

# Lithuania 2016



Total: 75.01

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## Quick facts

Population:	2.905 million
Unemployment rate:	9.1 %
GDP:	38.597 billion EMU
GDP growth rate:	1.6 %
GDP per capita:	13 290 EMU

## Political Freedom

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### Free and Fair Elections : 10

Lithuania's score clearly points at a high level of freedom and fairness of the electoral process. Political parties are free to operate and compete with one another. However, only the Communist Party remains restricted. Local elections in Lithuania were held in March 2015 and voters had for the first time an opportunity to directly elect Mayors, thus strengthening democracy at the local level. They demonstrated professionalism, although some violations such as vote buying did occur, while elections in 3 municipalities were annulled by the election commission. A change of the electoral districts took place in December 2015, following the ruling of the Constitutional Court that voter allocation per district violated Constitution. Recommendations of the OSCE were accepted, and deviation was within 10%.

### Absence of Unconstitutional Veto Players : 8.33

Lithuania doesn't have unconstitutional veto players. Security forces are under effective civilian control, the church doesn't interfere into country's politics, influence of wealthy oligarchs is weak, and therefore authorities have unchallenged legal power to govern the country. Corruption is a big challenge for authorities in Lithuania, especially at the local level. In order to tackle this issue, government adopted new anti-corruption strategy in March 2015.

### Freedom of Press : 7.7

A wide variety of independent media outlets, which are expressing diverse opinions on the most

important questions, can operate and report freely in Lithuania. Still, many issues remained unresolved throughout the year. Concentration of media ownership is not restricted, so this phenomenon is a common for press in this country. Although insult is expelled from the list of criminal activities punishable by the law, libel remains criminalized. Local media are faced with huge economic pressure, making them prone to the political influence and being dependent on state resources. Biased reporting by the two Russia-based TV stations, RTR Planeta and Ren TV Baltic, on the conflict in Ukraine, led to their restricting for three months in 2015. RTR Planeta was at the end of the year prohibited to be a part of the standardized television packages.

## Rule of Law

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### **Independence of the Judiciary : 4.67**

Rule of law in Lithuania still stumbles on judiciary. The situation is roughly the same as in neighboring Poland, while worse than in Estonia. Impartiality of the courts and prosecutors is dubious. Political influence on them is worrisome. During 2015, President and Parliament were in a row over the nomination of the new Prosecutor General (following the dismissal of his predecessor). Transparency International's earlier research indicated at a high level of perceived corruption in courts. However, according to Freedom House, a public opinion research conducted in 2015 for the first time showed that there was slightly more trust than distrust in the court system. Overcrowding of prisons (among the worst in Europe) still remains as a problem. Constitutional Court was active. One of its notable rulings was passed in October 2015, on the allocation of single-member constituencies for election of 71 of 141 MPs. It diminished maximum deviation (from 20% to 10%), thus making gerrymandering or other election inequality harder to implement. There is an ongoing investigation on the alleged secret detention centers during the "war on terror".

### **Corruption : 6.1**

Year and again, Lithuania is improving its record in curbing corruption. In the Transparency International's Corruption Perception Index 2015 it went up to the place 32 of 168 (together with Cyprus and Israel), with the score 61/100. Only five years ago it was 46th of 178, with the score 5.0/10.0. Getting rid of Soviet heritage in economy (liberalization and overall modernization), building anti-corruption and other state institutions and inclusion of civil society into anti-corruption struggle have delivered results. Recent corruption scandals, as reported by TI-Lithuania, shift a focus of attention to corruption and party capture in local government and public procurement, as well as to nepotism and conflict of interest. Petty corruption and tax evasion seem to be gradually retreating. Meanwhile, the Parliament has adopted the National Anti-corruption Programme 2015-2025. Among numerous objectives there are more efficient and transparent management in public sector, reducing the administrative burden on economy, ensuring fair competition in public procurement, eliminating corruption in health care and promoting zero tolerance approach to corruption.

### **Protection of Human Rights : 8.03**

In the main human-rights` related inner-EU dispute in 2015-2016 - over migration issues - Lithuania, along with other two Baltic countries, supported Germany`s open and inclusive approach to war refugees. Still non-numerous refugees in the country are participating in the (well

developed) civil society initiatives to further dispel xenophobia. The protection of ethnic minorities is still a serious issue. Whereby the position of Russian minority regarding use of language has improved in some areas (e.g. media), Polish minority faces obstacles (regarding personal documents, or in education). The protection of LGBT population is scarce. The law on protection of minors against “inappropriate content” in media (as of 2011) is occasionally misused to censor public advocacy of LGBTI equality. In October 2015, Parliament rejected the proposed regulation of same-sex partnerships (marriages are anyway constitutionally banned). Despite anti-discrimination laws, homophobic hate-speech is widespread. On the bright side, NGOs are getting ever more space. It is estimated that half of the population is taking part in at least one non-governmental initiative. Women are increasingly well protected against exclusion, discrimination or violence. Academic freedom and freedom on the Internet are well protected. As for religious freedom, the nine existing communities are equally treated, albeit there are problems with the construction of a mosque in Vilnius. Since June 2016, mandatory military service is re-introduced in Lithuania – up to 3.000 randomly selected conscripts will be drafted to accompany volunteers in military service.

