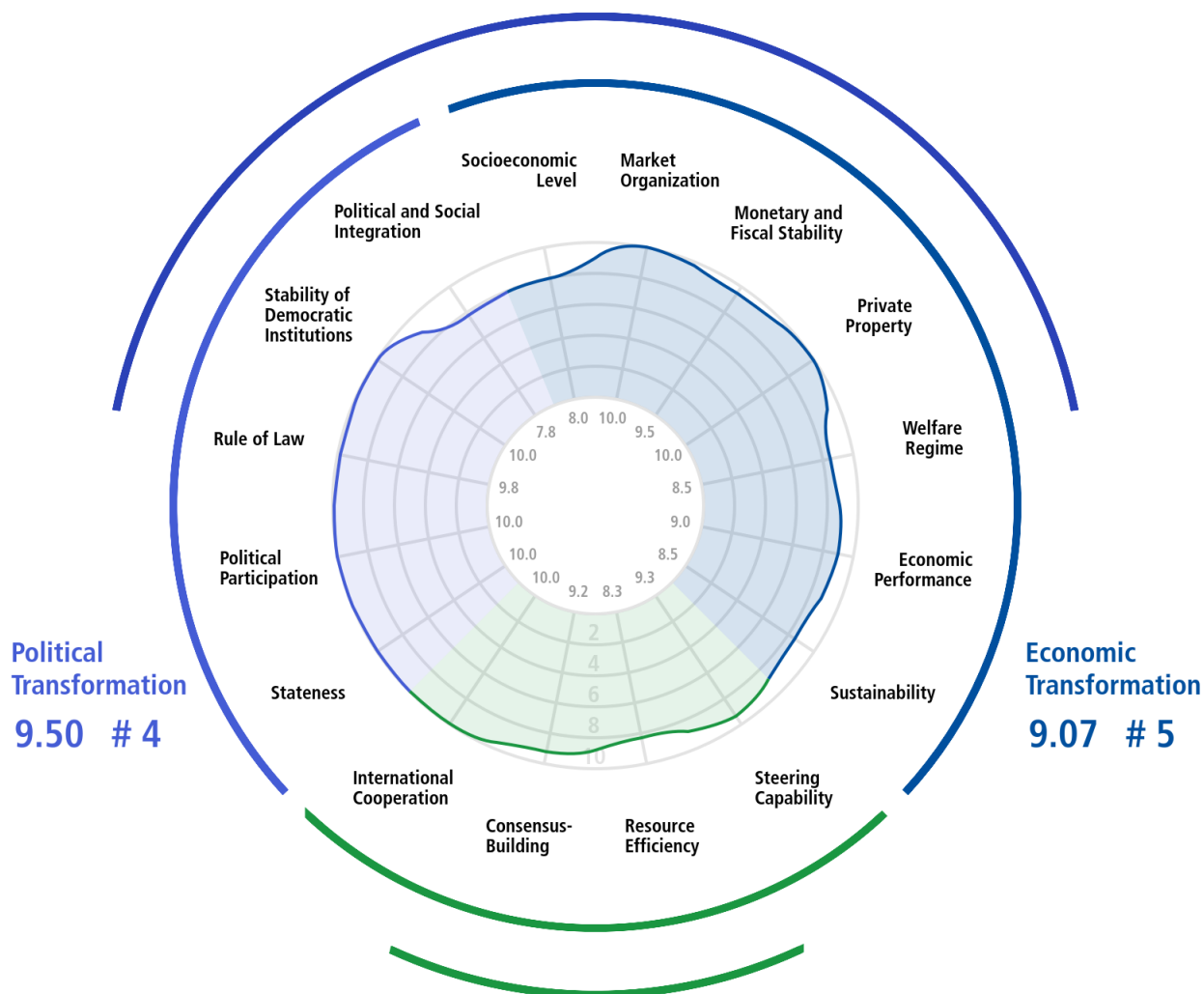


Lithuania

Status Index

9.29 # 3

on 1-10 scale out of 137



Governance Index

7.45 # 3

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2024 Country Report – Lithuania. Gütersloh: Bertelsmann Stiftung, 2024.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	2.8	HDI	0.875	GDP p.c., PPP \$	48397
Pop. growth ¹	% p.a.	1.1	HDI rank of 189	35	Gini Index	36.0
Life expectancy	years	74.3	UN Education Index	0.902	Poverty ³	% 0.6
Urban population	%	68.5	Gender inequality ²	0.105	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The center-right coalition of three parties, namely the Homeland Union-Lithuanian Christian Democrats, Liberal Movement, and Freedom Party, led by Prime Minister Ingrida Šimonytė, has held power since October 2020. Despite turbulent times and a series of international crises that have impacted the Lithuanian economy and politics, the cabinet has remained unchanged throughout the review period. The government's primary focus has been on crisis mitigation.

In the first half of 2021, the government faced the immediate task of vaccinating the population against COVID-19. Although a vaccination rate of 70% was achieved by September 2021, pandemic measures, notably the government's vaccine passport, along with some liberal initiatives such as the proposal of a same-sex partnership law and plans to ratify the Istanbul Convention, sparked a series of anti-establishment protests. These protests reached a climax in August 2021 with a riot outside the parliament building. After the revocation of the vaccine passport, discontent among the population subsided and protests waned. Additionally, in the summer of 2021, an EU-Belarus border crisis unfolded as hundreds of migrants from the Middle East and Africa began crossing into Lithuanian territory. The government responded with a pushback policy that drew criticism from human rights organizations. By the end of the year, migration rates had decreased to almost zero.

The start of Russia's war against Ukraine in February 2022, coupled with the build-up of Russian forces in neighboring Belarus, prompted Lithuania's parliament to declare a state of emergency. The state of emergency was extended several times in 2022 and remains in effect at the beginning of 2023, but it is now limited to border areas with Russia and Belarus. A state of emergency allows the government to maintain an entry ban for most Russian citizens and take action against protests and the dissemination of war propaganda through Russian TV channels that support Russia's aggression against Ukraine. Parliament unanimously supported the government's decision to

increase defense spending and condemn Russia's invasion of Ukraine. The surge in energy and gas prices due to the war, along with increasing inflation (among the highest in the EU), have placed a strain on the population. In response, the government implemented an extensive mitigation package that primarily focused on partial compensation for the cost of energy bills in the private sector and among citizens.

The Lithuanian economy continued to grow during the review period. Public debt decreased in 2022. However, extraordinary measures created challenges to maintaining a balanced budget. The budget deficit, along with public debt, is expected to rise again in 2023. In September 2022, inflation reached its highest point in a decade at 22.5%. But it has since decreased over several consecutive months up to the beginning of 2023. Lithuania maintains a credit rating of A2 from Moody's and an A+ rating from Standard & Poor's.

Despite the challenging times, the government managed to initiate some of its planned reforms, particularly the reform of public administration (which was under consideration in parliament at the end of the review period) and the revamping of secondary education. However, efforts by progressive politicians in the government coalition to introduce a same-sex partnership law and decriminalize marijuana were met with opposition from conservative forces, primarily conservative-populist parties in the parliamentary opposition, as well as several politicians within the ruling Homeland Union-Lithuanian Christian Democrats (TS-LKD) Party. Conservative opposition, along with discontent among the population, halted progress in these areas. Relatively high levels of socioeconomic inequality, a looming middle-income trap, and the ongoing fight against corruption remain pressing issues for the government, as discussed in previous reports.

History and Characteristics of Transformation

Occupied and annexed by the Soviet Union in the 1940s, Lithuania endured nearly 50 years as a Soviet republic. Soviet rule had a comprehensive impact on the country, its resources, its economy and, most significantly, its people. Lithuanians often describe their return to statehood as a "rebirth," marking the beginning of a transformation and the aspiration to become a free, independent state within the community of European democracies. Joining the European Union and NATO in 2004 allowed Lithuania to achieve the goals and aspirations its government had laid out in 1990. The establishment of a democratic republic represented the end of foreign occupation, and there was no opposition to the transition to a new political system. The struggle for independence and the founding of the new state provided a shared foundation for national identity. The legitimacy of Lithuania's democracy is closely tied to the Baltic revolution and the triumph of the independence movement, which enjoyed widespread support among the population. The process of political transformation has progressed smoothly with few challenges. A new constitution was adopted by referendum in 1992, and in 1993, a multiparty system emerged, signifying the successful completion of the initial phase of political transformation. The constitution established a pluralistic framework under the rule of law and introduced a Constitutional Court, a first in Lithuanian history. The political system has proved reliable, with

all parties accepting transitions of power. The impeachment of President Paksas in 2004 showcased the viability of democratic institutions and the acceptance of established laws. However, what the electorate desires has fluctuated over time. Since 1990, no government has been able to win elections outright and maintain power other than the Social Democratic Party from 2001 to 2004 and from 2004 to 2008. During the first decade of the Second Republic, the moderately fragmented party system appeared resistant to new challenges amid shifting voter support. However, since 2000, populist parties have made significant gains. Nonetheless, in each instance (in 2000, 2004 and 2008), they were either integrated into governing coalitions led by traditional parties or marginalized in parliamentary politics (as in 2012). Apart from a short-lived ruling coalition between the center-right Liberal Party and populist Social Liberal Party in 2000/2001 and a government led by the center-populist Farmers and Greens Union from 2016 to 2020, all 18 governments have been led by either the right-wing Homeland Union/Christian Democrats of Lithuania or the left-wing Social Democrats. Since 2008, prime ministers have served full four-year terms. The current center-right government, a three-party coalition that assumed office in October 2020, has followed a similar trajectory, with no significant government scandals or ministerial reshuffles in the first half of its term.

The country's economic transformation has resulted in significant social inequalities and placed heavy burdens on the majority of the population, particularly due to the lingering effects of the Soviet period. Like other reform-oriented states in Eastern Europe, Lithuania faced an economic and social crisis characterized by a sharp decline in GDP and soaring unemployment figures, the worst of which had passed by 1994. Following a slump in 1999 known as the "ruble crisis," Lithuania's GDP experienced strong growth between 2000 and 2009. With EU accession, Lithuania successfully established a market economy based on social justice principles and implemented modern regulatory institutions that are largely insulated from political pressures. This contributed to an economic boom that came to an abrupt halt in early 2009. The economic crisis of 2009/2010 was the most severe since the collapse of the planned economy in the early 1990s. However, Lithuania weathered the crisis by implementing significant cuts to public expenditures and maintaining the stability of the litas, its national currency. The crisis presented an opportunity to rationalize budgetary expenditures, increase transparency in policymaking, and reinitiate necessary reforms in certain policy areas. However, policymakers made only minor changes, failing to address the deteriorating demographic situation and persistent social inequalities that undermine societal cohesion and the stability of the party system. Nonetheless, Lithuania now enjoys energy security vis-à-vis Russia, ending Russian energy imports in 2022. The country also joined the Schengen free-travel area, the eurozone, and the OECD in 2014. Furthermore, Lithuania has significantly bolstered its societal and military resistance to Russia's aggressive policies toward its neighboring countries. Against the backdrop of democratic reversals in other parts of East-Central Europe, Lithuania, along with its Baltic neighbors, Latvia and Estonia, continues to deepen its commitment to democracy.

