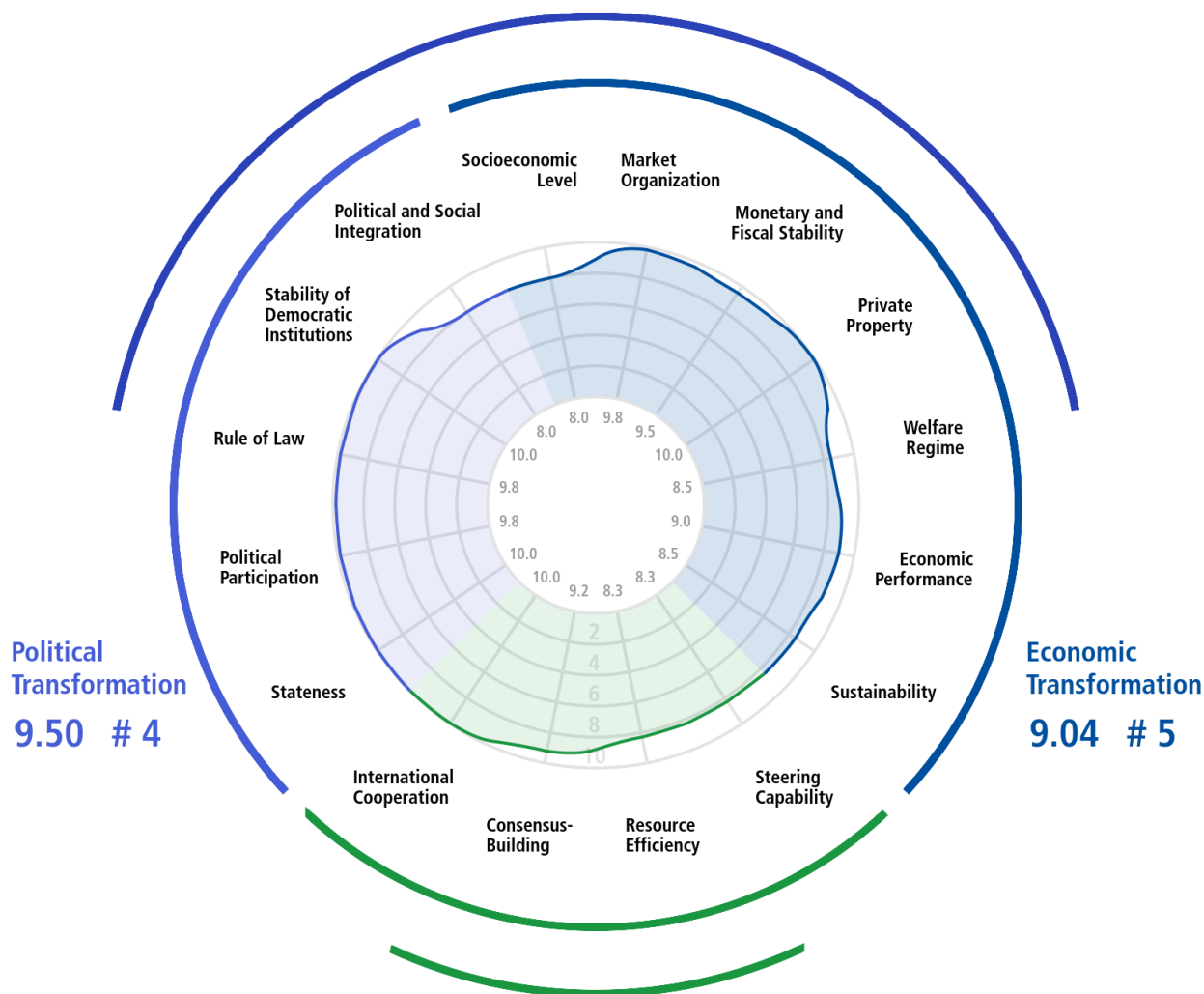


Lithuania

Status Index

9.27 # 4

on 1-10 scale out of 137



Governance Index

7.21 # 3

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	2.8	HDI	0.882	GDP p.c., PPP \$	38735
Pop. growth ¹	% p.a.	0.0	HDI rank of 189	34	Gini Index	35.7
Life expectancy	years	76.1	UN Education Index	0.898	Poverty ³	% 1.3
Urban population	%	68.0	Gender inequality ²	0.124	Aid per capita \$	-

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The review period covers the second half of the 2016 to 2020 parliamentary term as well as the first few months of the newly formed government after the legislative elections in October 2020. The latter elections were won by the Homeland Union – Lithuanian Christian Democrats (HU-LCD), while the incumbent Farmers and Greens came a distant second. In this regard, the tradition that the ruling party loses the election continued. However, the outgoing Prime Minister Saulius Skvernelis managed to keep his job for a full parliamentary term repeating a similar accomplishment by Andrius Kubilius from HU-LCD (2008-2012), and Social Democrat Algirdas Butkevičius (2012-2016). The fact that confidence in government remained rather stable over the review period – and even increased during the first wave of the COVID-19 pandemic – also purports to relative government stability and effectiveness in today’s Lithuania.

The beginning of the review period, that is, the first half of 2019, was marked by local, European and presidential elections. Although the incumbent Farmers and Greens increased their share of mandates in municipalities and the European parliament, they were outperformed by their rivals. Most notably, prime minister Saulius Skvernelis only came third in the presidential race, which was ultimately won by a non-partisan centrist former banker Gitanas Nausėda. After the elections, in July 2019, the ruling coalition between the Farmers and Greens, and Social Democratic Labor Party was expanded to include the Polish Electoral Action and Order and Justice. While the primary goal of this reshuffle was to broaden parliamentary support of the government, it also increased fragmentation in the executive power.

Consequently, the government reduced its reformist ambitions, with talks about preliminary elections rising. However, the outbreak of the COVID-19 pandemic turned Lithuania’s politics upside-down. By imposing a national lockdown in March 2020 and adopting an economic stimulus package worth €5 billion, the government managed to effectively mitigate the impact of the first wave of the pandemic. Nevertheless, partially due to looming legislative elections in October 2020, Skvernelis’s government was more cautious in imposing another quarantine to

quell a rising second wave of the pandemic. Hence, the new Ingrida Šimonytė's government that assumed office in December 2020 had to take urgent actions to tame a steep outbreak of the pandemic. By the end of 2020, the number of COVID-19 cases was one of the highest in Europe, pushing the whole health care system to the brink.

While the economic downturn in 2020 was one of the lowest in the whole EU, the unemployment rate jumped to 10%, a rate that had not been seen in a long time. With record budget deficits of more than 7% projected for 2020 and 2021, the public debt soared up to 47.5% GDP. On the other hand, lower interest rates have allowed the government to reduce the burden of debt management. Against this background, in February 2021 international credit ranking agency Moody's has upgraded Lithuania's credit rating from A3 (given in 2015) to A2. Likewise, Standard & Poor's has upheld its A+ rating given just before the outbreak of the pandemic in 2020. Nevertheless, a relatively high level of inequality, the looming middle-income trap, and the continuing fight against corruption are the most pressing issues for the new government that will also have to deal with the long-term consequences of the COVID-19 pandemic.

History and Characteristics of Transformation

Occupied and annexed by the Soviet Union in the 1940s, Lithuania was a Soviet Republic for almost 50 years. The Soviet rule had comprehensively reshaped the country, its resources, economy, and above all, its people. Lithuanians often use the term "rebirth" to describe their return to statehood, which represented the starting point of transformation and the goal of becoming a free and independent state within the community of European democracies. With the accession to the European Union on May 1, 2004, and to NATO in March 2004, Lithuania achieved the goals and aspirations it set in 1990. Because the creation of a democratic republic amounted to the end of foreign occupation, the change of the political system met with no opposition. The fight for independence and the founding of the new state provided a common popular basis of identity. The legitimacy of Lithuania's democratic order is thus closely tied to the Baltic revolution and the victory of the independence movement that was supported by the vast majority of the population. Political transformation progressed smoothly with few problems. A new constitution was adopted in a referendum 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 has fluctuated. 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 (2001-2004 and 2004-2008). During the Second Republic's first decade, the moderately fragmented party system

appeared to oppose any new challenges under the constant shifts of voter support. Since 2000, however, the situation has changed as populist parties have made striking gains, but in all instances (2000, 2004, and 2008), they were either co-opted into governing coalitions led by the traditional parties, or (as in 2012) left at the margins of parliamentary politics. Until 2016, all sixteen governments, except a short-term ruling coalition between the center-right Liberals and populist Social Liberals in 2000-2001, were led by one of the two traditional political ideologies, right-wing Homeland Union/Christian Democrats of Lithuania or left-wing Social Democrats. After 2016, the government was dominated by the traditional and formerly small parliamentary party of Farmers and Greens Union, which convincingly won the parliamentary elections in 2016. Though its somewhat unexpected landslide victory demonstrated voter volatility, the populist threat subsided and a broad reform agenda (advocated, but little implemented under previous cabinets) was pursued. Cabinets appear to have become more stable too. Since 2008, the prime ministers have served full four-year terms.

