29% of the total expenditure for R&D came from the business sector (up from 16.7% in 2003), which is still a ways below the EU target of 2/3 share.

Lithuania’s well-educated labor force is a strong attraction for foreign investors. In fact, Lithuania’s attainment rate in tertiary education (45.4% in 2011) is significantly above the EU average of 34.6%. In terms of early school leaving, Lithuania improved from 13.4% share of early school leavers among the total number of pupils in 2002 to 7.9% in 2011 (the EU27 average was 13.5%).

At the same time, school education produces relatively weak results in terms of basic skills: 15-year olds’ performance on the standardized test known as PISA (Program for International Student Assessment) remained below the EU average in both reading and math.

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 taken include improving the governance of universities, widening access, and partnership with business.

In 2008, the Government of Lithuania committed LTL 1.6 billion to be invested by 2015 into 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).

Transformation Management

I. Level of Difficulty

Structural constraints on governance are moderate overall. The economic crisis put the previous easing of some constraints on hold, such as unemployment and employment in agriculture, but in general, there were no major changes in the types of structural constraints to governance reported in the previous country assessments.

Structural
constraints

1

One major structural constraint for Lithuania is its energy dependency on a single supplier; Lithuania continues to be 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, and remains a key challenge both in political and economic terms.

Civil society traditions remain weak 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 Sajudis (the Reform Movement of Lithuania). It is also noteworthy that these groups and organizations stood for violence-free resistance and civil disobedience. The so-called Baltic Way, a human chain of peaceful citizens reaching from Tallinn, Estonia, via Riga, Latvia, to Vilnius, commemorating the anniversary of the Hitler-Stalin-Pact and the fate of the Baltic States on August 23rd, 1989, follows this non-violent tradition. In Soviet times there was also a rather strong dissident movement in Lithuania. One of the leading writers and poets in Lithuania today, Tomas Venclova, was exiled by the Soviet Union in 1977 due to his engagement as one of the founders of the Lithuanian Helsinki watch group. In addition, the famous underground newspaper “News of the Catholic Church in Lithuania” developed into a “periodical” that reported violations of human rights from the whole Soviet Union.

Civil society
traditions

4

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

2

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 accession to 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 new center-left government will broadly continue (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. It will continue the established process of strategic planning, which since 2008 evolved toward greater emphasis on evidence-based policymaking and performance indicators.

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. In many areas, however, the record was at best mixed. In some cases, implementation fell short of the initial ambitions or will require the new government to sustain the trend, especially in fighting corruption, ensuring energy security and efficiency, increasing overall

efficiency and accountability of the civil service, further decentralizing policymaking and increasing the flexibility of labor.

Lithuania managed to maintain a rather good record of transposition and implementation of EU law, as evidenced by the low transposition deficit and a relatively small number of infringement cases initiated for non-transposition, or incorrect transposition, by the European Commission (at the end of 2012, it had only seven cases, the lowest number among the EU27). Though not the best performer among EU member states as it was before accession to the EU, Lithuania is still performing respectably.

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. For example, Lithuania's European integration agenda has been dominated by the same issues for almost a decade – such as introduction of the euro and building physical electricity and rail interconnections with the neighbors – despite some tangible progress in all of these fronts during the reporting period. The future of the new nuclear power plant is uncertain again, after the government's rejection of a referendum in October 2012 of the initial agreement with Hitachi, the investor and reactor provider.

Despite two years of adequate funding provided by the Joint European Support for Sustainable Investment in City Areas, or JESSICA fund, the program for renovation of energy-inefficient old apartment blocks is only just now getting off the ground. There are 34,000 apartment blocks, built prior to 1993, that could qualify for renovation under the program in Lithuania and investment needs total about LTL 43 billion. Between 2005 –2008, 720 buildings were renovated. Since 2008, only 644 buildings have participated in the renovation scheme, which is clearly insufficient progress.