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

The state's monopoly on the use of force is uncontested. The power structures are well-established and differentiated. The 2021/2022 Belarus–EU border crisis (Belarus facilitated the crossing of increasing numbers of migrants into Lithuania) put pressure on border control institutions. The parliament declared an extraordinary situation (a restricted version of the state of emergency) on July 2, 2021 and sent reinforcements to the border. From November 2021 to January 2022, the parliament upheld the state of emergency on the border with Belarus. This pushback and building a border fence proved effective for controlling the state's territory, and the number of migrants crossing the border dropped to almost zero. Control of the country's territory remained uncontested during this crisis.

The population accepts the legitimacy of the nation-state. All citizens enjoy the same civil and political rights, including the main ethnic minorities: Polish (5.7% of the population in 2020), Russian (4.5%), and Belarusians (1.7%). After the restoration of independence in 1990, Lithuania chose a “zero-option” citizenship model, granting automatic citizenship to all individuals who met 10-year residency criteria. This model differed from Estonia and Latvia, which initially restricted citizenship to Soviet-era immigrants and introduced language tests, thus maintaining large segments of non-citizens well into the 21st century (Auers 2015). After Russia's full-scale invasion of Ukraine, attitudes toward ethnic Russians among the general population did not change significantly, as this minority is regarded as rather well integrated into society.

Question
Score

Monopoly on the
use of force

10



1

State identity

10



1

The state is defined by secular order. Religious dogmas do not dictate its legal order or political institutions.

Among Lithuanians, 74.2% identify as Roman Catholics (2020). The second most numerous religious group are the Orthodox Christians (3.7%), largely overlapping with the Russian ethnic minority. However, only around 30% of the population (World Values Survey) attend religious services at least once a month.

The Roman Catholic Church has some influence in the public sphere; most notably, the church nominates one out of 12 representatives to the board of Lithuania's public broadcaster, Lithuanian Radio and Television (LRT). Nevertheless, this representative is usually picked from among the secular population.

The state maintains a differentiated administrative structure throughout the country and a well-developed state infrastructure that provides essential public services. Compared to other EU countries, the quality of public services is average. Approximately 94% of the population has access to basic sanitation (World Bank), and around 94.9% has access to clean water. Access to electricity is universal.

Regional disparities exist, with a higher prevalence of a lack of sanitation and limited access to clean water in rural areas. However, there are no significant regional differences in access to education, health care, law enforcement and other services. A persistent challenge is the shortage of health care specialists, with the number increasing only from 389 in 2016 to 438 in 2021. The shortage of health care specialists is particularly acute in the capital region (the Ministry of Health of the Republic of Lithuania).

The VAT compliance gap, which measures the state administration's ability to collect taxes, has steadily decreased in recent years. The most recent improvement is from 20.9% in 2019 to 19.3% in 2020 (European Commission), indicating the administration's growing capability. However, tax revenue relative to GDP remains one of the lowest in the European Union (also see section 8.2 on fiscal stability).

Trust in public institutions generally outweighs distrust. The most trusted institution is the police, with 61.1% tending to trust and 11.2% tending to distrust the police. Approximately 52.4% of the population trusts social security services (12.5% tend to distrust them), 44.7% (12.7%) trust the health system, and 43.7% (14.2%) trust the public education system (Vilmorus, December 2022).

The public administration is primarily centralized. Municipalities have limited capabilities to collect local taxes and manage state land. State grants serve as the main source of revenue. The average number of inhabitants per municipality is around 48,000, which is one of the highest figures in the EU.

No interference of religious dogmas

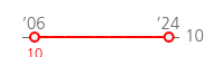
10



1

Basic administration

10



1

2 | Political Participation

Elections in Lithuania are widely regarded as free and fair. The latest Freedom House report (2022) gives Lithuania the maximum score for its electoral process, political pluralism and participation.

The Central Electoral Commission (CEC) of the Republic of Lithuania is an independent institution responsible for overseeing and organizing all elections. It consists of representatives from parliamentary parties and other members nominated by the president, the legal community and the Ministry of Justice. The commission effectively handles complaints, and there are few irregularities in the electoral process. Universal suffrage ensures that all citizens over the age of 18 are eligible to vote in all elections. Ballot secrecy is guaranteed.

Polling stations are secure, confidential and accessible to all citizens. Early voting is available a few days prior to the election day for those unable to vote on the designated day. Additionally, citizens with disabilities or above the age of 70 have the option to vote from home.

Fair and equal media access is provided to all candidates and parties. Debate and discussion slots on the LRT public broadcasting channel (including TV, radio and online) are distributed equally among all participating parties.

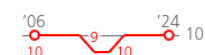
In April 2022, the Lithuanian parliament passed a constitutional amendment that allows an impeached politician to run for a national office after a period of 10 years from impeachment by parliament. This amendment was particularly relevant in the case of former President Rolandas Paksas, who was impeached in 2004 and previously barred from national elections for life by the ruling of the Lithuanian Constitutional Court.

Since November 2013, not only political parties but also electoral committees in local and European Parliament elections can nominate candidates. In the 2019 local elections, 17.9% of votes were cast for electoral committees. In the 2019 European Parliament elections, 14.4% of votes were cast for electoral committees.

The parliament adopted a new electoral code as a constitutional law in June 2022. The Electoral Code replaces all previous electoral laws and consolidates them into a single document. Under the new regulations, electoral committees must be registered as legal entities and meet minimum membership requirements. Another significant change is the restriction on mayors' terms of office to three consecutive terms, which will take effect beginning in 2023.

Free and fair elections

10



1

Democratically elected political representatives have the effective power to govern. There are no significant groups, such as business elites or military or religious groups, with veto power to undermine the policies of the democratic government.

Effective power to govern

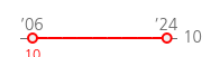
10



The Lithuanian Constitution guarantees association and assembly rights to all citizens, and citizens can exercise these rights in practice. The legal and regulatory framework for NGOs is solid. Citizens have the opportunity to allocate 1.2% of their income tax to designated NGOs in their annual tax returns.

Association / assembly rights

10



Although the majority of the population is still against same-sex partnerships, the LGBTQ+ community have full rights to exercise assembly rights, and pride parades take place regularly in the capital Vilnius without incident. In June 2022, the Baltic Pride Parade attracted about 10,000 participants.

In 2021, Lithuania experienced a wave of anti-establishment protests in the capital Vilnius. These protests were against several intertwined issues: pandemic restrictions (mostly the vaccination passport), the Istanbul Convention, the political establishment, and parliament's consideration of legalizing same-sex partnerships. Despite anti-establishment claims, organizers of these protests (some drew between 10 and 15,000 participants) were granted assembly permits.

Lithuanian civil society has actively supported Ukraine since the beginning of Russia's invasion and exercised the right to assemble to voice this support. Various rallies expressing solidarity and support for Ukraine in February 2022 drew around 20,000 participants.

Freedom of expression is constitutionally guaranteed and effectively practiced in Lithuania. The media and press operate freely with minimal government interference. According to the World Press Freedom Index by Reporters Without Borders, Lithuania rose to 8th out of 180 countries, a significant improvement from its ranking of 28th in 2021. In April 2021, the parliament passed amendments that legally establish the right of journalists to freely access state registry data concerning legal entities and real estate.

Freedom of expression

10



However, challenges to media freedom persist, primarily due to the relatively high concentration of national media ownership among a few companies. Another challenge arises from the financial dependence of the regional press on local administrations, with some owners having connections to local politicians or parties.

Trust in the media varies in opinion polls, depending on the survey and formulations of questions. Overall, trust in Lithuanian media is average, with roughly similar percentages of respondents expressing trust and distrust. This situation has not significantly improved in recent years.

Since 2014, Lithuania's television and radio commission has closely monitored and taken measures to counter Russian propaganda on TV and radio channels available in Lithuania. In 2020, following Latvia's example, the authorities suspended the broadcasting of five channels from the Russia Today group, a move criticized by Reporters Without Borders. In February 2022, the commission extended the ban for 3 to 5 years to an additional six Russian and Belarusian channels. These measures are considered appropriate due to the war propaganda and hate speech these channels disseminate.

3 | Rule of Law

The separation of powers is clear. There are mutual checks and balances in place. The judiciary functions separately and independently from the executive and legislative branches of government. Lithuania is a semi-presidential republic with a government accountable to the parliament and a directly elected president with significant moderating powers, including a veto on legislation.

The relationship between President Gitanas Nausėda, elected in 2019, and the governments of Saulius Skvernelis (center-left, 2016 – 2020) and Ingrida Šimonytė (center-right, 2020 –) has been strained (parliament rejected most of his vetoes) but did not lead to political crises. A major source of tension is Lithuania's representation at the European Council. According to the informal practice established by former President Dalia Grybauskaitė, the president represents Lithuania. The Šimonytė government has questioned this practice. Especially in the context of Russia's war against Ukraine, there is a consensus on pro-Western foreign policy (the main domain of cooperation between the president and the government).

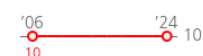
In 2021 and 2022, the parliament (with the support of the president) declared a state of emergency due to two international crises and extended it several times. The first was caused by the aggravation of the Belarus-Lithuania border crisis and an increasing number of immigrants from Belarus (ended in January 2022). The second was due to Russia's invasion of Ukraine at the beginning of 2022 and is still in effect in areas bordering Russia and Belarus. Despite the prolonged state of emergency, parliamentary control of the government did not weaken, with the president acting as an additional constitutional safeguard.

The judiciary is fully functional and generally free of unconstitutional intervention, including political pressure, from other institutions. However, there are still some cases of corruption.

Candidates for judges are required to have a higher education in law, at least five years of work experience in the judiciary system and to pass a special bar exam for judges. After the candidate has passed the exam, the Examination Commission of Candidates to the Judicial Office decides if an individual, taking into account his or her motivation and reputation, can become a judge. The final decision is the president's, who appoints judges with the consent of the Judicial Council (which ensures the independence of courts and judges).

Separation of powers

10



1

Independent judiciary

10



1

Appointments to the Constitutional Court and the Supreme Court involve both the president and the parliament. This leads to occasional disputes between the president and parliament, depending on the president's specific approach to the appointment process. In 2022, members of the legal community criticized and parliament rejected President Nausėda's nominee for a vacant seat on the Supreme Court. In early 2023, the dispute had not been resolved.