The country's economic transformation led to massive social inequalities and imposed severe social burdens on a majority of the population. The Soviet legacy has proven an especially heavy load to bear. Like all reform-oriented states in Eastern Europe, Lithuania experienced an economic and social crisis characterized by a sharp decline in GDP and soaring unemployment figures. The worst was over by 1994. After a slump in 1999 (the "Ruble crisis"), Lithuania's GDP has shown strong growth since 2000, unabated in the years from 2004 to 2006. Thanks to EU accession, Lithuania managed to create a market economy anchored in principles of social justice and equipped with modern regulatory institutions that are almost free from political pressures. This was a factor in the economic boom, which came to a sharp end in early 2009. The economic crisis of 2009 to 2010 was the most severe since the collapse of the planned economy in the early 1990s, but Lithuania withstood it through sharp cuts to public expenditure and managed to maintain the stability of its national currency, the litas. The crisis could have been an opportunity to rationalize budgetary expenditures, introduce more transparency in policymaking, and restart much-needed reforms in certain policy areas. However, policymakers confined themselves to only minor changes. The deteriorating demographic situation and persistent social inequalities, which affect societal cohesion and the stability of the party system, are the most important challenges that no government has yet managed to address. Lithuania, however, has improved its energy security vis-à-vis Russia. It also became a member of the Schengen free-travel area and the eurozone and, since 2014, has significantly improved its societal and military resilience to Russia's aggressive policies toward its neighbors. In 2018, it joined the OECD. Above all, Lithuania, like its two other Baltic neighbors Latvia and Estonia, continues to deepen its democracy against the tides of democratic reversals elsewhere in East-Central Europe.

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

Transformation Status

I. Political Transformation

1 | Stateness

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

Question
Score

Monopoly on the
use of force
10



All citizens enjoy the same civil rights; the nation-state is accepted as legitimate. The main ethnic minorities – Poles (5.7% of the population in 2020), Russians (4.5%), and Belarusians (1.7%) – are fully integrated citizens.

State identity
10



The state is largely defined by a secular order. In general, religious dogmas do not influence politics or law. However, around three-quarters of Lithuanians belong to the Roman Catholic Church. Prevalence of this religion, as well as the signed international treaty with the Holy See in 2000, allows the church to play a privileged role in certain public policies, such as education or culture.

No interference of
religious dogmas
10



Representatives of the church are included in the board of public broadcasting, as well as various government commissions dealing with such politically sensitive issues as sex education in schools. Authorities of the church have also been vocal in resisting the introduction of same-sex partnership, ratification of the Istanbul Convention, as well as the recognition of pagan traditions as a religion in the country.

The state has a differentiated administrative structure throughout the country, making it possible to allocate state resources over a broad spectrum. In comparison to other EU countries, when taking into account the level of public investment, the quality of services is average. Trust in public institutions and satisfaction with their services has recently risen among the general population (46% at the end of 2019), slightly below the EU average. According to the latest available data, only around 92% of residents had access to improved sanitation facilities. Tax authorities have yet to improve their administrative capacities to effectively quell the gray economy. The VAT gap (around 25%) remains one of the highest in the EU, while overall Lithuania's tax revenue relative to its GDP is one of the lowest ratios in the EU (European Commission 2020).

The public administration is mostly efficient and stable, but municipalities have limited policy-making capacity despite their significant responsibilities. Some 81% of Lithuanian online users actively engage with e-government services (compared with 67% in the EU as a whole) and the availability of e-government services for business is very good (European Commission 2020).

There were no important basic service disruptions due to the pandemic, although by the end of 2020, due to the wake of the second wave, there was a widespread concern that the whole health care system was on the brink of collapse.

2 | Political Participation

There are no constraints on free and fair elections. In the most recent Freedom House report (2021), Lithuania scored maximum points for the electoral process and political pluralism and participation. The municipal councils and mayors, members of parliament, and the president, as well as members of the European Parliament (EP), are all elected by direct vote. Representatives of the various political parties monitor procedural fairness, and the validity of all past elections (including the last parliamentary elections in 2016) was not questioned. There are generally few irregularities and, if so, the high elections commission deals with them effectively. Electronic checks of voter identification provide an effective safeguard against multiple voting. Since 2012, the electoral process has been monitored by a civic initiative called the White Gloves movement.

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

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

Basic administration

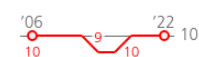
10



1

Free and fair elections

10



1

Rolandas Paksas, the impeached president and former chairman of the Law and Justice Party, has been barred from national (presidential and parliamentary) elections since 2004. The Seimas, the unicameral parliament of Lithuania, has been unable to implement the 2011 European Court of Justice ruling which established that the lifetime prohibition from running for an elected office, imposed by the Lithuanian Constitutional Court on an impeached politician, was excessively harsh.

Electoral turnout has been low but stable – ranging from 47.8% in the most recent parliamentary elections in 2020 to 57.4% in the presidential election in 2019. In 2015, parliamentary constituency boundaries were redrawn by the central electoral commission following inclusive parliamentary discussions to correct imbalances in district populations accrued since the 1990s.

Despite the outbreak of the COVID-19 pandemic in the country, the parliamentary elections in October 2020 were not postponed. However, the early voting was extended from two to four days, and special polling stations for self-isolating voters were installed.

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

Effective power to govern

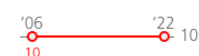
10



Citizens generally enjoy unrestricted freedom of association and assembly. The government, however, has continued to ban the Communist Party and other organizations associated with the former Soviet regime. The legal and regulatory framework for NGOs is solid. In December 2013, the parliament adopted a law on NGOs that defines them as organizations working for the public benefit. The OECD continues to recommend capacity-building and financial support for NGOs operating in Lithuania and encourages their increased engagement in the design and delivery of public services.

Association / assembly rights

10



The LGBT pride marches took place in Vilnius in an orderly fashion in 2019 with record attendance, and in 2020 despite heightened pandemic-related public health precautions. In comparison with the first march in 2010, which drew huge crowds of counter-protesters, the most recent LGBT demonstrations have signified a notable improvement in terms of public reception, security and political support.

Facing the global outbreak of COVID-19, the government declared a national quarantine from March until June, and again in November 2020. The restrictions of public gatherings were enforced in a proportionate and non-partisan way and

largely followed by society. By April 2021, cultural and sports events were banned. In open public spaces, groups could not exceed five persons or two families (households). Education, except pre-school level, was to be conducted virtually. Similar recommendations were issued for religious gatherings. However, political protests were allowed to be organized provided their participants followed social distance rules.

Unrestricted freedoms of expression and of the press and media are guaranteed by the constitution and function in practice. Private media comprise a diverse selection of print and electronic outlets. However, the ownership of the media is not transparent as disclosure is not strictly mandated or enforced. An increasing concentration of media across different sectors in the hands of few companies poses a high risk for the independence of journalism in the country. Commercial and owner influence over editorial content also raises substantial concern (Media Pluralism Monitor 2020). In reporting activities of the biggest business corporations, self-censorship is rather common. Competition law restricts concentration but there are reports that these restrictions can be easily circumvented.

The overall level of trust in the media during the first wave of pandemic fell to a historic low of 31% but in September 2020 bounced to 36% (Vilmorus 2020). Because of the financial losses during the pandemic, the vulnerability of media to undue influence by interest groups further increased.

The print media market continues to be dominated by tabloids, but the importance of the press is declining. Internet news portals have become the main channel for news, followed by TV and radio. Local (regional) media outlets are important, but they are financially dependent on local administrations that, in a few cases, have exploited this and have turned local newspapers into the mouthpieces of governing mayors or council majorities.

Since 2014, the Lithuanian television and radio commission (regulatory authority) monitors Russian propaganda on the TV and radio channels available in Lithuania. Propaganda primarily concerns Russia's war in Ukraine and the Soviet occupation of the Baltic states. These channels reach a regular audience of 405,000 people (15% of the population). In 2020, following Latvia's example, the Lithuanian authorities banned the broadcasting of five RT channels, a move criticized by international media freedom monitor "Reporters without borders."

In 2017, the Seimas did away with the procedures allowing for citizens to bring defamation cases to the criminal court and now alleged defamation cases can reach the court only following a successful pre-trial investigation by police and the prosecutor's office. This improves the working environment for journalists.

The management of the pandemic has not resulted in any substantial restrictions on media freedom.

Freedom of expression

9



1

3 | Rule of Law

There are no constraints on the basic functions involved in the separation of powers, especially mutual checks and balances. The judicial system is independent of the executive and the administration is largely free from unjustified party-political pressure. Due to the semi-presidential nature of the political system, the president plays an active role in political life, but governments are formally accountable only to the legislature. Although occasionally there are discussions over the president's informal involvement or interference in policy areas traditionally handled by parliament or government, presidents during the review period did not exceed their constitutional powers. The 2019 presidential elections were won by Gitanas Nausėda, replacing Dalia Grybauskaitė who finished her second term of office. The new president has not challenged existing norms of cooperation with other branches of powers and has tried to establish constructive relations with both Saulius Skvernelis's government and – after the parliamentary elections in 2020 – a new cabinet led by Ingrida Šimonytė.

The government did not declare a state of emergency during both the first and second waves of the COVID-19 pandemic and opted for a relatively mild quarantine regime. Parliamentary control of the government was somewhat weakened, which resulted in the opposition complaining of a lack of parliamentary oversight of budgetary review by mid-2020. Moreover, procedures for remote sittings of the legislature were not established until January 2021. Such delay, however, did not obstruct a peaceful and orderly transfer of power and the formation of the new government after the parliamentary elections in October 2020.

The judiciary is free of unconstitutional intervention by other institutions, yet it is still not fully devoid of corruption. There are mechanisms for the judicial review of legislative and executive acts.

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

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

Public confidence in the judiciary institutions (courts and office of the prosecutor general) had been steadily growing since 2010 until a judicial corruption scandal in February 2019, during which 26 persons, including a member of the Supreme Court

Separation of powers

10



1

Independent judiciary

10



1

and seven other senior judges were detained due to allegations of an undue relationship with business people. By the end of 2020, the confidence in the judiciary institutions fluctuated at around 25-28%.