## Economic Freedom

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### **Security of Property Rights : 6.21**

Private property is relatively secure and respected in Lithuania. However, judicial independence and court impartiality remain areas of concern within the legal system, and political influence can still be exercised in some court rulings. There are no courts specialized in commercial cases only. Legal enforcement of contracts is inefficient, although court proceedings are usually terminated within a reasonable time frame, while filing procedures is a weak spot. An electronic filing system introduced to courts is envisaged to significantly alleviate the problem. Commercial Court of Arbitration is an increasingly popular independent institution for legal resolution of conflicts, due to faster proceeding track. Resolving insolvency is a process with relatively low recovery rates and longer procedures, in comparison to other EU countries. High quality land-administration system, coupled with professional notary services, provides the basis for efficient and inexpensive private property registration. Reliability of the police is not satisfactory, albeit business costs of crime are low.

### **Size of Government: Expenditures, Taxes, and Enterprises : 7.84**

Government size in Lithuania is very moderate by European standards, with government expenditures reaching 34,6% of GDP in 2015. The strong fiscal austerity package, put in place after the 2009 recession spillover to Lithuania, with its significant cuts in public expenditures, contained high public deficits and finally led to a balanced structural fiscal position in 2015. However, this newly acquired fiscal space should not be taken for granted, due to necessities to build potential fiscal buffers and tackle future liabilities due to demographic changes. Economic growth which slowed down in 2015, due to weak external position caused by a downturn among major trade partners, is expected to pick up next year. Public debt, although highly elevated as compared to pre-crisis times, remained within the Maastricht criteria, at 42,8% of GDP in 2015. The moderate level of government spending is a result of low government involvement in the economy and relatively low social transfers, allowing for more favourable taxation levels.

Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax are set at 15%. VAT has a standard rate of 21%, and the reduced rate of 9% and 5% for certain products, while the excise duties on tobacco, alcohol and energy are among the lowest in the EU. However, tax wedge on labour is still significant due to high rates of social contributions. The Lithuanian state has largely exited the market, and most of the state-owned enterprises were privatized. The government remains involved in the economy mostly by public utility companies, and through enterprises in the transportation sector: the railway company, the postal service and 3 international airports. Apart from companies that are in monopoly status, private companies do not face restrictions in their competition and dealings with SOEs. Management of these state-owned companies is not fulfilling high professional standards and is sometimes politicized.

## **Regulation of Credit, Labour, and Business : 7.33**

Regulatory framework of business activities is overall business friendly. Starting a business is fairly quick and inexpensive. Efficiency of the process was further mitigated by the introduction of online VAT registration. Obtaining a construction permit includes many procedures, but they are streamlined and not time consuming. Getting electricity is also an efficient procedure, which was improved by introduction of time limits on connection works by the utility company. Tax procedures are characterized by a low number of annual payments, however tax compliance is complicated and time consuming, especially regarding social contributions paid by the employer. Labour regulations are rigid in hiring and firing section and working hours, with a very low number of maximum weekly working days. Redundancy regulations are also burdensome, with severance pay costs increasing with the number of years in tenure, with long notice periods, and redundancy priority rules. Furthermore, the minimum wage is considerably high in comparison to the average wage, encouraging shadow employment and increasing unemployment level among older workers with lower qualifications. Some low level or petty corruption and favouritism are still present in the country, mostly in the areas of awarding government contracts and granting licenses. Major regulatory constraints on business are identified in the field of labour code, inefficient government bureaucracy and policy transparency.

## **Freedom to Trade Internationally : 8.8**

Lithuania is one of the countries that are very open to international trade. As a member of the EU, Lithuania implements the EU common trade policy with overall low tariffs. Border and documentation compliance for exports and imports do not pose a burden to trade, and electronic filing system is frequently used. Good transportation infrastructure significantly lowers importing or exporting cost associated with international freight. However, as elsewhere in the Baltic region, railroads are far less developed than other forms of transport. There is a clear lack of good quality railroad connections with the rest of Europe. Lithuanian accession to the Euro-zone has further facilitated trade, eliminating many currency exchange costs. Short-term capital flows still face certain restrictions, but most of the capital transactions are not under stringent control. EU citizens have the same legal rights and obligations in the labour market as nationals, but the procedure of obtaining working permits for third party nationals might be very complicated and uncertain.