Since the judiciary reform in 2010, court appointments rotate regularly, and all judges are subject to regular performance reviews. The number of judges has remained stable since 2010, unaffected by the ongoing downsizing of the public sector. At the same time, despite the rising inflation in 2022, judges' salaries have remained at the same level since 2008. According to the legal community, this may create problems in recruiting and retaining professional judges in the near future.

Public confidence in the judiciary received a blow in 2019, when 12 senior judges (including a member of the Supreme Court) became entangled in an extensive bribery scandal. By the end of 2021, all the judges had been dismissed. Indicators measuring public trust vary, but on average, the percentage of the population that trusts the courts is lower than that that distrusts them. For example, according to Vilmorus (December 2022), around 20% of the population tends to trust courts and 32% tend to distrust them.

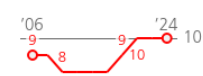
Officeholders who break the law and engage in corruption are prosecuted under established laws and always attract adverse publicity. The Special Investigation Service (STT) anti-corruption agency investigates cases of political corruption and focuses on high-profile cases. The STT and the general prosecutor are largely independent of political pressure. The Chief Official Ethics Commission (VTEK) is another institution that investigates cases of ethical misconduct and conflicts between public and private interests among politicians and state servants.

According to the BTI 2022, the STT had stepped up its operations. Targeting high-level corruption in 2019, it completed pre-trial investigations of 49 cases and transferred them to the courts. Although this number declined somewhat in 2020 and 2021 (35 and 27 cases, respectively), the overall quality of STT investigations increased. In 88% of these investigations, the courts found the accused guilty of corruption.

High-profile, influential politicians are constantly held accountable by anti-corruption institutions and the media. In November 2022, LRT's news portal aired an investigation regarding nontransparent schemes in Lithuania's second largest city, Kaunas: the family of the popular mayor, Visvaldas Matijošaitis, acquired a large number of newly formed land plots. The STT and VTEK launched investigations into possible corruption and ethical misconduct.

Prosecution of
office abuse

10



In April 2022, the Vilnius District Court reached a verdict on a high-profile political corruption case regarding one of Lithuania's major political parties, the Liberal Movement. In 2016, the STT indicted the party's former leader, Eligijus Masiulis, and several of his colleagues (and one politician from the Labor Party) for taking bribes from the deputy director of MG Baltic, one of the largest corporations in Lithuania. After an extensive pre-trial investigation, the case went to trial in 2018. Despite the prosecutors spending a massive amount of time to prepare the case, the court declared the party an organization and the indicted politicians not guilty. The prosecutors appealed this verdict to the higher court. At the beginning of 2023, the case was still in the Court of Appeal.

Civil rights and equality before the law are guaranteed by the constitution and complementary laws (foremost the Law on Equal Opportunities) that prohibit various forms of discrimination, including those based on gender, race, language and other categories. However, various forms of discrimination de facto persist in workplaces and society. Most notably, Roma people and LGBTQ+ minorities still experience societal discrimination. People with mental illnesses and former prisoners face social stigmatization and difficulties integrating into society. Income inequality remains an obstacle to obtaining equal access to justice.

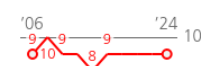
According to the most recent special Eurobarometer survey (2019), sexual orientation is perceived as the most common ground for discrimination (50%), followed by being Roma (48%) and old age (45%). Less than half of the population would be comfortable working in daily contact with a Muslim, Roma, or LGBTQ+ person. Only 30% agreed or tended to agree with same-sex marriages (EU average of 69%). There is no substantial evidence that these numbers have changed significantly since 2019.

The ombudsman of equal opportunities continues to be active and build trust with the public. The number of complaints of rights violations reported to the ombudsman remains stable: in 2021, the ombudsman received 222 complaints (187 in 2020 and 215 in 2019, respectively). 44% of complaints come from women, 29% from men and 24% from legal entities.

According to the European Institute for Gender Equality Index (2022), Lithuania ranks 20th out of 27 EU members and lags behind the EU average. Unemployment among women is higher than among men, and women earn less than men. Domestic violence remains a major problem, although reported cases of domestic violence since 2017 have slowly decreased, from 10,693 in 2017 to 7,132 in (2020). 80% of these cases involves violence against women and 11% against children. In March 2022, the Lithuanian parliament adopted amendments to the Law on Protection Against Domestic Violence that give police officers the right to issue an order of protection against violence for 15 days. These orders require parties perpetrating violence to temporarily vacate any premises they share with victims of violence.

Civil rights

9



1

Freedom House (2022) notes that ethnic Poles and members of other national minority groups object to limits on the use of their languages. In January 2022, parliament adopted a law that allows the use of the characters “x,” “w,” “ir,” or “q” in passports and ID documents issued in Lithuania. This effectively allows persons of Polish ethnicity and descent to spell their surnames in official documents in Polish.

According to Rainbow Europe’s index of LGBTQ+ equality (2022), Lithuania ranks only 23rd out of 27 EU countries. In 2022, the progressive Freedom Party (the junior partner in the three-party coalition government) proposed a law on partnership that would effectively legalize same-sex partnership. However, the bill encountered opposition in society and parliament. President Nausėda expressed doubt that the proposed law complied with the concept of same-sex marriage outlined in Lithuania’s constitution. Despite several attempts, the bill failed to gather enough votes in parliament to become law.

Lithuania’s policy toward the migration crisis at the border with Belarus attracted criticism from human rights organizations and democracy watchdogs, namely Amnesty International and Freedom House. A pushback policy proved effective in controlling the migration. Between August and December, officials stopped over 8,000 people from entering the country, leaving them no choice but return to Belarus. However, it also created situations where people could not enter Lithuania but also could not go back to Belarus because officials in that authoritarian country denied passage. Some migrants were forced to spend days or weeks in the woods without access to sanitation or normal nutrition. According to the data from the Migration Department, by November, less than 1% of asylum applications had been approved.

The number of incarcerated per 100,000 inhabitants continues to decline; according to most recent data (Eurostat 2022), this number decreased from 220 (2019) to 190 (2020). However, these numbers are still almost double the EU average (104 in 2022).

4 | Stability of Democratic Institutions

Democratic institutions continued to be effective and efficient during the review period. As a rule, the appropriate authorities prepare, make, implement and review political decisions in legitimate procedures.

Due to the semi-presidential system and tradition of Lithuanian voters electing non-partisan presidents (including Nausėda, elected in 2019), conflicts occur. However, friction between the president and the government does not lead to deadlocks and is usually resolved.

In 2015, parliament introduced the direct election of mayors by amending the law on local self-government. However, in April 2021, the Constitutional Court declared this reform unconstitutional on the grounds that, according to the constitution, municipal councils implement local self-government. In April 2022, the parliament adopted

Performance of democratic institutions

10



constitutional amendments to allow for the continuation of the direct election of mayors. In complementary law amendments, the parliament also increased the powers of mayors and separated the legislative (municipal council) from the executive (mayor).

Constitutional democracy and all democratic institutions are accepted as legitimate by all relevant actors. There are no potential veto players that could hinder the functioning of democracy. A legal framework with enhanced oversight and enforcement ensured that recent parliamentary and other elections did not have major vote-rigging cases.

Commitment to democratic institutions

10



5 | Political and Social Integration

The party system is fairly stable and socially rooted. Around 3% of the population are members of political parties. 24 political parties are currently registered and 17 of them participated in the last parliamentary election in 2020. Two mainstream parties – the conservative Homeland Union-Lithuanian Christian Democrats (TS-LKD) on the right and the Lithuanian Social Democratic Party (LSDP) on the left – have the largest memberships and have structured political competition for most of the democratic period since 1990. New anti-establishment reform parties commonly have success in parliamentary elections, but they are usually co-opted into the party system and governing coalitions.

Party system

7



The social rootedness of parties is moderate. The main sociopolitical cleavage emerges from the evaluation of the Soviet period and correlates to geopolitical orientation. Right-wing voters often see Russia as a threat and favor strengthening national defense, while left-leaning voters tend to downplay Russia's threat. It is yet unclear how this cleavage will be affected by Russia's war in Ukraine, as the Lithuanian parliament (including all the major political parties on the left and right) was united in condemning Russia and its determination to support Ukraine.

The polarization of the party system is mostly affective, based on a division between the opposition and government and personal antipathies rather than positions on socioeconomic issues. Polarization over progressive issues in parliament has increased somewhat in recent years, most notably with the radicalization of the Farmers and Greens' Union (the winner of the 2016 parliamentary election; in opposition since 2020) and the advent of a new, progressive Freedom Party to the parliament and governing coalition in 2020. These parties are at ideological odds with each other regarding issues such as same-sex partnerships.

The party system remains moderately fragmented. In 2020, six parties crossed the 5% threshold in parliamentary elections in the proportional tier. Several independent politicians and representatives from other parties were elected through a single-member district tier.

Voter volatility has decreased since 2000, when it was very high, at around 50%, as measured by the total electoral volatility index. In the most recent parliamentary election in 2020, voter volatility was around 20%.

Various surveys show that political parties are the least trusted institution, with between 4% (Vilmorus, December 2022) and 16% (Democratic Sustainability Barometer 2022) trust among the population. Clientelism mostly occurs at the local government level, while it does not significantly hinder the stability and representation of the party system at the national level.

There is a relatively broad range of interest groups that reflect competing social interests, tend to balance out one another and are cooperative in most cases. There is a broad spectrum of social movements, NGOs, unions and professional organizations.

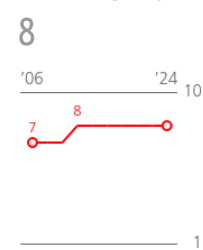
However, the degree of cooperation is average due to the varying influence of interest groups. Business associations outweigh trade unions and, in general, continue to be the most influential non-governmental players. This partly stems from low membership in trade unions: according to different estimations, from 8% to 15% of employees belong to them.

The approval of democratic norms and procedures is relatively high. Most recent research evaluating democracy in Lithuania (Democratic Sustainability Barometer 2022) shows that around 63% of the population agree that democracy is a better form of government than any other political system under all circumstances. Only 11% disagree. According to Eurobarometer (Summer 2022), around 45% are satisfied with the functioning of democracy in Lithuania, which is lower than the EU average (58%).

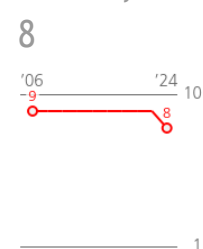
More specific questions about the inclusion of citizens in decision-making and the functioning of democratic institutions find less support. For example, according to Democratic Sustainability Barometer 2022, only 17% of the population agree that Lithuania's state institutions properly serve the public interest (29% neither agree nor disagree and 53% do not agree).