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

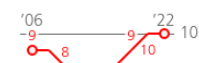
The STT stepped up its operations targeting high-level corruption and maintained its increased focus during the review period. A total of 105 persons were given court sentences for corruption in 2018-2019, of whom around 60% were top managers. In 2017, two parliamentary political parties (Lithuanian Liberal Movement and Justice and Order Party) were indicted for corruption with their cases reaching court in 2018. In 2019 pre-trial investigation was completed in 49 cases and transferred to the court, with 140 persons awaiting to stand trial (of whom 64% were top-level executives). This level of activity by the STT was higher than in 2017.

In February 2019, the STT started a major investigation of alleged corruption within the court system. Eventually, 54 persons were incriminated, including 12 judges all of whom had worked in the system for more than 20 years. While the process is still not finished, all the suspected judges were dismissed from their duties.

Two large political corruption cases from 2016 involving two parliamentary parties and several former and current high-ranking politicians reached the courts in 2018. Eligijus Masiulis, the former leader of the Liberal Movement (a parliamentary party), along with two party colleagues and a former deputy speaker of the parliament from the Labor Party, were charged in court with accepting bribes from the deputy president of MG Baltic, one of the largest financial groups in Lithuania. In another (unrelated) case, former leader of the Law and Order Party, Rolandas Paksas, and member of the European Parliament, Gedvydas Vainauskas, the owner of important Lithuanian daily, Lietuvos Rytas, faced charges of corruption. By the end of 2020, the trial of political bribes by MG Baltic was still ongoing. In October 2020, the Court of Appeal convicted Vainauskas and Paksas.

Prosecution of
office abuse

10



1

Civil rights are respected in Lithuania. However, certain forms of discrimination in the workplace, as well as societal and institutional stigmatization toward some vulnerable social groups remain a problem. A survey conducted by Vilnius in 2018 revealed that 57% of respondents personally experienced age discrimination in the workplace, 37% think that employees are discriminated on the basis of disability, and 23% – because of gender. The Roma, persons with mental illness, former prisoners, as well as LGBTQ+ populations suffer from negative perceptions in society and reportedly are neither fairly treated by public institutions nor in the workplace. Due to income inequality, universal access to justice is not fully ensured.

Since 2015, the ombudsman of equal opportunities substantially increased their activities and has become more trusted within Lithuanian society. As the overall number of complaints of rights violations reported to the ombudsman of equal opportunities has been fluctuating between 200-260 per year since 2013, the ombudsman has also introduced the option of individual written consultations. The number of requests for such consultations has steadily increased in recent years, reaching a total of 929 in 2019. However, it is broadly understood that most human rights violations go unreported. According to a Eurobarometer report in 2019, 64% of inhabitants in Lithuania evaluate efforts to fight all forms of discrimination as effective or moderately effective, which is slightly above the EU average.

According to the 2019 Eurobarometer survey, sexual orientation is perceived to be the most common grounds for discrimination (50%), followed by being Roma (48%) and then age (45%). Less than half of the population would be comfortable working in daily contact with a Muslim, Roma, or LGBTI person. The same survey revealed that only 30% of respondents would agree or tend to agree with same-sex marriages (EU average - 69%).

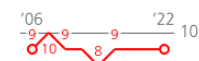
The constitution bans same-sex marriage and no legislation allowing same-sex partnerships is in place. The law also restricts the spread of public information about same-sex marriages.

According to official statistics, the number of criminal acts driven by ethnic, religious, linguistic, racial hate or hate based on sexual orientation have fallen steeply since 2015. However, human rights NGOs maintain that it has largely been due to legal authorities having started to treat hate crimes more narrowly. In 2020, the European Court of Human Rights ruled that Lithuania lacks an effective framework of protection against hate crimes under the basis of sexual orientation. Human rights observers report similar problems with hate crimes due to ethnicity, disability, or religion.

Domestic violence against women and children continues to be a significant problem although exact official numbers of victims have been recently gradually decreasing. In 2019, 9265 persons (77% women) suffered from domestic violence.

Civil rights

9



1

According to the latest available data (September 2020), the incidence of cases did not surge despite the quarantine imposed. In February 2017 the Seimas finally passed a law explicitly criminalizing all forms of violence against children. Its implementation, however, was not properly managed. It caused a large outcry and polarized opinion. Due to the opposition from some more socially conservative politicians and pressure groups, parliament has also failed to ratify the Istanbul Convention on efforts to fight domestic violence.

The Lithuanian government was forced to extend the deadline for the full modernization of prison and pre-trial facilities to 2022. It draws on the expertise and significant financial assistance from Norway. The number of incarcerated persons per 100,000 people is on a downward trend but still double the EU average (233 vs 111 in 2016-2018). Although the conditions of prisons have somewhat improved during the review period, most incarceration places still require renovation.

In response to the COVID-19 pandemic, significant restrictions on freedom of movement were imposed. However, they were proportional given the level of threat due to the rising numbers of infections.

4 | Stability of Democratic Institutions

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

Though conflicts between the various branches of power are, in general, more likely to occur due to the semi-presidential political system, in which the president has partial responsibility for the executive, conflicts are infrequent.

With the advent in 2016 of the new – previously untested – core of the ruling majority (Farmers and Greens' Union) outside the previous traditional ideologies either on the left (Social Democrats) or on the right (Homeland Union/Christian Democrats), parliamentary work and political debate become increasingly polarized but eventually did not substantially affect the functioning of democratic institutions.

There are no actors – even on the margins – who question whether constitutional democracy is a legitimate form of government. The instances of vote-rigging in the 2012 parliamentary elections and 2015 municipal elections were not repeated on a significant scale (necessitating re-runs) in the consecutive parliamentary elections. This was due to the strengthened legal framework with enhanced oversight and enforcement.

The pandemic has not resulted in the undermining of democratic norms.

Performance of democratic institutions

10



1

Commitment to democratic institutions

10



1

5 | Political and Social Integration

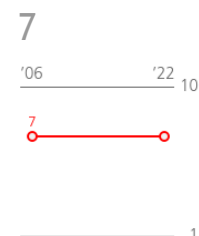
Although party system fragmentation has increased since 2000 and electoral volatility remains high by Western European standards, most political parties in the Seimas can still be classified as falling into one of three ideological camps (conservative, social democratic, and liberal). The parties are rather well established and have identifiable sociodemographic bases of support. While populist parties have been able to attract many votes since 2004, their impact has been limited as they were either co-opted into the system or contained outside of it.

In the most recent parliamentary elections in 2020, the conservative center-right Homeland Union – Lithuanian Christian Democrats took first place receiving 50 out of 141 seats in parliament. They formed the government with two pro-business and socially progressive parties – the Liberal Movement, and the newly founded Freedom Party. Meanwhile, the centrist-populist Farmers and Greens, who surprised the party system with a landslide victory in 2016, experienced a setback and took the distant second place (32 mandates). The center-left Social Democrats, once a powerful party of government, got only 13 seats in parliament and faces uncertain prospects for the future.

The rise of electoral committees (local lists) since the municipal elections in 2015 is likely to further debilitate the existing party system. Electoral committees attracted the largest share of votes (28%) in the municipal elections in March 2019. However, the committees cannot participate in parliamentary elections.

Political parties remain the least trusted institution in Lithuania, with only 6.4% (September 2020, Vilnius survey). Their stability remains an issue. However, in the most recent parliamentary elections in 2020, only one new party (Freedom) managed to overcome the electoral threshold and received 11 mandates. These elections have also recorded the lowest turnover of members of parliament since 1990. Out of 141 members of parliament, 49 new parliamentarians were elected – a significant drop from 2016 when 82 members of parliament were newly elected. Although burdensome regulations make it somewhat difficult to establish an entirely new party, the existing parties are not immune to splits and mergers. During 2016-2020, three parliamentary parties (Social Democrats, Liberal Movement, and Order and Justice) underwent such a process. Vote-buying and similar clientelistic practices are infrequent in Lithuania. However, at the municipality level, one can observe the formation of local strongholds when an incumbent party led by a popular mayor consolidates its power partially thanks to the use of administrative resources.

Party system



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

Lithuania has an established tradition of policy deliberation through a tripartite council, which consists of the representatives of the government, business associations and trade unions. However, unlike in its more corporatist counterparts, the government usually shapes its decision-making process. Moreover, business associations outweigh trade unions and, in general, continue to be the most influential non-governmental player by far.

Corruption scandals over the past decade reveal that some business groups have disproportionate access to policymaking, particularly in municipal politics. A parliamentary investigation of corruption conducted from 2017 to 2018 exposed the undue and corrupt political influence of big business on the branches of central executive power.

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

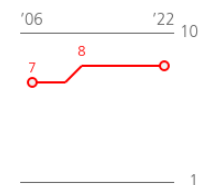
However, public satisfaction with the efficacy of Lithuanian democracy has fluctuated with the country's economic outlook. In 2019, public satisfaction stood at 51%, below the EU average of 59% (Eurobarometer). On the other hand, 67% of the population is satisfied with the functioning of democracy at the EU level, in contrast to only 55% across the EU. According to PEW Research Center survey of 2019, 59% of Lithuanians were satisfied with the way democracy was working in the country. Compared to 2009, this number went up by 24 percentage points - the highest increase among the surveyed Central and Eastern European countries.