Lithuania's good historical record on economic, social and administrative reforms is rooted in its aim to become an EU member and therefore participate in the associated policy agenda. Yet, in reforming the country, several successive governments did more than merely fulfill EU requirement, often managing to internalize them with genuine innovation. The World Bank report on administrative capacity in the new EU member states describes several such instances well. Indeed, Lithuania was credited as being one of the best-prepared countries for EU accession. It should be mentioned, however, that these reforms came at a price. The government hand-picked some sectors for reform and left behind others that were not critical for EU accession. Also, reform resulted in an increase in populist sentiments, which destabilized the party system, especially during the 2003 presidential and 2004 parliamentary elections. This resulted in weak governments that missed several important opportunities, such as the introduction of the euro and the accumulation of fiscal reserves during economic boom times, as well as rising budgetary revenue to cushion

Policy learning

8

the Lithuanian economy for a hard landing or financial crisis. The center-right government, which took office in late 2008, responded generally well to the essential free fall of economy in 2009, managing to maintain financial stability. Some of the Admittedly, the government could have designed some measures aiming at fiscal consolidation better, especially taxation and the widening of the payers of social security and health insurance contributions. Following criticism, the government responded by correcting its mistakes or adopting a more gradual approach. Indeed, the government learned from the failures of previous administrations and managed to advance some important reforms in the areas of, for example, higher education, public procurement, use of state-owned assets, safety on roads, electricity market, energy infrastructure, attraction of high value-added generating FDI, and transparency of public administration. At times, the government used innovative approaches and at other times prevailed by sheer political will. The ability to learn will be tested now by the new government in the reform failing areas, such as health care and renovation of old homes for energy insulation.

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). The payroll was cut by 17% (or LTL 700 million annually; in 2011 the total payroll in the public administration institutions was LTL 3.3 billion). 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 policymaking, 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 was visible. The new center-left government will continue the work of this commission, mainly with regards to improvement of public service delivery.

In general, the state uses its budgetary resources efficiently. In mid-2010, the Ministry of Economy performed the first ever assessment of the assets owned by the state. The assessment concluded that at the end of 2009, state-owned assets (mostly in energy, transport and land) were worth LTL 18 billion (about 20% GDP), but

Efficient use of
assets
9

provided only LTL 45 million in dividends. The Ministry of Finance estimated that the overhauled management of the state owned companies (SOE) could generate LTL 1.5 billion for the budget in two years (1.6% GDP). In response to these findings, the government initiated far-reaching reforms to restructure corporate governance, increase transparency and separate ownership and regulatory functions (and increase competition and efficiency) through legislative as well as organizational changes. As a result, transparency and accountability have significantly improved since 2011 with reports now published on a quarterly and annual basis, and clear enterprise objectives established. In 2012, a total of 137 SOEs contributed LTL 522 million as dividend payments to the state budget. The continuity of this reform path under the new government is yet to be seen, especially with regard to separation of commercial and non-commercial activities of SOEs, and guidelines on separation of ownership and regulatory functions.

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. According to an agreement among all political parties, an MP from the opposition heads the parliamentary audit committee.

The current government is pursuing public procurement reform vigorously with the view to both increase value for money and eliminate corruption.

The government also generally coordinates its policies effectively and coherently. A 2006 World Bank assessment of administrative capacity in the new EU member states acknowledged that the strategic planning system had been well developed in Lithuania since the early 2000s and that several governments of various ideological orientations have maintained this system. 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. The previous government advanced this system, which enabled it to respond to long-term challenges in a timely fashion, such as an ageing population, climate change and energy efficiency. The administration's weakness remains its poor capacity to undertake and implement large-scale projects, such as the construction of the new Visaginas nuclear power plant and renovation of energy-inefficient homes.

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.

Policy
coordination
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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.

According to the public opinion poll by Vilmorus in 2011, 22% of Lithuanians admitted to bribery during the past twelve months (and 41% - at least once during the previous five years). The corresponding rates among companies were 17% and 34%, and among civil servants 19% and 34%. Moreover, 79% of respondents said they believed bribery accelerates problem solving and 57% said they were ready to give bribe if needed to solve personal problems.