The level of trust in political institutions is also relatively low. According to the most recent survey by Democratic Sustainability Barometer (2022), 16% of the population trust political parties (71% do not), 20% trust in parliament (72% do not), 32% in government (61% do not) and 48% in the president (43% do not). Only the executive institution has a higher level of trust than distrust.

Interest groups



Approval of democracy



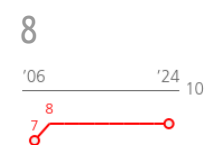
The percentage of people stating that most people can be trusted has gradually increased from 21% between 1994 and 1998 to 32% between 2017 and 2020 (World Values Survey). Although this is significantly lower than in Nordic and some other Western European countries, it is higher than in most other East-Central European countries, with the exception of Estonia. Moreover, the level is similar to some established democracies, such as Italy and France (around 26% to 27%).

Lithuania has significantly improved its position in the World Giving Index 2022 (Charity Aid Foundation) from 121st in the world (2019) to 83rd (2021). Lithuania ranks lower than neighboring Poland (16) and Estonia (64), but higher than Latvia (111). In 2021, Lithuanians generously donated money and goods to Ukraine and Ukrainian refugees; according to various estimates, more than half of the population contributed aid.

According to the most recent survey by the Civil Society Institute (2022) in Lithuania, around 13.6% of Lithuanians actively engage in the activities of NGOs and around 30.7% participate in activities in their local communities.

Civic engagement has not changed significantly over the past decade. Since 2017, NGOs and trade unions representing teachers, medics and other public servants have become more active. However, the most recent Civic Empowerment Index (2022) decreased from 41.3 in 2020 to 35.9. The decline is largely due to a lower number of citizens who know how to act (and would act) in the event of a major economic, political or local crisis.

Social capital



II. Economic Transformation

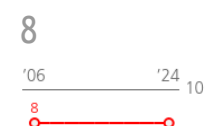
6 | Level of Socioeconomic Development

According to most social indicators, Lithuania is considered a developed country. The country has experienced significant reductions in absolute poverty over the past few decades due to rapid economic growth. However, relative poverty, which reflects inequality, remains at a high level compared to other European countries.

Since 2004, Lithuania has consistently ranked very high in terms of human development, according to the Human Development Index (HDI). However, during the review period, the HDI score declined from 0.884 in 2019 to 0.875 in 2021, making Lithuania 35th out of 191 countries. This decline is primarily attributed to the decreased average life expectancy following the COVID-19 pandemic, which dropped from 76.2 in 2019 to 73.7 in 2021, consistent with a global trend. In terms of inequality-adjusted HDI, Lithuania's score (0.800) is lower than that of neighboring Poland (0.816) and Estonia (0.829), but higher than Latvia (0.863). The overall loss in HDI due to inequality in Lithuania is 8.6%.

Question
Score

Socioeconomic
barriers



Despite strong economic performance since 2010, high levels of inequality persist. In 2021, Lithuania's Gini coefficient remained the same as in 2019 (35.4%), significantly surpassing the EU average (30.1%). Among EU countries, only Bulgaria (39.7%) and Latvia (35.7%) had higher levels of inequality.

During the review period, Lithuania's Gender Inequality Index improved from 0.122 in 2019 to 0.105 in 2021. The gender gap in education is relatively small, with 95.5% of women and 97.8% of men over the age of 25 receiving secondary education. However, there is still a 10.6%-point gap in labor force participation, with men (67.9%) being more active than women (57.3%).

The proportion of the population at risk for poverty or social exclusion continued to decrease during the review period (23.4% in 2021 compared to 25.5% in 2019) but remains higher than the EU average (21.9%). According to Statistics Lithuania, absolute poverty declined from 7.7% in 2019 to 3.9% in 2021. The absolute poverty threshold is defined as €260 per month for an individual and €546 for a family of two adults and two children. According to the World Bank's latest data, the percentage of the population living on less than \$3.65 a day at 2017 international prices adjusted for purchasing power parity (PPP) was 0.7% in 2019, the lowest poverty rate since the first available indicator for Lithuania in 2004.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	54760.6	56914.8	66415.0	70334.3
GDP growth	%	4.6	0.0	6.0	1.9
Inflation (CPI)	%	2.3	1.2	4.7	19.7
Unemployment	%	6.3	8.5	7.1	5.6
Foreign direct investment	% of GDP	6.3	7.9	4.5	1.0
Export growth	%	10.1	0.4	17.0	11.9
Import growth	%	6.0	-4.5	19.9	12.3
Current account balance	\$ M	1928.8	4161.0	766.8	-3583.0
Public debt	% of GDP	35.8	46.3	43.7	38.1
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	0.4	-7.0	-1.3	-
Tax revenue	% of GDP	20.0	20.0	21.4	-
Government consumption	% of GDP	16.9	18.5	17.5	16.7
Public education spending	% of GDP	4.0	4.5	4.8	-
Public health spending	% of GDP	4.6	5.2	-	-
R&D expenditure	% of GDP	1.0	1.1	-	-
Military expenditure	% of GDP	2.0	2.1	2.0	2.5

Sources (as of December 2023): 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

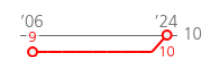
Market competition has a strong institutional framework and is consistently defined and implemented. Entry and exit barriers in product and factor markets are relatively low. Freedom of entry and exit in product and factor markets is exercised effectively. Discrimination based on ownership and size is rare.

Market forces mainly determine prices. Cross-border labor and capital mobility (including foreign direct investment and currency convertibility) are enabled.

According to Statistics Lithuania, the informal sector has been in steady decline, from around 13.9% of the market in 2017 to 12.5% in 2021. Wholesale and retail trade, transport, accommodation and food service activities account for the largest share of the informal sector (5.3%), followed by industry (3.4%) and manufacturing (3.2%).

According to the International Labor Organization, informal employment was 5.1% of total employment in 2021 (a slight decrease from 5.5% in 2019). This number is lower than in neighboring Poland (15.9%) and Latvia (8.4%) and close to Western European countries, such as France (4.4%) and Germany (3.8%).

Market
organization
10



1

Comprehensive competition laws, aimed at preventing monopolistic structures and conduct, are strictly enforced in Lithuania. Trade policies that align with non-discrimination principles undergird these laws. The Competition Council of the Republic of Lithuania effectively enforces trade policies, the legal and institutional framework of which fully complies with EU norms. The Council is also a member of the international competition network (ICN).

As of 2021, the Competition Council had 69 staff members (compared to 71 in 2019), with 51 of them directly involved in competition enforcement issues. The council remains one of the smallest and least-financed competition authorities in the EU.

In 2020/2021, the Competition Council cleared 61 economic concentrations, identified seven restrictive agreements (compared to six in 2018/2019), and imposed fines totaling €14 million for competition infringements (compared to €3.4 million in 2018/2019; it should be noted that this statistic fluctuates, as fines amounted to €26.3 million in 2016/2017).

The banking sector in Lithuania continues to experience high concentration, posing challenges for smaller firms seeking access to finance. Additionally, there are relatively high regulatory barriers that limit competition in the energy and transport sectors, where state-owned enterprises dominate. While public procurement processes are transparent, tenders often attract only a single bidder.

Previously, state aid levels in Lithuania were low, but there has been an increase in recent years. This increase is primarily due to state aid schemes supporting the energy sector (including renewable energy and projects related to security of supply, such as liquefied natural gas) and tax incentives for the film industry. Furthermore, two geopolitical events – the conflict with China over the Taiwanese embassy and Russia’s war in Ukraine – have led to an increase in state aid to affected sectors.

Since joining the EU, Lithuania has aligned its foreign trade policy with the EU’s Common Commercial Policy. As an open liberal economy, Lithuania’s export/import volume to GDP ratio exceeds 100% (156% in 2021, according to the World Bank).

In November 2021, the Taiwanese Representative Office in Lithuania was established, widely recognized as a de facto embassy by international observers. In response, China withdrew its ambassador from Vilnius and implemented measures to disrupt trade between the two countries. The European Commission has deemed China’s actions, which include rejecting Lithuanian imports, imposing import restrictions on multinational companies using Lithuanian inputs and reducing Chinese exports to Lithuania, as discriminatory and coercive. The European Union has requested a panel at the World Trade Organization to address these measures. According to Chinese statistics, trade from Lithuania to China decreased by 80% from January to October 2022 compared to the previous year.

Competition policy

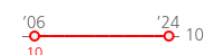
10



1

Liberalization of foreign trade

10



1

Additionally, due to Russia's war against Ukraine and strained relations with Belarus (which allowed Russian troops to pass through its territory), Lithuania experienced a decline in exports and imports with Russia and Belarus in 2022. Lithuania has fully supported the EU's imposition of economic sanctions in response to the unprovoked, unjustified invasion of Ukraine.

In November 2021, the Taiwanese Representative Office in Lithuania was opened, widely regarded as a de facto embassy by international observers. China immediately withdrew its ambassador from Vilnius and began to halt both imports and exports from Lithuania. According to the European Commission, China's measures against exports from Lithuania and EU products containing Lithuanian content are discriminatory and coercive. They include rejections of Lithuanian imports by Chinese customs authorities, import restrictions affecting multinational companies using Lithuanian inputs and a reduction of Chinese exports to Lithuania. The European Union requested a panel in the World Trade Organization regarding these measures. According to Chinese statistics, trade from Lithuania to China decreased by 80% in January to October 2022 compared to the previous year.

Due to Russia's war against Ukraine and deteriorating relations with Belarus (which allowed Russian troops to move from its territory), exports and imports with Russia and Belarus started to decrease in 2022. Lithuania fully supported economic sanctions by the EU as a response to the unprovoked and unjustified invasion of Ukraine.

Lithuanian institutions support a robust banking system that adheres to international standards, with effective banking supervision, equity requirements, and market discipline. The capital markets are open to both domestic and foreign capital, demonstrating resilience against speculative investments.

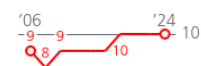
Since joining the eurozone in 2015, Lithuanian banks have become part of the EU banking union. The Bank of Lithuania, an independent institution, oversees the banking system and is part of the European System of Central Banks (ESCB).

The capital-to-assets ratio decreased to 5.5% in 2021 from 6.4% in 2019. The capital adequacy ratio for the banking sector as a whole was 20.1% at the end of 2022, down from 22.2% in 2021, but still one of the highest in the EU. This indicates that the sector is well-prepared to withstand significant shocks. The share of non-performing debt instruments continues to decline, reaching 0.6% in September 2022, compared to 1.5% in September 2020.

As of the beginning of 2023, there were 12 banks (10 in 2021) and six foreign bank branches (seven in 2021) operating in the country. The banking sector in Lithuania exhibits a high level of concentration, which further increased during the review period. The three largest banks (SEB, Swedbank and Revolut) account for 71.4% of the total banking sector. Lithuania's banking sector is one of the most profitable in the EU. However, the products offered are less diverse and more expensive, resulting in a lower bank efficiency (measured as the cost-to-income ratio) than the EU average. Bank efficiency was 53.8% at the end of 2022, according to the Ministry of Finance.