There seems to have been a significant increase in trust in the state and political institutions since 2014, and Lithuania has moved significantly closer to the EU average. From 2015 to 2019, the public trust of 65% of all citizens trusted state and municipal institutions rose from 51% to 65% according to the survey commissioned by the Interior Ministry. According to the Eurobarometer, 60% of Lithuania's citizens in 2019 were satisfied with the provision of public services, above the EU28 average (50%).

Among all surveyed institutions, political parties and the Seimas continue to receive the lowest trust scores, although during the COVID-19 pandemic confidence in these institutions slightly increased. The same could be said about trust in government, which rose to 28.3% in September 2020 and almost matched the level of distrust in it.

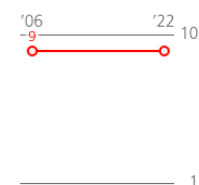
Interest groups

8



Approval of democracy

9



Civic culture has yet to be fully consolidated, although incremental progress has been made. The web of autonomous groups, associations and organizations is robust and heterogeneous.

According to the data of the World Value Survey, the percentage of people who agree most people can be trusted has gradually risen over the last two decades – from 21% in 1994-98 to 32% in 2017-2020. Although it clearly falls behind the Nordic and some other Western European countries, it surpasses most other East-Central European countries (except Estonia, 34%), as well as such advanced economies as Italy and France (around 26-27%). Similar results were shown by the European Social Survey in 2019, which revealed that around 25% of respondents in Lithuania believed most people can be trusted.

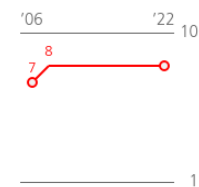
According to the World Giving Index 2019 by the Charity Aid Foundation (CAF), Lithuania ranked 121st in the world, slightly lower than neighboring Poland (86), Latvia (110) and Estonia (95). According to this survey, 19% of Lithuanians donated money or their time for volunteering activities during the previous month (up from 11% in 2016). According to most assessments, Lithuania still belongs in the category of low volunteer activity within the EU, but the level is increasing incrementally.

Participation in civic engagement activities has undergone no significant changes during the last decade. However, since 2017 one can observe more active NGOs and trade unions representing teachers, medics and other public servants. The COVID-19 pandemic has also triggered various civic initiatives aimed to help vulnerable people with essential goods and safeguards, as well as to assist the public institutions with taming the pandemic.

The Civic Empowerment Index provided by the Civil Society Institute in 2019 increased to 39.7 (out of 100) - the highest level since it was first released in 2007. The increase was due to the higher reported perception of the civic impact on public decisions.

Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

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

Since the re-establishment of independence in 1990, Lithuania's score in the Human Development Index (HDI) has been on a continuous rise and placed the country in the very high human development category (34th place). During the review period, the score rose to 0.882 in 2019, up from 0.873 in 2017. In inequality-adjusted terms, however, Lithuania scores lower (0.791) than neighboring Poland (0.813), and Estonia (0.829), but higher than Latvia (0.783).

While the economy has been growing strongly since 2010 and its performance is among the EU's best, high inequality persists. In 2019, Lithuania's Gini coefficient was 35.4 (the second-worst in the EU according to Eurostat) and has only slightly improved since 2010 (when it was 37.0%).

The percentage of those at risk of poverty (after social transfers) was among the highest in the EU (20.6% in 2019, down from 22.9% in 2017; Eurostat). However, the levels of absolute poverty decreased twice between 2016 and 2019 from 15.8% to 7.7% of residents (defined by income €251 per month or less for individual persons and €527 per month for a family of two; Lithuania's department of statistics).

The UNDP gender inequality index for Lithuania has slightly deteriorated from 0.123 in 2017 to 0.124 in 2019 ranking it 34 out of 162 countries.

The COVID-19 pandemic has further aggravated the socioeconomic situation in the country. Although the government adopted a rather generous economic relief package, its impact on alleviating the effects of the crisis has been limited. According to the Eurofound survey (July 2020), the financial situation during the COVID-19 pandemic has worsened for 32% of households in Lithuania (EU-27 average: 33.7%).

Question
Score

Socioeconomic
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	47640.8	53696.6	54639.9	55887.3
GDP growth	%	4.3	3.9	4.3	-0.9
Inflation (CPI)	%	3.7	2.7	2.3	1.2
Unemployment	%	7.1	6.2	6.3	8.4
Foreign direct investment	% of GDP	2.9	2.4	2.9	-
Export growth	%	13.5	6.8	9.5	0.0
Import growth	%	11.1	6.0	6.3	-5.3
Current account balance	\$ M	304.3	131.1	1816.8	4699.9
Public debt	% of GDP	39.3	33.7	35.9	47.1
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	0.3	0.4	0.2	-
Tax revenue	% of GDP	16.6	16.8	19.9	-
Government consumption	% of GDP	16.3	16.4	16.8	18.6
Public education spending	% of GDP	3.8	3.9	-	-
Public health spending	% of GDP	4.2	4.3	-	-
R&D expenditure	% of GDP	0.9	0.9	-	-
Military expenditure	% of GDP	1.7	2.0	2.0	2.1

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

In Lithuania, market competition is unconstrained, the role of the state is limited and prices are fully liberalized. However, state- and municipality-owned enterprises continue to exert undue influence on the market and create barriers to entry, especially for small privately owned businesses.

In the World Bank's Ease of Doing Business 2020 report, Lithuania ranks 34th out of 190 countries in the category "starting a business." It takes four procedures, 5.5 days, costs 0.5% of per capita income, and requires a minimum capital of 16.0% of per capita income to start a business.

Many analysts concur that "going informal" was one of the dominant strategies of Lithuanian businesses in order to cope with the shock of the Great Recession in 2008 – 2009. The size of the informal economy has been declining since, although it still represents between 13.1% and 18.2% of GDP according to the latest estimates (2019).

Lithuania has a coherent and effective anti-monopoly policy, supported by trade policies that are consistent with non-discrimination principles. The competition council enforces these policies, and the legal and institutional framework fully complies with EU norms.

In 2019 the competition council had 71 staff members, of whom 53 worked directly on competition enforcement issues. However, it remains one of the smallest and least financed competition authorities in the EU. The annual return on the competition council's work in 2019, according to OECD methodology, was €6.3 per €1 of budgetary financing (in 2017, the ratio was €10).

During 2018-2019, the competition council cleared 58 economic concentrations, detected six restrictive agreements, and issued fines worth of €3.4 million for competition infringements (in 2016-2017, the fines amounted to €26.3 million). Since 2017, the competition council has been authorized to issue fines to public administration institutions for infringements on competition law.

In-house procurement for the majority of state-owned enterprises was banned by law from July 2017. However, this remains possible for municipally-owned companies and causes concerns, especially as regards to supplying fuel to municipal transport systems and the creation of new municipal energy generation capacity with the construction of new biofuel facilities. In 2019, the legislation further expanded the scope of services that municipal enterprises could provide without competitive selection.

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

Market
organization

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Competition policy

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Increasing concentration in the banking industry complicates the access to financing for smaller firms. Also, rather high regulation barriers restrict competition in the energy and transport fields, which are dominated by state-owned enterprises. Public procurement is transparent but often attract only single bidders.

The amount of state aid has traditionally been low but recently increased, mainly due to the state aid schemes approved for the energy sector (renewable energy and projects related to the security of supply, such as liquefied gas) and tax incentives for the film industry. In 2018, it amounted to 1.27% of GDP, which is above the EU28 average of 0.76% of GDP.

Since its membership in the European Union, Lithuania has not had an independent foreign trade policy and has followed the Common Commercial Policy of the European Union. Lithuania is an open liberal economy and its export/import volume ratio to GDP exceeds 100% (102% in 2019).

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

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

With eurozone membership from January 1, 2015, Lithuanian banks are members of the EU banking union. The capital to assets ratio in 2019 was 6.9%. The capital adequacy ratio for the entire banking sector at the end of 2020 was 22.2% – one of the highest in the EU – and the sector is prepared to weather even a significant shock. In September 2020, the latest available data, the share of the non-performing debt instruments was 1.5%, a sharp drop from 20.4% at the height of the Great Recession (June 2010). This level of preparation has so far enabled the banking sector to maintain stability even in the wake of the outbreak of COVID-19.

At the beginning of 2021, ten banks and seven foreign bank branches were operating in the country. The concentration of the banking sector is one of the highest in the eurozone and has increased further during the review period. The three biggest banks (SEB, Swedbank, and Luminor) are Scandinavian-owned, and represent 83% of total banking sector assets in 2020. Assets of the banking sector in 2019 represented 63.5% of GDP, one of the lowest ratios within the EU. On the other hand, the banking sector in Lithuania distinguishes itself as one of the most profitable in the EU, which, however, also reveals that it offers less diverse and more expensive products. Still, the entry of new participants is encouraged by banking authorities – in particular, new electronic money institutions have reduced concentration in the payments market.

Liberalization of foreign trade

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Banking system

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8 | Monetary and fiscal stability

Lithuania has pursued a consistent budgetary and monetary policy. The country adopted the euro in 2015 and Lithuania's monetary policy has been determined by the decisions taken by the European Central Bank (ECB) since. Together with representatives of national central banks from other 18 eurozone member states, the Lithuanian bank takes part in the governing council and the general council of the ECB, as well as various lower ECB decision-making bodies. The primary objective of the ECB is to maintain price stability in the euro-area over the medium term. The ECB is also responsible for direct supervision of the three major banks registered in Lithuania – SEB, Swedbank, and Šiaulių bankas.