While health care service personnel and road police were mentioned by the general population as the most corrupt, in general since 2008, the levels of experienced corruption have decreased in all institutions. Still, 67% of Lithuanians think that corruption is a very serious problem.

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), public procurement, market surveillance systems and the work of special institutions, namely, the intelligence services and the High Commission on Ethics in Office.

16 | Consensus-Building

All major political actors clearly agree on the goals of democracy and building 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 new center-left government has endorsed the long-term development strategy and its operational program with minor amendments, and will continue the established State Progress Council as an advisory body on long-term development issues.

Political parties have an established tradition on inter-party agreements on the most important policy issues. For example, an inter-party agreement on foreign policy priorities for Lithuania was signed in October 2008, immediately after the previous national elections. In 2012, an inter-party agreement was signed on defense issues with the aim of gradually raising spending on defense to 2% of GDP (it was 0.77% GDP in 2012). The previous center-right government in 2009 negotiated a “National Agreement” with its main socioeconomic partners for long-term sustainability of

Anti-corruption
policy

8

Consensus on goals

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public finances, competitiveness of the economy and reform of the public administration. At the time of writing, the new center-left government was preparing an inter-party agreement on energy strategy.

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 Labour 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).

It is worth mentioning here that during the reporting period, 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.

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

Anti-democratic
actors

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Cleavage /
conflict
management

8

of Human Rights (ECHR) will require an amendment to the constitution, which is likely to be voted on by the newly elected Seimas.

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. At best, this partnership produced a mixed policy record, but it helped to stabilize the party and political system. The potential for a polarization of society remains, however, as a significant portion of voters did not vote for established parties in the last parliamentary elections of 2008. 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, though the case demonstrated the potential for mobilization of a disillusioned electorate.

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 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 Labour. The commission meets regularly.

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 the ministerial websites or on the website of the Office of the Government.

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. 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 only major step to finalizing reconciliation is the policy toward former KGB agents and reservists. The deadline for voluntary confessions by former agents has been extended several times, but the process of lustration has not yet been completed to date. The officially designated Lustration Commission expects that the so-called "legal" path to lustration will be ended in 2013 by the new parliament and the Law on Lustration will be abolished. It is estimated that from 1940–1991 about 118,000

Reconciliation

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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.

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.

17 | International Cooperation

According to the EU’s principle of solidarity, its structural assistance policies and accession treaty to the European Union, Lithuania is entitled to very significant EU financial support to boost its development and to help decommission its Chernobyl-type Ignalina nuclear power plant (closed at the end of 2009), and to overcome the negative consequences associated with closing the plant.

According to a study commissioned by the Ministry of Finance, the highest impact of EU structural funds was observed in 2008, when they contributed to the GDP growth by 2.1 percentage points (and by seven percentage points in the construction sector). However, the structural funds also contributed to the overheating of the economy and their positive impact was almost wiped out by the economic slump of 2009.

As of 1 January 2013, LTL 23.3 billion has been contracted out of LTL 25.7 billion total (including national co-financing) to finance 7,089 projects from the EU structural funds from the 2007 – 2013 financing period. Of this amount, LTL 8.1 billion have already been absorbed into the Lithuanian economy. For the sake of comparison, the revenues of the state budget in 2012 stood at LTL 28.2 billion, including LTL 7.1 billion transferred from the budget of the EU (for investments from EU structural funds, Ignalina nuclear power plant decommissioning fund and agricultural subsidies).

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. The State Audit Office in 2012 audited LTL 4.6 billion payment requests submitted

Effective use of
support
9

by Lithuania to the European Commission and the error rate was 1.17% (below the 2% overall level of tolerance by the European Commission). Effectiveness and efficiency of EU financial support is being assessed by many evaluation studies, which are publicly available on the Ministry of Finance website. These valuable evaluations are spilling over and now being used to assess the overall national budget.