Banking system

10



8 | Monetary and fiscal stability

Lithuania pursues a consistent budgetary and monetary policy. The country adopted the euro in 2015. Since then, Lithuania's monetary policy, including the exchange rate, has been determined by European Central Bank (ECB) decisions. As a member of the eurozone, the Lithuanian bank participates in the governing council, the general council and various other ECB decision-making bodies. The primary objective of the ECB is to maintain medium-term price stability. The ECB directly supervises the three major banks registered in Lithuania: SEB, Swedbank, and Šiaulių bankas.

Annual inflation in Lithuania increased from 1.1% in 2020 to 4.7% in 2021 and to 18.9% in 2022, nearly double the average annual inflation in the eurozone (10.1% at the end of 2022). The surge in energy and gas prices resulting from Russia's war against Ukraine played a significant role in this increase. The Ministry of Finance notes that energy, transport and food have a relatively higher share in the consumer basket of Lithuanians compared to other EU countries. As prices for these goods rose significantly, inflation in Lithuania surpassed that of other nations.

In September 2022, inflation peaked at 22.5% but has gradually declined since, aided by the ECB's decision to raise interest rates. Toward the end of the year, energy and gas prices started to decrease, alleviating inflationary pressures.

To mitigate the consequences of the energy price surge for the private sector and citizens, the Lithuanian government approved an October 2022 relief package amounting to €2.5 billion. This package included investment loans and energy subsidies for private firms most affected by the crisis. Additionally, the government implemented a policy to partially compensate households for electricity and gas bills based on their energy costs and income level.

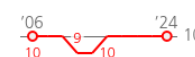
The budget deficit decreased from 7.6% in 2020 to 1% in 2022. Public debt also declined, dropping from 47.5% of GDP in 2022 to 40.3% by the end of the year. This makes Lithuania's public debt one of the lowest among EU members. However, due to the extensive anti-crisis measures, the projected budget deficit for 2023 is expected to increase to 4.9% of GDP.

International credit rating agencies consistently assessed Lithuania's fiscal policy positively during the review period. Moody's rating currently stands at A2 (upgraded from A3 in 2020). S&P Global Ratings maintains an A+ long-term borrowing prospect, although the outlook changed from stable to negative in 2022.

Nevertheless, Lithuania's spending on social security remains relatively low, at only 12.3% of GDP in 2020, a marginal increase from 12.1% in 2018. The OECD notes that public expenditure in Lithuania (34.6% of GDP in 2019) is the fifth-smallest among OECD countries, falling below the OECD average of 40.8% of GDP. Tax revenues in Lithuania increased to 32.8% of GDP in 2021, up from 30.4% in 2019. This figure falls below the OECD average of 34.1%.

Monetary stability

10



1

Fiscal stability

9



1

As highlighted in the BTI 2022 report, Lithuania faces challenges in addressing the current low level of pension adequacy and the projected additional annual cost of 2% of GDP by 2040 (according to the OECD), due to its deteriorating demographic outlook. Furthermore, many analysts point out a fundamental issue in the Lithuanian fiscal system, whereby tax revenues are insufficient to provide public goods of adequate quality given the extent of the state's commitments.

9 | Private Property

Property rights and regulations on acquisition, benefits, use and sale are well-defined and enforced. Property rights are limited, solely and rarely, by overriding rights of constitutionally defined public interest.

In 2017, the government pledged to settle all remaining claims for land restitution in kind and through financial compensation by 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. The situation is more complicated only in the Vilnius region, where 32.5% of contested land remains to be restituted (National Land Service data, January 2021).

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 the end of 2022, almost all of the reimbursed sum had been paid. Prime Minister Šimonytė proposed an amendment to the law that would reimburse an additional €37 million by 2023 to Jewish citizens for expropriated private property during the Holocaust. It remains to be seen if parliament will pass the amendment despite resistance from some opposition politicians.

Private companies are viewed as the primary engines of economic production and are given functioning legal safeguards. The privatization of state companies proceeds consistently according to market principles.

The role of small and medium enterprises (SMEs) has been stable and significant. SMEs comprise over 99% of the total number of all enterprises. According to Statistics Lithuania, the general government sector accounted for 15.8% of total GDP in 2021 (16.8% in 2019) and 27.8% of total employment in 2021 (30% in 2019).

Government involvement in the ownership of companies continues to steadily decrease. Currently, Lithuania owns 44 state-level companies (which is less than half of the number in 2015 of 139 and also a slight decrease from 49 in 2020), with over 28,000 employees (a decrease from 32,000 in 2022). These companies operate primarily in energy, transport, primary economy (such as forestry) and some other fields of strategic importance.

Property rights

10



1

Private enterprise

10



1

Since 2017, the government has taken action to ensure 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. In October 2020, the predominantly state-owned energy company, Ignitis Group, successfully completed the largest initial public offering (IPO) in the Baltic states and is currently listed on the Nasdaq Vilnius and London Stock Exchange.

10 | Welfare Regime

Social security institutions and safety nets in Lithuania are developed; however, they do not provide coverage against all risks faced by every segment of the population. Despite stable economic growth, social transfers have not effectively alleviated poverty. Lithuania faces challenges in sustaining its social benefits, particularly considering the worsening demographic outlook.

The rate of severe material deprivation has continued to decrease, from 9.4% in 2019 to 6.3% in 2021, and is now on par with the EU average. However, a disproportionately high percentage of the population struggles to adequately heat their homes (27% compared to 8% in the European Union in 2019). The surge in energy and gas prices in 2022, coupled with increased inflation, has added further pressure. To address these challenges, the government took steps at the end of 2022 to partially compensate for the cost of energy bills. However, the European Commission criticized these measures for their lack of selective targeting toward vulnerable groups and urged Lithuania to limit spending.

While life expectancy had been steadily increasing until 2019 (reaching 76.2 years), it declined to 73.7 in 2021 due to the pandemic. This figure falls well below the OECD average of 81, and a significant gender gap persists. Admission rates and physician visits in Lithuania are above the OECD averages, but unmet health care needs hover just below the OECD average. Overall health care expenditure has steadily increased from 6.5% of GDP in 2018 to 7.9% in 2021. Access inequalities are compounded by the prevalence of informal payments (reported by one-fifth of patients in 2021) and the limited availability of general practitioners in rural areas. Lithuania has one of the highest rates of treatable and preventable mortality in the EU.

The average monthly old-age pension in 2022 was €482, amounting to 43% of the average salary (42% in 2020). Since 2017, pensions have been annually indexed by 6% to 8%. In April 2022, in response to rising inflation, the parliament introduced an additional indexing of 5%. The at-risk-of-poverty rate for people over 65 is exceptionally high, ranking among the bottom five in the EU-27 at 35.9%, compared to the EU average of 16.8% in 2021. The impact of other social transfers (excluding pensions) on poverty reduction was 35.3% in 2021, just below the EU average of 37.1%.

Social safety nets



1

The unemployment benefit system underwent reforms in 2017, expanding coverage, extending the duration of assistance to nine months, and increasing the amounts of benefits. Monthly state-supported income has gradually increased from €122 in 2018 to €157 at the beginning of 2023. An annually adjusted minimum consumption needs level was established in 2019, tied to basic social indicators, including monthly supported income, a basic social allowance, a pension allowance (for those not eligible for old age pension) and social allowance for the care of disabled individuals.

In 2018, a universal child benefit scheme was introduced, enabling low-income earners to fully benefit from child support. This contributed to a reduction in the at-risk-of-poverty rate, as predicted by the European Commission.

Nearly the entire Lithuanian population is covered by the state social security system, which includes safety nets for unemployment, poverty and old age. This system is funded by state social insurance contributions from insurers and the insured, as well as annual allocations from the state budget.

Equality of opportunity is guaranteed by the constitution and implemented in practice. Women and members of ethnic, religious and other groups have equal access to education, public office and employment, with some rare exceptions. There is a comprehensive, effective legal and institutional framework for protection against discrimination.

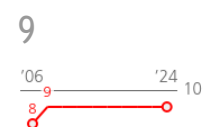
Although Lithuania's score on the Index of Social Justice (Bertelsmann Stiftung) has gradually decreased (from 5.98 in 2015 to 5.36 in 2019), it bounced back slightly in 2021 to 5.7. The country performs quite well in components related to equality of opportunity.

The employment rate of people aged 20 to 64 remained higher (77.4% in 2021) than the EU-27 average (73.1% in 2021). Although there is a gender gap (10.6 percentage points) regarding labor force participation, the female employment rate was only 1.4% lower than the male employment rate (76.7% vs. 78.1% in 2021). This is well below the EU-27 average gender gap in employment (11.7%). The gender gap in education is also rather small: 95.5% of women and 97.8% of men over 25 years have completed secondary education.

According to the latest available data (2020), the ratio of female to male tertiary enrollment was 1.30, slightly increasing from 1.27 in 2018, while the gross tertiary enrollment ratio was 71% (World Bank).

The unadjusted gender pay gap was 13% in 2020, slightly lower than in 2019 (13.3%) and identical to the EU-27 average (Eurostat). Gender equality has also increased in politics. A record number of women were elected to parliament in the 2020 election (27%). The gender-balanced cabinet of Prime Minister Šimonytė continued functioning at the end of 2022 without reshuffles.

Equal opportunity



1

National minorities have access to education in their own language. However, the Roma continue to be seriously disadvantaged in terms of access to education and the labor market. Lithuania was welcoming to refugees from the war in Ukraine; according to different estimates, 50,000 to 70,000 arrived in Lithuania in 2022. Lithuania leads the European Union in the employment of Ukrainians, with 52% employed refugees of working age.

There have been few reported cases of discrimination against LGBTQ+ people in the workplace, arguably out of fear of further stigmatization. However, social acceptance is slowly improving as younger Lithuanians are significantly more progressive than older ones.

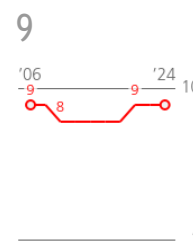
11 | Economic Performance

Lithuania's GDP contracted only by 0.9% in 2020, despite the pandemic, and bounced back to 6% growth in 2021. However, growth slowed again to 2.5% in 2022 mostly due to the surge in energy prices. Lithuania continued to close the gap and reached 89% of EU-27 GDP per capita in purchasing power standards (PPS) in 2021 (84% in 2019). At the time of joining the EU, its GDP per capita in PPS was only 46% of the EU average. In total terms, GDP per capita is equal to €29,000 (€32,400 in EU-27). Lithuania's tax revenues increased to 32.8% in 2021 from 30.4% of GDP (2019) but is still lower than the OECD average of 34.1%.