In 2020, annual inflation stood at 1.1% dropping from 2.2% in 2019. The reduction is largely due to the substantial decrease in energy prices, which offset increases in the prices of services, food and industrial goods (European Commission, 2021 Winter economic forecast). According to different calculations, inflation in 2021 is estimated to fluctuate around 1.2-1.7% (Lietuvos Bankas, European Commission).

Due to the outbreak of the COVID-19 pandemic and tax postponement, the state revenues in 2020 declined by 0.6% in relation to the previous year, and 7.9% less than initially planned.

To mitigate the economic and social consequences of the pandemic, the government adopted a relief package. Its envisaged means for 2020-2021 required €4.9 billion of direct funding, of which 40.1% were spent by the end of September 2020 (Valstybės kontrolė 2020).

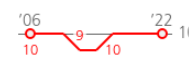
As a result, the budget deficit for 2020 rose to 7.6% GDP, one of the biggest among the EU Member States, while the public debt reached a record-high 47.5% GDP. Counter-cyclical measures are to remain in place throughout 2021 with the budget deficit projected to be 7% GDP, and the public debt reaching 51.9% GDP.

At the same time, due to reduced interest rates, public debt service costs have relatively decreased, which allows the government to retain control over debt management. Accordingly, international credit ranking agencies positively evaluated the prospects of Lithuania's fiscal policy, with Moody's upgrading Lithuania's rating from A3 to A2, and S&P Global Ratings affirmed a previously given A+ long-term borrowing prospect.

In November 2014, Lithuania adopted the rules of the European Union fiscal compact that makes balanced budgets a constitutional requirement. The fiscal council, established within the state audit office in 2015, and the European Commission have been providing external scrutiny for draft budgets and the government has, by and large, responded constructively.

Monetary stability

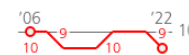
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Fiscal stability

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However, Lithuania spends only 12.1% of GDP in total on social security (2018), far below most other EU member states. Lithuania's tax revenues were only 30.4% of GDP (2019). Without significantly improved revenue collection it will be hard for Lithuania to solve the current low pension adequacy and forecasted additional annual costs of 2% of GDP by 2040 (OECD) due to the deteriorating demographic outlook. Furthermore, many analysts have pointed to a fundamental problem of the Lithuanian fiscal system – the tax revenue collected is not sufficient to provide public goods of sufficient quality given the extent of the state's commitment.

9 | Private Property

Property rights and the regulation of the acquisition of property are well-defined in terms of acquisition, benefits, use and sale. Property rights are limited solely and rarely by the overriding rights of the constitutionally defined “public.”

In 2017, the government pledged to settle all remaining claims for land restitution in kind and through financial compensation by January 1, 2019. It managed to do so in rural areas where just 0.5% of contested land remains to be settled. In cities, 5% of contested land has not been settled yet. A more complicated situation is only- in Vilnius, where 32.5% of contested land remains to be restituted (National Land Service data, January 2021).

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

Implementation of the law on compensation for real estate formerly owned by Jewish religious communities in Lithuania (adopted in 2011) has resulted in the disbursement of funds from Holocaust-era accounts. Disbursement is on target to reach €37 million by 2023 for various projects and subsidies as compensation to the Jewish community. By 2020, 80.5% of the reimbursed sum was paid.

Property rights

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Private companies are seen as the primary engines of economic growth and enjoy appropriate legal safeguards. According to the World Bank ratings in 2020, Lithuania is ranked 11th among 190 economies in the ease of doing business, a notable improvement from 2011 when it was given 27th place.

Since 2005, the role of SMEs has been stable and highly significant. SMEs comprise over 99% of the total number of all enterprises. Meanwhile, the general government sector accounted for 16.8% of the total GDP in 2019 with 30% of total employment (Department of statistics).

In March 2020, the government endorsed a 2.5-billion-euro economic stimulus plan to mitigate the effects of the corona virus epidemic. The measures include subsidies to preserve jobs and tax delays. The plan helped the national economy to amortize the pandemic shock and played a substantial role in experiencing one of the smallest economic downturns among the EU countries.

Currently, Lithuania owns 49 state-level companies (which is half of the amount of 139 in 2015), with more than 32 thousand employees. They are concentrated mostly in energy, transport, primary economy (such as forestry) and some other fields of strategic importance. Since 2017, the government took action on ensuring a level playing field between state-owned enterprises (SOEs) and private enterprises (including the conversion of several commercially oriented SOEs into limited liability enterprises). Given their specific mission, there is little public concern that these enterprises may pose unfair competition to the private sector. The current government, however, intends to review the rationale and benefits of ownership of these companies.

10 | Welfare Regime

Before the outbreak of the COVID-19, Lithuania's welfare system, despite the efforts taken to reform it, was failing to keep pace with economic trends, and the social transfers were not effective in alleviating poverty. Lithuania also faced challenges in sustaining its social benefits, especially in the wake of the worsening demographic outlook.

The pandemic shock only exacerbated these problems. In reaction to the challenges, the government has taken various social measures with the aim to benefit around 1.4 million people, including wage subsidies, temporary job search benefits, additional child benefits and a lump-sum benefit of €200 for the elderly and disabled.

According to the latest available Eurostat data (2019), 26.3% of people were at risk of poverty or social exclusion in Lithuania, well above the EU average of 20.9%. Although it marked a notable improvement since 2005, when the share of residents

Private enterprise

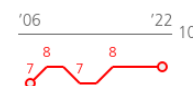
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Social safety nets

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in such conditions was 41%, Lithuania was still among the bottom five in the EU by this indicator. Severe material deprivation is declining but remains well above the EU average (9.4% vs. 5.5% in the EU in 2019). A particularly acute problem is a share of the population unable to keep their homes adequately warm (26.7% vs. 6.9% in the EU in 2019).

The average monthly old-age pension in 2020 was €377, or 42% of the average salary. Since 2017, the pensions have been indexed every year by 6-8%. However, the risk of poverty for pensioners is still high and among the bottom five in the EU-27 at 35.1% vs. 15.0 in the EU in 2019. Concerning social transfers other than pensions, their impact on poverty reduction in 2019 was 31.6%, which was just below the EU-27 average (32.4%).

In 2017, the system of unemployment benefits was reformed, broadening coverage, prolonging the length of assistance to nine months and increasing the benefits themselves. In January 2018, the monthly state-supported income was increased for the first time since 2008 by 20% to €122. An annually variable minimal consumption needs level was established and is linked to basic social indicators from 2019, including the monthly supported income, basic social allowance, pension allowance (for those who have not earned old age pension) and social allowance for the care of disabled people.

A universal child benefit scheme was introduced in 2018, allowing low-income earners to fully benefit from child support. The European Commission estimated that it will reduce the at-risk-of-poverty rate, especially for families with three or more children (by more than 10 percentage points) and single-parent families (by 4 percentage points). From 2021, the allowance will increase by €10 to €70. For disabled people, as well as for families having many children or impoverished, the allowance will increase from €100 to €110.

Life expectancy is increasing slowly (75 years) but is still five years below the OECD average, with a large gender gap. Admission rates and physician visits are well above OECD averages and unmet needs are just below the OECD average. However, the overall expenditure on health care is low (5.9% of GDP in 2018). Inequalities of access are compounded by widespread informal payments (a fifth of patients) and more limited availability of general practitioners in rural areas. Lithuania has one of the highest treatable and preventable mortality rates in the EU.

Equality of opportunity to participate in society notwithstanding ethnicity, gender, religion and other kinds of social background is guaranteed by the constitution and is implemented in practice.

While overall Lithuania's score on the Index of Social Justice (Bertelsmann Stiftung) has been gradually decreasing (from 5.98 in 2015 down to 5.36 in 2019), the country has performed rather well in its components pertinent to the equality of opportunity.

Notably, access to the labor market has been steadily improving since 2014, from 5.45 to 7.15. The level of employment of people aged 20-64 reached a record-high 78.2% in 2019 (EU-27 average: 73.1%). Female employment stood at 77.4%, only 1.6% less than the- male employment ratio. The EU-27 average gender gap in employment is 11.7%. There are also low gender differences in the levels of early school leaving, the employment rates of recent graduates and the number of people inactive due to caring responsibilities (European Commission 2020).

According to the latest available data (2018), the ratio of female to male school enrollment at the tertiary level stood at 1.27, while the gross enrollment ratio at the tertiary level was 73.7% (World Bank).

Meanwhile, the unadjusted gender pay gap in 2019 was 13.3, slightly above the EU-27 average (Eurostat). Gender balance is also increasing in politics, especially after the parliamentary elections in October 2020, which produced an almost perfectly balanced cabinet of ministers led by Ms. Ingrida Šimonytė, as well as in business where the number of women executives doubles the EU average.

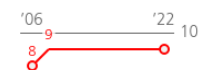
According to other related parameters of the Social Justice Index 2019, such as equitable education, intergenerational justice and non-discrimination, Lithuania also ranks above the EU/OECD average. While in terms of equitable education Lithuania scores high among the EU member states, the urban/rural- and class divides are visible in terms of student achievement. To a lesser extent, girls perform better than boys.

Regional disparities between the capital and the rest of the country remain persistently high, which can be observed in diverse productivity and demographic trends. Regional discrepancies are also notable in the fields of education and health care.

National minorities have access to education in their own languages. However, the Roma continue to be seriously disadvantaged in terms of access to education and to the labor market. While immigration to Lithuania has lately been increasing, it has not caused significant challenges to integration, as most workers come from neighboring East European countries. Representatives of the biggest ethnic minorities (Polish, Russian) are rather well established in the country's political scene.