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.

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

In addition to its bilateral foreign policy agenda, Lithuania continues to cooperate with its Baltic neighbors in the framework of the Baltic Council and Baltic Parliamentary Assembly.

Lithuania's relationship with historical ally and neighboring state Poland is still strained, however, due to several long-standing unresolved issues between the two states (especially the dispute between Poland and Lithuania about whether persons belonging to the ethnic Polish minority in Lithuania should have the right to have their names in official documents written following Polish language spelling rules), though the new center-left government, which for the first time in recent history includes a representative of the Polish Electoral Action political party, is attempting to address issues related to national minorities.

Lithuania is an active participant and promoter of the European Union's engagement with its eastern neighbors under the Eastern Partnership Initiative. The initiative has contributed to the warming of relations between Belarus and the European Union, at least until the crackdown on opposition groups during the last presidential elections there in December 2010.

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

Credibility
10

Regional
cooperation
8

Strategic Outlook

Although some internal and external uncertainties remain, the Lithuanian economy is back on the track of sustainable growth. The change of administrations after the general election in October 2012 did not change Lithuania's overall orientation toward fiscally prudent policies. The prospect of meeting the Maastricht criteria, in order to introduce the euro, are again within reach, although to meet inflation criteria for 2015, once again Lithuania will need favorable external circumstances in the energy markets.

The new center-left government is certainly more cautious and less visionary in its pronouncements, but at least during its first several months in office, it has not given in to the populist pressures. Indeed, it appears to be continuing most of the policies and changes initiated by the previous government. Not surprisingly, the new administration has emphasized social issues more than the previous one, but in many policy areas there is a clear continuity, namely in management of the economy and public finances, energy, public procurement, management of state owned assets, regulatory policies and public administration. The new government has also continued the long-term vision known as strategy Lithuania 2030, along with its operational variant, the National Progress Program 2014 – 2020. Unlike the previous government, the center-left government wants to reform the health care system, even if the first attempts proved to be controversial. In addition, renovation of buildings for energy efficiency has become a flagship initiative of the new government.

However, many structural obstacles to better performance remain. Lithuania's record of implementation and delivery on its promises needs to be improved. Specifically, poor management of large-scale complex projects, such as the new nuclear power plant, and slow renovation of buildings for energy efficiency exemplify this problem. In 2014 – 2015, though, Lithuania is set to achieve its first energy infrastructure projects – the liquid natural gas terminal in Klaipėda and a power bridge with Sweden across the Baltic Sea. As economic growth is gaining momentum again, the shortage of labor – resulting from emigration during the crisis and structural long-term domestic unemployment – is acute. The worsening demographic situation will put a strain on public finances in the long-term. Therefore, it is crucial that pension reform succeeds. Also, about a third of the Lithuanian population lives at risk of poverty, which the government needs to address. Furthermore, more attention is needed to promote “green growth” and efficient use of existing resources. And finally, corruption is still a major hindrance to government efficiency as well as to public's faith in the democratic system.

While material preconditions for sustainable economic and social development have improved, Lithuania's biggest obstacle is public opinion, which during the past decade (after EU accession) has been characterized by lack of trust in public institutions and low civic empowerment. For example, Lithuanian citizens generally lack the belief that individual actions can impact government behavior. On such indices, Lithuania has consistently fallen well behind its Baltic

comparator, Estonia. Overcoming citizens' lack of trust and rallying public support will be challenges for any Lithuanian leadership to come. This shift in attitudes will have to be achieved against the background of depleted social capital following the recent wave of emigration, and ongoing demographic changes, notably an aging population, which will require more public services.

Looking ahead, such changes may come about through modernization of public administration toward better delivery of administrative and public services for Lithuanian citizens, which is on the agenda. In the external context, Lithuania's presidency of the European Union starting on 1 July 2013 will be a test of its administrative capacity and an opportunity to both rally domestic public opinion and promote the country within the European Union.