Inflation (18.9%) in 2022 reached almost double the eurozone average but is expected to decline in 2023. Despite some worrisome forecasts during the pandemic, the unemployment level slightly decreased from 7.1% in 2020 to 6% in 2021 and is identical to the EU average. Gross public debt decreased from 47.5% in 2019 to 38.0% in 2021 (one of the lowest among EU members) but is again expected to increase in 2023 due to the mitigation of the energy price crisis and economic consequences of Russia's war in Ukraine. Budget deficit trends are similar. The deficit decreased from 7.6% in 2020 to 1% in 2022, but because of extensive anti-crisis packages, it is expected to increase again to 4.9% of GDP in 2023. The general government balance was negative 1.9% in 2022.

Despite the uncertain international situation, foreign direct investments continued to grow. According to the Bank of Lithuania, the cumulative stock of foreign direct investment continued to rise, reaching a record high of €28.9 billion at the end of the third quarter of 2022 (€19 billion in 2020). However, some factors hamper the effectiveness of investment, primarily the lack of a qualified labor force and insufficient resources invested in research and innovation.

Output strength



1

12 | Sustainability

The government considers environmental concerns and pledges to decrease pollution, but in practice, these are occasionally subordinated to growth efforts.

During the review period, Lithuania's score on the Environmental Performance Index decreased from 62.9 in 2020 to 55.9 in 2022. However, the overall ranking improved slightly, with Lithuania ranking 31st out of 180 evaluated countries (24th in the EU-27).

Lithuania has committed, along with its EU partners, to reducing greenhouse emissions at least by 40% by 2030 and to seeking a carbon-neutral economy by 2050. The country also plans to increase the share of renewable energy resources in the gross final energy consumption to 45% by 2030. Lithuania exceeded its target for 2020 of 20% with around 28% of renewable energy resources in 2021. It is ranked ninth among EU members according to this indicator.

Green taxation opportunities remain underexploited, especially with regard to vehicle taxation, which could support a modal shift from private to public transport. Environmental taxation is 2.0% of GDP, which is far below the EU average of 2.4% of GDP (European Commission, 2020). Attempts to improve this situation encounter political resistance in parliament. In November 2022, the government proposed replacing the existing registration tax with an annual car pollution tax, but parliament rejected the proposal.

Lithuania has made significant progress in the area of recycling municipal waste (everyday items discarded by the public and collected by municipalities) since 2004. The rate was 48%, almost reaching the target of 50% for 2020 (ranked 10th in the EU). However, circular (secondary) material use in 2020 was only at 4.8%, below the EU average of 12.8%.

Lithuania's education policy ensures a nationwide system of quality education and training, and the research and technology sector is fairly advanced. Investment in education and training is average (4% of GDP in 2020) but below the OECD average (5.3% of GDP). Investment in research and development is relatively low (around 1.16% of GDP in 2020) and well below the OECD average (2.7% of GDP). According to the 2022 EU innovation scorecard, Lithuania performs below the EU average, grouped with moderate innovators, although it is noted that its performance has improved significantly since 2015.

Lithuania's 15-year-old students performed below the EU average in the most recent OECD 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 students with disabilities.

Environmental policy

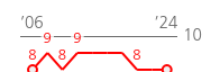
9



1

Education policy / R&D

8



1

With 57% of 25 to 34 year-olds holding a tertiary education degree in 2018, Lithuania was among the EU leaders in educational attainment (EU average: 41.2%) and well above the OECD average (47%). However, reforms in institutional consolidation and funding are still needed. There is a gap between funding and the quality of education. At the beginning of the 2020/2021 academic year, there were 41 higher education institutions in Lithuania: 19 universities and 22 colleges. However, only Vilnius University is ranked among the top 400 in the 2022 QS World University Rankings.

The European Commission has identified inadequate skill supply as an acute problem for years. Several BTI reviews have also named this a priority area for government action. But the situation has not improved. The attractiveness of vocational education and training (VET) remains moderate, despite the existence of many modern sectoral practical training centers.

According to the OECD in 2020, 90% of 3- to 5-year-olds in Lithuania were enrolled in early childhood education. The share of children enrolled in private institutions at the pre-primary level was 5%. School enrollment stood at 103% in 2020 (World Bank), and literacy was 99.8% in 2021. Participation in lifelong learning increased from 6.6% to 8.5% in 2021 and is closing the gap to the EU average (10.8%).

Governance

I. Level of Difficulty

The structural constraints on governance are very low. In May 2022, Lithuania halted all energy imports from Russia, including oil, natural gas and electricity. The liquefied natural gas (LNG) terminal in the port of Klaipėda (constructed in 2014) and two electricity power bridges to Sweden and Poland (constructed in 2015) significantly eased the transition from structural dependency on Russian energy resources to full independence.

The persistently negative demographic outlook remains a significant challenge as the population continues to decline. The working-age population is shrinking rapidly, with a median age of 44 years. The ratio of workers to pensioners is 3-to-1 and is expected to decline. These trends continue to pose a threat to growth and will exert pressure on public finances for the foreseeable future. Aggravating factors, such as relatively low life expectancy and high morbidity rates, are strongly linked to high social inequality, which did not improve during the review period.

However, after years of a negative migration ratio (more people emigrating than immigrating), this statistic started to change recently. During 2021/2022, the surplus of migrants continued to grow from around 11,000 in 2019 to 72,000 in 2022. Around 50% of immigration is due to the return of Lithuanian emigrants. The increase in immigration during 2022 is partly accounted for by the influx of Ukrainian refugees. However, these numbers are still too low to counter the negative demographic outlook. There are some suggestions in the Lithuanian public sphere that the country should further facilitate immigration.

The excess mortality rate related to the COVID-19 pandemic subsided and fluctuated around 7% to 8% at the end of 2022. The energy price crisis and the economic consequences of Russia's war in Ukraine put some constraints on the government's ability to ensure sustainable development.

Structural
constraints

2

'06 _____ '24 10



Civil society traditions are relatively strong in Lithuania. These traditions date back to the dissident movements during Soviet times and the struggle for independence. Since independence, civil society organizations have established stronger roots in society. The number of organizations has increased in recent decades, although not all registered NGOs are active.

Volunteering and donations have recently increased, especially during the pandemic and Russia's war against Ukraine. Lithuanian civil society actively mobilized in support of Ukraine. According to various estimations, the absolute majority of the population donated money or other things to Ukraine and Ukrainian refugees.

The percentage of people who believe that most people can be trusted has gradually increased from 21% between 1994 and 1998 to 32% between 2017 and 2020 (World Values Survey). Although this figure is significantly lower than in Nordic and some other Western European countries, it is higher than in most other East-Central European countries, with the exception of Estonia. Moreover, the level is similar to some established democracies, such as Italy and France (around 26% to 27%). A post-election survey (National Election Study 2019) in Lithuania included a question measuring societal trust on an ordinal scale, from 0 (you must be very careful with people) to 10 (most people can be trusted). The mean is 4.5, indicating average societal trust, and 28% of respondents chose answers (7 – 10) indicating a clear trend toward trusting others.

The number of active NGOs remained stable during the review period, with around 14,000 active NGOs (NGO Information and Support Center). The share of respondents who reported participating in civic associations activities reached 13.6% (Civic Empowerment Index 2022), as compared to 7% to 8% between 2007 and 2019. Around 13.6% of Lithuanians actively participate in the activities in their local communities.

According to the same survey, 44% of the population trusts most organizations that collect aid for Ukraine and Ukrainian refugees; an additional 32% of the population expresses trust in some of those organizations.

Citizens have the opportunity to allocate 1.2% of their income tax to designated NGOs in their yearly tax returns. In June 2022, parliament adopted amendments to the law regulating this so that the 1.2% can only be allocated to NGOs (previously, state institutions could also claim citizens' support). This is in line with OECD recommendations regarding capacity-building and financial support for NGOs operating in Lithuania.

Civil society traditions

2

'06 _____ '24 10



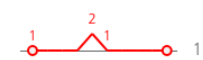
There are no major ethnic, religious, or social conflicts that threaten the existing political or economic systems. The remaining important issues for ethnic communities, such as the spelling of Polish names and the Roma settlement in Vilnius, are being resolved within the existing legal framework.

The main sociodemographic cleavage, concerning evaluation of the Soviet past and geopolitical orientations (evaluations of cooperation with Russia), largely disappeared during the war in Ukraine. Negative perceptions of Russia generally increased, and support for Ukraine was widespread in society. The parliament was unanimous in condemning Russia's actions and increasing the defense budget.

Political polarization in the Seimas is mostly affective, based on personal antipathies and the opposition/government divide. The political process clearly falls within constitutional limits and established procedures. The occasional conflicts are unlikely to spill over into permanent popular mobilization. One issue that sharply divides the parliament and society is same-sex partnership, proposed by the Freedom Party (a junior partner in the three-party center-right coalition).

There were signs of caution during August 2021, when an anti-establishment protest against pandemic measures and liberal policies outside the parliament turned into riots. 18 riot police officers were injured. After this event and the lifting of pandemic restrictions (most notably, the retraction of vaccine passports in February 2022), the wave of protests (and public support for them) largely subsided, without developing into a sustained societal conflict.

Conflict intensity



II. Governance Performance

14 | Steering Capability

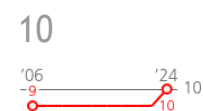
The government sets strategic priorities and maintains them over extended periods of time. It has the capacity to prioritize and organize its policy measures appropriately.

The degree of policy continuity in Lithuania has been high, especially in the areas of foreign and defense/security policy. Lithuania has been a member of NATO since 2004. Russia's expansionist policies since 2014 have prompted the government to build up military defenses, increase the defense budget and resilience capabilities across a broad spectrum of policy areas, and prioritize energy resource independence. All administrations closely followed this policy line. Foreign affairs and especially defense institutions (including the president) usually have a broad spectrum of political support.

Question

Score

Prioritization



Different administrations have maintained fiscal responsibility and a de facto balanced budget as strategic priorities. Although the COVID-19 pandemic and the extraordinary events of 2022 (the war in Ukraine and surge in energy prices) resulted in extensive mitigation measures that put pressure on the budget, the administrations did not stray from the general course and public debt was relatively well managed.

The current government continues to stress its desire to address the demographic decline, improve public administration efficiency and the quality of services, bridge the gap between the rich and poor, better manage state-owned assets, and fight against corruption. However, implementing these goals has been difficult because most efforts were devoted to coping with several successive crises (the COVID-19 pandemic, the Belarus border crisis, the consequences of Russia's war in Ukraine, inflation, and the surge in energy prices).