Equal opportunity

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There have been few cases of discrimination reported against LGBT people in the workplace, arguably because of fear of further stigmatization. However, societal reception is slowly improving. In the most recent parliamentary elections in 2020, the Freedom party, one of whose leaders is openly gay and which strongly advocated for equality of marriage during the electoral campaign, exceeded public expectations and became one of three ruling parties.

11 | Economic Performance

Before the outbreak of COVID-19, Lithuania was on a solid track of sustainable growth. In 2018 and 2019, the economy grew by 3.9% and 4.3% respectively, and consequently, reached 84% EU-27 GDP per capita in purchasing power standards (PPS) in 2019, which signifies substantial progress since the country joined the EU in 2004. At that time, its GDP per capita in PPS was only 46% of the EU average. Lithuania has been successful in adjusting to economic shocks (including the Global financial crisis of 2008-09, the Russian embargo in 2014, and the pandemic), and in particular in being able to markedly expand its exports. Lithuania's exports share in value-added is one of the highest in the EU. Lithuania's current account has been in surplus since 2017. At the end of 2020, it amounted to 10.8% GDP (Lietuvos Bankas).

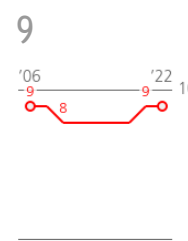
Against this background, Lithuania's economy proved to be rather resilient during the pandemic shock. It beat the preliminary pessimistic forecast about a major setback and contracted only by 0.9% GDP in 2020. On the other hand, the public debt rose to a historic 47.5% GDP, and the budget deficit both in 2020 and 2021 is expected to be one of the largest in the EU: around 7-8% GDP.

Mainly due to a decrease in energy prices, inflation in 2020 stood at 1.1% and is not expected to rise significantly in the next two years. However, the situation in the labor market is more worrisome. In February 2020, just before the start of the pandemic, the harmonized unemployment rate was 6.3%, while by the end of the year, it rose to 10.1%, the second-worst result in the EU (Eurostat). Since the end of the pandemic is uncertain, the situation remains fragile.

On the other hand, the cumulative stock of foreign direct investment continued to rise, and at the end of the 3rd quarter of 2020 it reached a record high of €19.0 billion (Lietuvos Bankas). FDI has been steadily rising since 2015, and recent growth has been experienced not just in services but also in manufacturing green-field investments as well as startups and fintech thanks to an attractive start-up ecosystem and fintech development program.

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

Output strength



12 | Sustainability

Although ecologically sustainable growth is rhetorically considered essential, it is occasionally subordinated to growth efforts. According to the 2020 environmental performance index by Yale University, Lithuania scored 62.9 (a drop from 69.33 in 2018) and ranked 35 out of 180 evaluated countries (24th in the EU-27).

The Lithuanian population's awareness of environmental protection, however, has been gradually increasing. 76% of Lithuanians separate waste for recycling (EU-27 average: 66%) and 42% have cut the use of single-use plastic during the past 12 months (EU-27 average: 45%; Eurobarometer 2020).

Lithuania has committed, along with its EU partners, to reduce greenhouse emissions at least by 40% by 2030, and to seek a carbon-neutral economy in 2050. The country also plans to increase the share of renewable energy resources in the gross final energy consumption to 45% by 2030. However, since 2014 there has been no progress in this direction, with the proportion (24.4% of gross final energy consumption) staying at the same level. Lithuania is also below the 2020 target of 10% for renewable energy in transport (4.3% in 2018).

The energy intensity of the economy has decreased by more than 30% between 2010 and 2016 but is still almost double the EU average.

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

Meeting recycling and waste management obligations within the EU context remains difficult, although the situation is improving. The country is on track to achieve its municipal waste recycling and preparation for reuse target of 50% by 2020. However, domestic material consumption in 2018 was almost double the EU average and circular (secondary) material use in 2016 was only at 4.5%, below the EU average of 11.7%.

A landfill tax and excise duties on natural gas were introduced in January 2016. The landfill tax could encourage resource efficiency in waste management and divert waste from landfills, which in Lithuania still significantly exceeds the EU average of 25.0%. However, its increase was postponed many times and, according to the European Commission, it is not enough to reach post-2020 targets.

Green taxation opportunities remain underexploited, especially with regard to vehicle taxation that could support a modal shift from private to public transport. Environmental taxation stands at 2.0% of GDP, which is far below the EU average of 2.4% of GDP (European Commission, 2020).

Environmental
policy

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The state and the private sector ensure a national system of education and training, a dynamic research and technology sector, and a viable educational infrastructure. According to the 2020 EU innovation scorecard, Lithuania performs below the EU average, falling into the group of moderate innovators, although its performance has improved since 2012 over 20 percentage points, the greatest progress in the EU.

Its research and development expenditure declined from 1.04% GDP in 2015 to 0.99% of GDP in 2019, far below the EU-27 average of 2.2%. Yet, Lithuania has one of the highest and improving scores of UN Education Index in the region (0.898 in 2019).

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

The Lithuanian education system faces major challenges of quality and efficiency in virtually all areas. The share of public expenditure spent on education has declined from 5.1% of GDP in 2015 to 4.6% in 2019 (around the EU average). Lithuania's 15-year-old students performed below the EU average according to OECD's program for international student assessment (PISA). Educational performance correlates with socioeconomic status and the urban-rural divide. Despite a low overall rate of early school leavers, Lithuania has a high rate of early school leavers among pupils with disabilities.

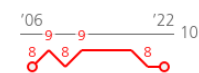
With 57.6% of 30- to 34-year-olds holding a tertiary education degree in 2018, Lithuania was the EU leader in educational attainment (EU average: 40.7%). Nevertheless, there are significant efficiency and quality challenges. In 2017, minimum entry requirements were introduced to increase the quality of entrants to tertiary education. However, reforms in institutional consolidation and funding are essential.

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

Enrollment rates in early childhood education and care continue to grow and, at 92% (2017), was close to the 95% national target. However, the urban-rural gap in enrollment, the quality of care, low salaries and the absence of any national monitoring of outcomes remain the main concerns.

Education policy /
R&D

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Participation in lifelong learning has stalled at 6.6%, substantially lower than the EU average of 11.1% (2018). Lithuania appears not to be investing adequately into lifelong learning and paying insufficient attention to the learning of disadvantaged groups with typically low participation levels.

Governance

I. Level of Difficulty

There are very low structural constraints on governance. With the construction of a liquefied natural gas (LNG) terminal in the port of Klaipėda in 2014 and two electricity power bridges to Sweden and Poland in 2015, Lithuania effectively ended structural dependency on Russian energy resources, especially natural gas.

The negative demographic outlook in Lithuania remains a significant challenge. The working-age population is shrinking rapidly, and this already poses a threat to growth. It will also exert pressure on public finances in the foreseeable future. The aggravating factors, such as relatively low life expectancy and high morbidity rates, very much depend on high social inequality, which during the review period has not improved. That said, net migration has recently turned positive, mitigating this concern.

At the outset of the COVID-19 pandemic outbreak, the excess mortality rate fluctuated around 6-9%. However, in November 2020 it jumped to 39%, grew further to a record-high 77.5% in December 2020 and then subsided to 26.3% next month. The trend corresponds with the infection rate. While the country was relatively unscathed during the first pandemic wave, the number of cases started to sharply rise at the end of October 2020. It reached its peak at the end of December 2020, when around 3,000 daily cases were reported. During the first months of 2021, it subsequently decreased more than threefold. While the contraction of the economy in 2020 was one of the smallest in the EU, the sharply risen public debt (expected to be around 50% GDP in 2021-2023) may put some constraints on the government's capacities of ensuring sustainable development in the long run.

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

Structural
constraints



Civil society
traditions



In 2019, there were around 14,000 active NGOs, a notable increase from 2016, when the number was 9,000 (NGO Information and Support Center). The share of respondents who report their participation in civic associations' activities remained the same for a long time (7-8% in 2007-2019). However, there was a notable increase in trust in NGOs' abilities to influence the decision-making process (from 5.5 in 2016 to 6.0 in 1-10 scale), primarily due to more positive evaluations among the lower societal strata (Civic Empowerment Index 2019). That corresponds to the findings of another survey in which 52% were trusting in NGOs in 2018, a jump from 32% in 2012 (Vilmorus 2018).

There are no major ethnic, religious, or social conflicts that threaten the existing political or economic systems. The remaining important issues for ethnic communities, such as the spelling of Polish names and Roma settlement in Vilnius, are being solved within the existing legal framework.

Political polarization in the Seimas noticeably increased since 2016 as the untried governing Union of Farmers and Greens attempted to impose their policy agenda, sometimes at all costs. However, no significant damage to democratic institutions was done during their rule.

The political process is clearly falling within the limits of the constitution and established procedures and occasional conflicts are unlikely to spill over into popular mobilization.

Although the outbreak of COVID-19 sparked some disputes between the main rival parties on how to cope with the pandemic challenges, it did not provoke any major split within the society.

Conflict intensity



II. Governance Performance

14 | Steering Capability

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

After parliamentary elections in 2016, for the first time since 2001, the government was not led by traditional parties (Homeland Union/Lithuanian Christian Democrats (HU-LCD) or Social Democrats). However, the Farmers and Greens had broadly

Question

Score

Prioritization



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continued the long-term agenda set by the previous governments. The same can be said about the new government formed after legislative elections in October 2020 and led by the HU-LCD. The new government continues to stress its desire to address the demographic decline, improve public administration efficiency and quality of services, bridge the gap between the rich and poor, and better manage state-owned assets and the fight against corruption.