Despite the democratic backsliding in Central and Eastern Europe, Lithuanian governments have consistently adhered to democratic principles. Since 2008, the established process of strategic planning has evolved toward a greater emphasis on evidence-based policymaking and performance indicators. In March 2022, the center-right Šimonytė government approved the development of the State Progress Strategy Lithuania 2050. To be introduced in 2023, it is a road map for state development and impact indicators that also addresses social, economic and environmental challenges. Experts and researchers, in collaboration with parliament and other state institutions, are involved in its development.

The Lithuanian government is able to implement most of its policies. The current three-party center-right government led by Šimonytė was sworn in in November 2020. The first half of its term was complicated by a number of extraordinary crises, which absorbed most of the government's efforts.

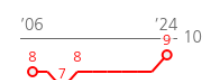
One of the biggest challenges of 2021 was the implementation of a vaccination program during the second wave of the COVID-19 pandemic. Despite some criticism from the opposition and anti-establishment movements (manifested in a number of protests), the government was able to achieve a 70% vaccination rate by September 2021.

Another crisis hit Lithuania in the summer of 2021, when hundreds of migrants, mostly from Iraq, Syria, Iran and the Congo, began to cross the state border illegally from Belarus. In a few months, more than 4,000 migrants entered Lithuania. Despite some criticism from international organizations, the government adopted a pushback policy that effectively stopped the flow of immigrants by the end of 2021. Another policy adopted during this crisis – the construction of a physical barrier along the 502 km of border with Belarus – was fully implemented by August 2022.

Russia's invasion of Ukraine in 2022 accelerated the Lithuanian government's ongoing efforts to strengthen Lithuania's defense capabilities. The government's proposed policy to increase defense spending up to 2.52% of GDP in 2022 was unanimously supported by parliament.

Implementation

9



1

Two major government priorities are reforms to public administration and the education system. In November 2022, the government submitted to parliament its proposed reform plan for public administration, which includes centralizing the selection of managers and linking public administration salaries to the average salary in Lithuania. The education ministry also launched an overhaul of secondary education with a plan to establish 150 “millennial schools” by 2025.

The government demonstrates a general capacity for policy learning. Flexibility has somewhat improved since the last administration because of the need to respond to several extraordinary crises (see previous section). The government engages in consultation about policies with society, interest groups and experts. All draft decisions, together with explanatory material, are published on the parliament’s website at the time of their submission for inter-agency consultation.

Two structural challenges related to policy learning identified in BTI 2022 – the high turnover of members of parliament and the middle-income trap – remain. However, there are some positive developments.

Firstly, the share of parliamentary novices decreased in the 2020 parliamentary elections from 58% in 2016 to 35%. Although turnover remains high, there are signs that the quality of government and lawmaking is improving. The share of laws adopted through fast-track procedures decreased substantially (38% from 2012 to 2016, 27% from 2016 to 2020 and 16% in 2021/2022). The current parliament adopted 10% fewer laws than the previous parliament during the first two years of its term (1,780 in 2021/2022 compared to 1,980 in 2017/2018).

The second challenge stems from Lithuania’s developmental path. It has reached the point where it is in a potential middle-income trap and escaping it will require more sophisticated policy measures than it currently has. While Lithuania may have escaped the middle-income trap in terms of GDP per capita, the country’s economic specialization still remains focused on low- and medium-value-added and medium-complexity goods and services.

According to Open Data Maturity Across Europe (European Commission), Lithuania ranks 13th out of 27 member states in 2022. More specifically, it scored above the EU average in terms of policy framework (91%), governance (97%) and implementation (91%). However, experts still note a lack of a proper strategic vision for developing a data-driven public sector.

Based on Finland’s example, parliament established the Committee for the Future in 2021. The committee has been active since then, convening regularly and discussing various policy topics with experts; however, its impact on policymaking is not clear.

Policy learning

9



1

15 | Resource Efficiency

The government makes efficient use of all available human, financial and organizational resources. Government administrative personnel does not change with the advent of a new administration. Competitive recruiting procedures with protections against political influences are in place.

Since 2009, the government has opted decisively for results-driven public management and evidence-based decision-making. The current government continues to pursue a reduction in the public administration sector and the centralization of certain administrative support functions in public administration institutions. However, it is not focused on the efficiency of the regulatory environment. The elaborate use of performance indicators for strategic activity planning also continues, but other evidence-gathering tools, such as impact assessments or functional reviews, are usually applied only formally (when required by EU funds).

Since 2017, the government has taken steps to ensure a level playing field between SOEs and private companies (including the conversion of several commercially oriented SOEs into limited liability enterprises). The number of SOEs has steadily decreased, from 139 in 2015 to 49 in 2020 and further to 44 in 2022. There are plans to further reduce this number to 34 by 2024. Beyond this, the government coordination center was strengthened, and the share of independent members on SOE boards was increased by half.

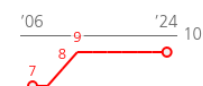
Lithuanian administrations usually maintain balanced budgets and a low deviation of actual budget expenditures from planned ones. Public debt decreased from 47.5% of GDP in 2022 to 40.3% at the end of 2022 and is one of the lowest among EU members. The budget deficit decreased from 7.6% in 2020 to 1% in 2022; however, the projected budget deficit for 2023 is expected to increase to 4.9% of GDP. The European Commission warned that Lithuania's 2023 budget is not in line with the EU Council's recommendations, which call for a neutral fiscal policy and limited growth in spending. The EU Council, as a result, subjected the country to an in-depth review for the first time.

The state audit office is 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, including that for 2023. The Bank of Lithuania also publishes assessments of the budget. Although the recommendations of these institutions are not legally binding, the government usually acts on some of them.

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.

Efficient use of assets

9



1

There are 60 local governments (municipalities) in Lithuania that enjoy legal autonomy. However, public administration is centralized, and financial dependence on the central government is relatively high, as yearly allocations from the state budget are the main source of municipalities' revenue. Local governments have limited abilities to collect local taxes and dispose of state land. Freedom House (Nations in Transit 2021) notes that local governments cannot retain and use saved budget funds.

The government coordinates conflicting objectives rather effectively and acts coherently in most policy areas. However, there are occasional frictions in government work and coordination.

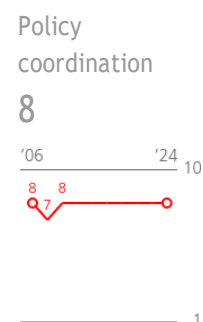
There are two levels of executive coordination in Lithuania. The first is between the government and the president (especially in foreign and defense policy), and the second is between ministries and branches within the government.

In Lithuania, the president has an important constitutional role in foreign policy. However, presidents also tend to use their formal (vetoing legislation) and informal powers to influence domestic policy. President Nausėda's criticism of the government (e.g., regarding pandemic policy in 2021 and the slow response to rising inflation in 2022) led to friction between the two executive branches. From 2021 on, meetings between Prime Minister Šimomytė and the president became irregular. However, this did not lead to a crisis of the political system.

Generally, frictions do not affect foreign policy, where coordination between the government and the president is most needed. The government and president have been united in response to Russia's invasion of Ukraine, their pro-Western orientation, unanimous support for Ukraine (including advocacy in international formats such as the European Union and NATO) and an increase in the defense budget.

However, there was one major case where a lack of coordination between the president and the government was evident. The policies of Minister of Foreign Affairs Gabrielius Landsbergis (leader of the main governing party, TS-LKD) and his relations with Nausėda came under scrutiny during the conflict between Lithuania and China. In November 2021, a Taiwanese representative office was opened in Lithuania. International observers called it a de facto embassy. China immediately protested the office's opening by downgrading diplomatic relations with Lithuania. China also halted imports to and exports from Lithuania. President Nausėda initially supported the decision to open the Taiwanese office but later became critical of how the Lithuanian government had handled the situation.

Inter-ministerial coordination is managed through a cabinet committee tasked with strategic planning. However, unlike in Scandinavia, the "whole of government" approach has not taken root in Lithuania, as institutional and party allegiances continue to prevail. Prime ministers usually have little power over ministries allocated to junior coalition partners and thus serve as "firsts among equals." Despite this, major political and policy priorities have been achieved during the review period, and agreements on major government strategic goals have been concluded.



In most cases, the government is successful in containing corruption. Integrity mechanisms are in place, but corruption remains a significant challenge in some sectors.

The National Audit Office is independent and monitors the legality of public funds and asset use and management, as well as the execution of the state budget. The Central Electoral Commission closely regulates party financing and publishes declarations of party and campaign spending. Since 2014, legal entities (including private businesses) cannot financially support political parties. In April 2021, parliament gave journalists the right to freely access data from state registers of legal entities and real estate. Transparency in public procurement is high. Officeholders are required to publish regular declarations of their assets. Legislation protects whistleblowers in the public and private sectors.

Since 2012, declarations of personal finances by civil servants and public officials have been electronically submitted to the High Commission on Ethics in Office (HOEC). However, according to an investigation by LRT aired in February 2022, around 20% of parliament members (including some ministers) had not submitted their declarations or submitted only partial information. The verification of conflict of interest declarations is not adequately rigorous.

Perceptions of corruption remain high, according to Eurobarometer surveys, though they declined during the review period. In 2022, 81% of the population thought that corruption was widespread in Lithuania, compared to 92% in 2019. However, this figure is still higher than the EU average (68%). At the same time, 21% of respondents stated that they are personally affected by corruption in their daily lives, which is at a similar level to the EU average (24%).

According to a survey commissioned by the Special Investigation Service (September – November 2021), 35% of Lithuanians identified corruption as a very serious problem. Respondents identified health care institutions (49%), courts (38%), parliament (31%) and municipalities (23%) as the country's most corrupt institutions. These figures have not changed significantly since 2020.

Corruption prevention has improved in the last ten years. The implementation of a new lobbying law, adopted in 2017, proposed challenges since its definition of lobbying was broad and it contained significant loopholes that made avoiding registration possible. While the law obliged all companies engaged in lobbying to register online, the obligation did not extend to high-level public sector officials or members of parliament. In January 2021, a new version of the law came into effect, requiring registration of not only lobbying entities (both private and legal), but also of those lobbied (i.e., parliament members).

The Special Investigation Service has actively investigated non-transparency in public institutions. During the review period, it launched an investigation in two large municipalities regarding nontransparent procurement (Šiauliai, the fourth largest city) and land allocation schemes (Kaunas, the second largest).

Anti-corruption
policy

8



1

16 | Consensus-Building

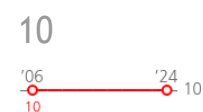
All major political actors clearly agree on the goals of democracy, although ideas about the values and policies to be prioritized in Lithuania's democracy differ among political actors. Political parties have an established tradition of inter-party agreements on the most important policy issues and strategic priorities. In March 2014, all parliamentary parties agreed to raise defense spending to 2% of GDP (from 0.77% of GDP in 2012), a goal attained in 2018. In September 2021, all parliamentary parties agreed on a set of education policy goals, including an increase in spending for education to the OECD median by 2030. In March 2021, parliament unanimously approved the defense budget increase to 2.52% of GDP.