Above all, against important backsliding elsewhere in East-Central Europe, Lithuania has not been deviating from its democratic ideals. It continues the established process of strategic planning, which since 2008 has evolved toward greater emphasis on evidence-based policymaking and performance indicators. Since 2014, the new priority, in the wake of assertive Russian expansionist policies, is to build up military defense and resilience capabilities across a broad spectrum of policy areas.

In 2020, the political agenda was dominated both by the outbreak of COVID-19 and legislative elections in October. While no new significant policy initiatives were launched, the government took not only short-term mitigation efforts but also paid attention to lay conditions for long-term economic recovery. To fight the spread of the pandemic, four task forces under prime minister Skvernelis were established to deal with pandemic-related public health, business, public safety and municipal questions. Prime minister Šimonytė restructured the overall framework by creating a single working group including medical experts, business and other societal representatives. Many of them also worked in this capacity under the former government.

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

Skvernelis's government continued fiscally responsible policymaking and implementation and prioritized the strengthening of Lithuania's defense capabilities and societal resilience to intrusions of foreign authoritarian governments and social media operations in the "post-truth" environment. It completed two important policy initiatives started by the previous government – the "new social model" meant to increase labor flexibility and reform the management of state-owned forests. It also successfully continued its renovation program of old, energy-inefficient apartment blocks, although the speed of implementation should be faster.

Despite the clear pursuit of its own electoral promises, the record of achievement of the Skvernelis's government is uneven. It implemented reforms addressing excessive alcohol use and the protection of children's rights (with evidence of real improvement yet to be seen). It began a vigorous overhaul of the management of

Implementation

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state-owned enterprises in the transport sector (railways, procurement of road construction and postal services). However, in some cases, implementation fell short of initial ambitions such as reforms to the pay model for teachers in secondary schools. Planned consolidation of the higher education system was also implemented only partially. After unsatisfactory results for the Farmers and Greens in the presidential and European parliamentary elections in May 2019, the ruling coalition was reshuffled to broaden its parliamentary representation. However, the reformist ambitions decreased, and no major policy initiatives were taken by the end of the political cycle, which eventually became dominated by pandemic-related concerns.

A new government led by Šimonytė was sworn in in November 2020 amid the steeply rising second wave of the COVID-19 pandemic, and so far was not able to launch the main policy reforms planned in the government program.

The number of infringement cases initiated in Lithuania for non-transposition or incorrect transposition of the EU law by the European Commission is the lowest in the EU (27 cases at the end of 2019).

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

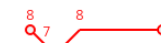
Despite lacking governing experience, the government led by the Farmers’ and Greens’ Union demonstrated an ability to correct policy mistakes and to compromise reasonably with the opposition over some important reforms, such as a package of anti-alcohol laws (by softening some initial restrictions), reform of the management of state-owned forests (by introducing safeguards to ensure transparent functioning of the consolidated state enterprise) and implementing the “new social model.” However, the government’s method of active policy consultation with society and interest groups has not been thoroughly realized despite pledges. Still, minimum standards of transparency and policy input have been observed as all draft decisions, with explanatory material, are published on the Seimas website at the time of their submission for inter-agency consultation.

The pandemic tested the actual government capabilities of policy learning. While Lithuania implemented strict lockdown rules very early and managed to tame the first wave of infection relatively well, it was rather unprepared for the second wave

Policy learning

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at the end of 2020. On the one hand, the government officials were eager to observe international experience and therefore to make certain swift decisions. However, between the first and second waves, it failed to create an effective system of gathering data on the ground, as well as not developing a framework that would better integrate expert advice and NGOs' input into the system. Most crucially, Skvernelis's government did not show a clear willingness to share policy experience with the new government, nor did the latter initiate a comprehensive and independent evaluation of the pandemic management in 2020.

There are two structural challenges related to policy learning – the high turnover of members of parliament and the middle-income trap.

Firstly, while in the 2020 parliamentary elections, a share of parliamentary novices decreased – down to 35% from 58% in 2016, it is still a high turnover affecting not only the legislature but also the working of the government. As none of the governing parties have ever been re-elected (with a partial exception of the Social Democrats in 2004), new governments are keen to display quick wins to satisfy electoral pledges instead of engaging with elaborate, evidence-driven, and policy-learning corrected strategies. As a result, a substantial share of laws is adopted through fast-track procedures (27% in 2016-2020, 38% in 2012-2016). Another related problem is a penchant for parliament to produce new legislation rather than to control the implementation of the existing laws. The last parliament, 2016-2020, adopted the most amount of legislation since 1990.

The second challenge derives from the developmental path of Lithuania. It has reached the point of finding itself in a potential middle-income trap and escaping it will require more sophisticated policy measures and more advanced learning than has been necessary in the past. If one looks at the level of GDP per capita, Lithuania has already escaped the middle-income trap; however, the country's economic specialization still remains focused on low and medium-value added, medium-complexity goods and services.

Policy learning in some policy areas is hindered by the lack of properly designed evidence gathering to evaluate the efficiency and impact of reforms. Lithuania still performs below the EU average in promoting open data, that is, open access to public data. It also lacks a proper strategic vision for developing a data-driven public sector. In 2018, Lithuania joined the OECD, which has increased policy-learning opportunities.

Based on Finland's example, the newly elected Seimas established Committee for the Future in which one of the aims is to enable both incumbent and opposition parties to jointly discuss the most acute challenges in the long run.

15 | Resource Efficiency

The government generally uses all available resources efficiently. Even though the Lithuanian media occasionally claims excessive bureaucracy, personnel expenses are not very high relative to the services offered by the state.

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

Reform of the management of state-owned companies (SOE) started in 2011 and has been essentially completed. It was an exemplary reform in which Lithuania set the pace for states in the Baltic region and all of East-Central Europe. However, the depth of the SOE reforms varies in different policy areas.

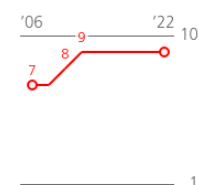
Since 2017, the government took action on ensuring a level playing field between SOEs and private enterprises (including the conversion of several commercially oriented SOEs into limited liability enterprises). In four years, the number of SOEs has more than halved, from 139 in 2015 to 49 in 2020. Also, the government coordination center was strengthened, and the share of independent members of SOEs boards was increased to half. However, similar standards are not applied to municipal companies where the independence of management boards is not ensured.

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

Efficiency in the public procurement system is improving, especially at the central level, although challenges remain. Transparency in public procurement is high, as is the use of digital and web publishing. Contracting authorities are required to publish information on initiated tenders, the successful bidders and the contracts awarded online. However, tenders often attract only single bidders. Cross-border procurement remains low, with a potential negative impact on prices. At the municipal level, concerns remain with regard to adequate procurement planning, transparency and in-house procurement (European Commission, 2020).

Efficient use of assets

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

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

Stumbles in managing the COVID-19 pandemic, particularly during its second wave, revealed deficiencies in how the government is answering to similar crises. While the established coordination structure was rather clear and proper for managing such crises, the system failed to ensure timely collection, analysis, and sharing of necessary data, as well as a systematic inclusion of experts, social and economic partners, and effective delegation of responsibilities to the municipal authorities. While at the most critical moments, politicians took the leading role, there was less room for the initiative on the behalf of civil service.

All integrity mechanisms are in place, functioning and supported by the government, but corruption continues to be a serious problem.

Perceptions of corruption are still very high according to Eurobarometer surveys. In 2019, 92% of the population thought that corruption was widespread in Lithuania, well above the EU average (71%). On the other hand, 26% of the respondents agreed that they are personally affected by corruption in their daily life, which is the same level as the EU average. In 2019, 56% of Lithuanians did not tolerate any forms of corruption (favor, gifts, money), up from just 29% in 2013, but still somewhat below the EU average (69%).

Based on research by Vilmorus (initiated by the Special Investigation Service), at the end of 2020-beginning of 2021, 35% of Lithuanians identified corruption as a very serious problem. Notably, this was the lowest number since 2007. 19% of respondents thought that corruption had increased over the last five years, 36% that it did not change and 33% that it decreased. 32% were optimistic about the future and 14% pessimistic - this was also the best result in many years. Health care institutions (51%), courts (37%), the parliament (33%), and municipalities (22%) were identified as the most corrupt institutions by respondents.

Policy coordination

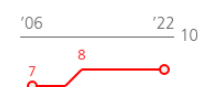
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Anti-corruption policy

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In recent years, noteworthy efforts to increase transparency targeted a number of sectors and institutions, among them party financing and electoral campaigns, territorial planning, police, public procurement, market surveillance systems, and the work of special institutions, such as the Special Investigation Service (STT) and the High Commission on Ethics in Office (HOEC). Also, the legislation introduced protections for whistleblowers in the public and private sectors. This protection had already been used during- investigation into corruption in the prison system.

Since 2012, declarations of personal finances by civil servants and public officials are electronically submitted to the HOEC. The declarations of security officials are classified. However, the HOEC has struggled to monitor, analyze and verify this large volume.

The corruption prevention framework has improved, but implementation still faces difficulties. The implementation of a new lobbying law from 2017 is challenging since it adopted a broad definition of lobbying and contains significant loopholes for avoiding registration. While the law obliges all companies engaged in lobbying to register online, the obligation does not extend to high-level public sector officials or members of parliament. The verification of conflict of interest declarations is not yet rigorous enough. This is mainly because of a scarcity of resources and a lack of a single registry of interest. (European Commission).

16 | Consensus-Building

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

All major political actors are committed to a market economy. In practical terms, this is expressed through three key documents, namely the long-term development strategy of the state of Lithuania 2030 adopted by the Seimas in 2012, the operational national progress program 2014 to 2020, adopted in November 2012, with its renewed version for 2021-2030 adopted in October 2020 and 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.

Consensus on goals

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There are no anti-democratic veto actors in Lithuania. The populist parties or parties with clearly identifiable populist appeal traditionally have been co-opted into the system and play by democratic rules. Some have already been voted out of Seimas, such as a protest party (the Courage Way) which had six seats in the Seimas during the period 2012 to 2016. On the other hand, the potential for populist or protest votes did not decline significantly during the last few parliamentary elections, which added to the fragmentation of the party system. Nevertheless, populist influence on policy direction has so far been limited.

A directly elected president, the most trusted political institution in the country, is constitutionally required to be non-partisan. So far, with the exception of the eventually impeached Rolandas Paksas's rule (2003-2004), Lithuanian presidents have tried to overpass the major conflict lines by acting as a moral authority and not clearly taking sides on the most divisive societal issues.

Leaders of the main parliamentary parties have been much more active in trying to exploit certain divisions. During the first decade since independence, party politics were highly bipolar, resting on different societal attitudes toward the Soviet past. Later, this divide lost some relevance and was partially overshadowed by other issues such as socioeconomic differences and regional disparities.

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

The potential for the polarization of society remains, as a significant portion of voters does not vote for established parties. In 2016, many voters supported the Union of Farmers and Greens (LVŽS, an established small party) because they were disappointed with the hitherto leading parties and were attracted by promises of strengthening public integrity, reducing brain drain and combating alcoholism.

While in fact displaying continuity rather than rupture in public policies, to consolidate its hold on power and ensure its candidate was elected president in 2019, LVŽS positioned itself as an anti-elite party of disadvantaged voters with a socially conservative profile that does not shy away from political and institutional conflict with other political forces. While the outbreak of pandemic in 2020 initially prompted political leaders to set aside their mutual disagreements, an ensuing parliamentary election campaign soon became highly polarized with the ruling Farmers and Greens doubling down on their image as an anti-establishment party. However, the ultimate outcome of both presidential and parliamentary elections revealed a limited success of such tactics.

Anti-democratic actors

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Cleavage / conflict management

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

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

NGOs do have some influence on decision-making, but business groups and, to a lesser degree, trade unions are more influential players. The government is determined to strengthen the development of the NGOs through an improved regulatory framework. They also want to boost their role in decision-making as well as provide some financial assistance (in the region of €4 million annually). Since 2015, NGO development issues are regularly deliberated in the NGO council (established by law and composed of NGO, government and municipal representatives).

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

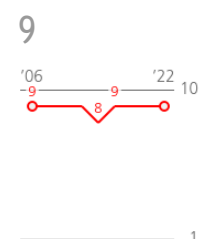
Since the outbreak of COVID-19, the government has actively engaged civil actors to ensure swift implementation of the quarantine regime, to organize assistance for more vulnerable social groups and to seek advice and feedback concerning implemented short-term and long-term measures. Such cooperation has largely been successful, although NGOs could have been more involved in the decision-making process.

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

Civil society participation



Reconciliation



remembrance of Stalinist crimes. Domestically, the Seimas in 2010 made it a criminal offense to publicly condone, deny or grossly trivialize international crimes committed by the USSR or Nazi Germany against the Republic of Lithuania or residents thereof.

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

Following the recent publication of several high-profile books on Lithuanians' involvement in the Holocaust and commemorative events in 2016 dedicated to the 75th anniversary of massacres of the Jews in the Lithuanian shtetls, public debate about the Holocaust is open and vigorous. Lithuanian society has accepted the Holocaust victims and perpetrators of war crimes as part of Lithuanian society, bearing all the implications.

17 | International Cooperation

Transfers from the EU budget continue to be an important source of public investment in Lithuania, contributing to approximately one-third of the national budget and constituting over half of all capital public investment. EU support and membership in the internal market were instrumental in the rapid progress of Lithuania toward the EU average. Analysis shows that without EU membership, Lithuania's GDP in 2014 would have been 13.7 percentage points lower (Nauro Campos, Fabrizio Coricelli and Luigi Moretti, 2014). Since Lithuania's per capita GDP (in PPP terms) exceeded 84% of the EU average in 2019, in the next EU MFF (2021 – 2027) Lithuania will be reclassified as a country in the transition away from the EU financial support. As a consequence of this reclassification, EU assistance from structural and agricultural funds is likely to decrease.

Lithuanian authorities use EU support effectively for a self-determined agenda (in line with the respective EU guidelines) set out in the national long-term development strategy Lithuania 2030 and its various operational policy plans and programs. In the period 2007 to 2013, Lithuania's absorption rate of EU structural funds was the highest in the EU and the State Audit Office in 2018 found only 0.44% improper expenditure for that period (well below the 2.0% threshold tolerated by the European Commission). However, in 2019 it found already around

Effective use of support

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3.1% improper expenditure for the 2017-2018 period. Also, in the 2014 to 2020 period, programming and disbursement were subject to delays. At the end of 2020, about 98% of €9.95 billion in EU investments (including a national contribution of €1.56 billion) were allocated to Lithuania, of which 59% were actually spent in the country. These figures are on par with the EU average for both accounts (data from the European Commission's DG REGIO). On the other hand, despite massive investments from the EU Social Fund, social inequalities remain at one of the highest levels in the EU.

Lithuania is regarded as a credible and reliable partner by the international community. It had become a full democracy and fully functioning market economy by the late 1990s and is now actively working with the international community (especially the EU) to stabilize the region and encourage its neighbors to reform, especially through the Eastern Partnership of the European Neighborhood Policy. In 2014 and 2015, Lithuania was a non-permanent member of the United Nations Security Council, a first for a Baltic state. It complies with existing international agreements and is a reliable and trustworthy partner in the institutions that monitor compliance with these agreements. After a prolonged preparation process, Lithuania joined OECD in 2018. In total, Lithuania is a member of around 50 international organizations.

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

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

While relations with Poland improved, Lithuania's bilateral relationship with authoritarian Belarus markedly deteriorated, in particular in the wake of mass protests against the fraud in the presidential elections in the neighboring country in August 2020. Lithuania deems Alexander Lukashenko as being an illegitimate president and has provided a living residence for his contender Sviatlana

Credibility

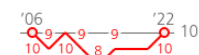
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Regional cooperation

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Tsikhanouskaya after she escaped from the country. Lithuania is also one of the most vocal advocates for the democratic forces of Belarus in their fight against the authoritarian regime. Furthermore, Lithuania continues to oppose the exploitation of a newly built nuclear power plant in Ostrovets, only 50km from Vilnius. Claiming the NPP to be a threat to national security, the environment and public health, Lithuania adopted a law prohibiting the purchase of electricity from Ostrovets NPP and rallied other neighboring countries to follow the suit.

Russia's aggressive stance in the international arena remains a major factor of Lithuania's foreign policy. While economic ties are being developed, and formal structures of bilateral relations are working, Lithuania is one of the most vocal advocates of imposing sanctions against Putin's regime due to its actions suppressing democratic opposition and violating international norms. As the neighboring Kaliningrad Oblast has become increasingly militarized, Lithuania, jointly with Poland and other two Baltic states, has sought to ensure the adequate presence of NATO troops in the region.

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

Strategic Outlook

Amid the COVID-19 outbreak, Lithuania's economy has proven to be resilient. While its downturn in 2020 was just 0.9%, real GDP is forecast to grow by 2.2% in 2021, and by 3.1% in 2022. In economic terms, especially with regards to regulatory policies and developing administrative capacity, Lithuania has been successfully bridging the gap with EU averages and in some areas has caught up or surpassed the Southern European member states. However, Lithuania has still not been able to bridge gaps with Western and Northern European EU member states in terms of social inclusivity and confidence in state institutions. Meanwhile, in contrast to several East-Central European states, Lithuania and the other Baltic states remain the beacons of hope in the region. They continue to make incremental advances in the areas of democracy and management of transformation.

However, to continue its development and avoid the middle-income trap, Lithuania will need to address its structural vulnerabilities more effectively. It has exhausted almost all potential for labor-intensive growth and must switch to a higher value-added path based on the utilization of knowledge and innovations. To continue attracting high value-added generating investments, the government must invest more in human capital (especially health protection and education) and address the problem of demographic decline. Social peace and political stability require the effective alleviation of poverty and social exclusion, which have remained high and particularly affected the most vulnerable social groups. The tax and benefits system so far has had minor impact on addressing inequalities and regional disparities. Lithuania will need to raise more money and spend it more effectively on desired social, cultural and economic outcomes. Within a geopolitically challenging neighborhood, this is also imperative for external security. COVID-19 has somewhat aggravated these problems, as the public debt in 2020 rose to historic heights. Although debt is still half the EU average, the stakes for ensuring a sustainable fiscal policy in the future could not be higher.

The current government, led by non-partisan and centrist former finance minister Ingrida Šimonytė, appears to have both the political will and the necessary qualifications to address the issues mentioned above. In fact, the last parliamentary elections in October 2020, in which pro-European and pro-democratic forces scored a resounding victory, also tend to prove that democratic institutions in Lithuania are more resilient than in most other East-Central European countries. These signs of hope, however, should be perceived with caution, as the parliament's fragmentation, possible tensions with the president and within the coalition, as well as geopolitical uncertainties and overall environmental sustainability – including the safety of Ostrovets nuclear power plant in Belarus (50 km from Vilnius and not fully following international nuclear safety requirements) – could destabilize the situation and effectively thwart the government's plans.