All major political actors are committed to a market economy. In practical terms, this has been expressed through three key documents, namely the long-term development strategy of the state of Lithuania 2030 adopted by the Seimas in 2012 (a new development strategy for the state, Lithuania 2050, is being drafted with adoption planned for 2023), the Operational national progress program 2014 to 2020, adopted in November 2012, with its renewed version for 2021 to 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.

There are no anti-democratic veto actors in Lithuania. In every parliamentary election since 2000, there has been a breakthrough of at least one new party with populist leanings. However, in most cases, such parties could be described as anti-establishment reform parties (campaigning on corruption and new politics) and have been co-opted into the system, embracing democratic rules. One exception was the protest party, the Way of Courage, which won seven seats in 2012 and retained its anti-establishment course but was voted out in 2016. In 2021, Lithuania witnessed a wave of protests associated with the anti-liberal Lithuanian Family Movement. However, the movement disintegrated and did not put up candidates in the 2023 municipal elections.

The main sociopolitical cleavage emerges from the evaluation of the Soviet period; since independence, Lithuanians with negative attitudes toward the Soviet period tend to vote for the right, whereas voters with neutral or positive evaluations lean to the center-left. Despite the correlation between votes and rhetorical differences between candidates, this cleavage did not translate to major policy differences at the level of the political elite: neither governing majority has contested the ban on the communist party in Lithuania or on totalitarian symbols. This cleavage is closely correlated to geopolitical orientation, as right-wing voters (and politicians) have more often perceived Russia as a threat and favored strengthening national defense, while left-leaning voters and politicians tend to downplay Russia's threat somewhat. Again,

Consensus on goals



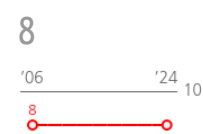
1

Anti-democratic actors



1

Cleavage / conflict management



1

at the level of policymaking, none of the political elite contested the Western orientation of Lithuania, as exemplified by several agreements between all parties regarding increasing defense spending. Since the start of Russia's full-scale invasion of Ukraine, ordinary people and the political elite have been united in condemnation of Russia's aggression. Ethnic cleavage is of secondary importance and partially overlaps with the one pertaining to the Soviet period.

Despite socioeconomic inequality and differences in terms of regional development, socioeconomic cleavages are not highly developed, either among the electorate or the political elite. However, during the review period, polarization over several progressive issues has occurred both in society and between some parties. Several rallies and protests in 2021 were held against same-sex partnerships, the Istanbul Convention and vaccination passports. One of the mass rallies outside Seimas in August 2021 ended in a riot and clashes with the police. This divided society and political parties. The governing parties condemned the protests, while some opposition parties took a moderate stance or, in some cases, allied themselves with the protesters. The wave of discontent largely subsided after the withdrawal of vaccination cards and other pandemic restrictions.

The government consults civil society actors on a semi-regular basis, allowing them to play a significant role in deliberating and determining policies. However, the impact of different NGOs varies.

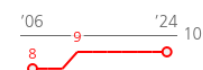
The role of the tripartite council of consulting on major socioeconomic policy decisions is formally assured and honored in practice. However, business associations outweigh trade unions and, in general, continue to be the most influential non-governmental players.

Transparency in decision-making has increased since 2009. During the review period, transparency practices were sustained: all draft decisions (governmental, parliamentary and municipal) and accompanying documents (such as explanatory letters, impact assessments and other supporting documents) are made publicly available on the Seimas website no later than the date on which inter-ministerial consultations begin. The office of the government administers a single-access public consultation portal, although adherence to the standards of proper consultations varies.

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 for Lithuania up until 2050 (replacing the former strategy up until 2030) and are consulted on various policy issues. Most of these studies are publicly available on official websites. The Parliamentary Committee for the Future (established in 2021) regularly convenes and discusses challenges and policy issues with intellectuals, scientists and representatives from civic organizations. All these meetings are broadcast and available online.

Public
consultation

9



1

Attitudes toward life under the Soviet regime remain a significant predictor of voting behavior. However, there is a consensus among society and the political elite regarding the condemnation of Soviet crimes. Russia's invasion of Ukraine prompted a new wave of discussion of historical memory and the removal of monuments from the Soviet era. In November, the municipality of Vilnius started to dismantle the memorial to Soviet soldiers at the Antakalnis Cemetery in Vilnius.

As noted in BTI 2022, historical research into resistance and collaboration under Soviet rule continues. In 2010, parliament 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 its residents. Lithuania continues to have a ban on the communist party.

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.

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. Political and social elites have accepted that some Lithuanians collaborated in war crimes and that Holocaust victims are an important part of Lithuanian history. In December 2022, parliament approved €37 million in compensation for Jewish private property expropriated by the Nazis and Soviets. However, among society at large, the consensus is not clear. Part of the population does not accept that some individuals collaborated and rejects the idea that the Lithuanian state is responsible for paying reparations.

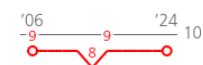
17 | International Cooperation

The political leadership makes well-focused use of international assistance in order to implement its long-term development strategy. 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 was reclassified as a country in the transition away from EU financial support. As a result, EU assistance from structural and agricultural funds is decreasing but remains significant: €8 billion in EU investments are planned for the cycle from 2021 to 2027, of which 38% will be allocated to climate objectives and 32% toward digitalization.

The authorities continue to make effective use of EU support for a self-determined agenda (in line with relevant EU guidelines) set out in the national long-term development strategy Lithuania 2030 (which Lithuania 2050 will update in 2023) and its various operational policy plans and programs. From 2007 to 2013, Lithuania's

Reconciliation

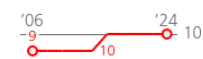
9



1

Effective use of support

10



1

absorption rate of EU structural funds was the highest in the European Union. However, during the period from 2014 to 2020, programming and disbursement were subject to some 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% was 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).

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 the OECD in 2018. In total, Lithuania is a member of around 50 international organizations.

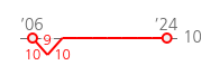
As a member of the EU, Lithuania complies with major climate change agreements. Under the European climate law, EU countries must cut greenhouse gas emissions by at least 55% by 2030. However, Lithuania remains one of the five last countries in the European Union that has not ratified the Istanbul Convention. One major reason is the strong conservative opposition in parliament.

In addition to its bilateral foreign policy agenda, Lithuania continues to cooperate with its Baltic neighbors in the framework of the Baltic Council and the Baltic parliamentary assembly. 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). In May 2022, the prime ministers of Lithuania, Latvia and Estonia issued a joint statement expressing support for the membership of Finland and Sweden in NATO. In July, the Lithuanian parliament ratified their membership in the alliance almost unanimously (with only one member of parliament voting against it).

After a decade of stagnation, Lithuania's bilateral relations with its neighboring ally Poland have improved in recent years. In December 2022, the first direct train route connecting the capitals of Lithuania and Poland was launched. The work of the bilateral government commission on educational issues resumed in 2018, and a bilateral parliamentary assembly met in Warsaw in February 2019. In 2021, the Lithuanian-Polish Presidential Council was established.

Credibility

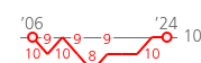
10



1

Regional cooperation

10



1

The migration crisis in 2021 and Russia's war against Ukraine in 2022 further strengthened bilateral relations and cooperation between the two countries, primarily regarding defense and security issues. The governments and presidents of Lithuania, Latvia, Estonia and Poland have presented a united front in advocating for support for Ukraine internationally.

During the review period, relations with the authoritarian neighbors, Belarus and Russia, deteriorated due to their aggressive policies. Russia's invasion of Ukraine resulted in the cutting of diplomatic ties. Lithuania recalled its ambassador in May 2022. Lithuania has remained one of the most vocal advocates of imposing sanctions against Putin's regime.

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 and supported Ukraine in its fight against the Russian invasion that began in 2014. This support has intensified since Russia's full-scale invasion of Ukraine in February 2022. The Lithuanian state has donated around €0.5 billion in support to Ukraine in 2022 and has received 50,000 to 70,000 refugees from Ukraine.

Strategic Outlook

Despite international challenges and societal discontent during some of the review period, the Lithuanian economy and institutions of liberal democracy have remained resilient. The country continues to be a transformation success story in the Central and Eastern European region, bridging the gap with EU averages in most sectors. The forecast for real GDP growth in 2023 ranges from 0% to 1.4%, with the possibility of a minor downturn of up to 1% in a negative scenario. The majority of challenges faced are external, including geopolitical uncertainty due to Russia's war against Ukraine, high energy prices and a negative outlook for the international economy.

Throughout the review period, the government and parliament maintained unity regarding their Western geopolitical orientation, support for Ukraine, and strengthening the country's defense capabilities. While voices of political anti-establishment groups expressed discontent with Lithuania's stance toward Russia and assistance to Ukraine, this consensus, strongly supported by a non-partisan, directly elected president, will continue in the future. However, the government's efforts to promote Lithuania's status as a leader of democracies in the international arena by establishing a de facto Taiwanese embassy resulted in a conflict with China and drew criticism from the opposition, the president, and the country's citizens. Overcoming this challenge will require support from international organizations, particularly the EU, while demonstrating the benefits of deepening economic ties with Taiwan to the population.

Progress in human rights, particularly the legalization of same-sex partnerships, will require skillful navigation between the progressive aspirations of liberal politicians in the governing coalition and the conservative attitudes prevalent in the majority of the population, as represented by the vocal populist opposition in parliament. Despite Lithuania's positive ratings in terms of liberal democracy, including free and fair elections and respect for political and civil rights, a major domestic challenge remains the widespread distrust of public institutions and the government. Addressing dissatisfaction with the functioning of democracy in Lithuania will require a comprehensive set of policies, including investments in the health and education sectors, reducing socioeconomic inequality (which remains relatively high), alleviating poverty, and making further efforts to combat corruption and increase government transparency. The current tax and benefits system has had limited impact on addressing inequalities and regional disparities, necessitating the need for Lithuania to increase revenue generation, which it must allocate effectively to promote desired social, cultural and economic outcomes.

However, the need to allocate more resources toward these outcomes in the near future may clash with the government's policies aimed at alleviating increased energy costs and maintaining fiscal responsibility. Striking a balance between the economic effects of international crises and investments in long-term socioeconomic development will be a major challenge for the current government's remaining time in office, especially considering Lithuania's demographic decline and labor force shortage. One potential solution would be facilitating immigration, although this may create additional tensions in the relatively conservative and ethnocentric Lithuanian society. Nonetheless, the events of 2022 demonstrated that the country's population is generally welcoming to Ukrainian refugees. As culturally similar immigrants from Eastern Europe, they may be more readily accepted and successfully integrated into society.