

# Lithuania 2017



**Total: 74.76**

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## Rule of Law

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### **Independence of the Judiciary : 5.42**

Judiciary has remained among weak points of the rule of law in Lithuania. On one hand, businesses mainly perceive judiciary as inefficient, ineffective or opaque, rather than bribed or directly influenced by politics. Opinion polls suggest that citizens view law enforcement sector in general in a more positive and optimistic way than before. There were improvements in the prison system. Crime rates are in sharp decline. On the other hand, there are doubts whether the main anti-corruption agency Special Investigation Service of the Republic of Lithuania (itself already with two decades of experience) performs its task in a politically neutral way. Further reforms might thus focus on raising the professionalism and integrity of parts of the law enforcement system that deal with corruption or other misuse of public office. Meanwhile, in May 2017, Judicial Council of Lithuania expressed solidarity with judges in Poland over their struggle to maintain judicial independence from the executive power.

### **Corruption : 5.9**

Although a bit less than the year before, Lithuania has dealt relatively successfully with the task of fighting corruption, better than Latvia while worse than Estonia or Poland. Getting rid of Soviet heritage in economy (liberalization and overall modernization) after independence in 1991, building anti-corruption and other state institutions in accordance with EU standards prior and upon accession to the EU in 2004 and inclusion of civil society into the anti-corruption struggle have delivered respectable results. Recently, according to Transparency International, Lithuania proved to be the second best in the EU (after Slovenia) in regulating lobbying, itself a considerable catalyst of corruption if unchecked. Alas, regarding bribery rate, of 24%, it is the second worst in the EU (after Romania). TI has put Lithuania to share the rank 38 at the Corruption Perceptions Index 2016 list of 176 countries of the world. Portal GAN states that corruption “is not a major impediment to business”, although red tape in administration leaves SMEs vulnerable to bribe or extortion. Various parts of public sector grossly differ. Public services and public procurement carry the highest risk, which takes it to the issue of high corruption. Freedom House noted that in 2016 corruption was a major theme in Lithuania. Corruption scandals largely contributed to the political changes at the elections. Debate is ongoing over the best way local communities could deal with transparency of their Mayors after the latter started being elected directly. Role of political parties in public sector is also in the focus of public attention.

## **Protection of Human Rights : 7.52**

Good record and progress in the field of human rights is due to bold post-1991 democratization, EU accession in 2004 and - especially - development of civil society organizations or initiatives, which encompass almost half of the country's population. CSOs contribute to electoral integrity, community building, minority rights, integration of vulnerable groups (lately especially the rare accepted refugees), whistle blowing over corruption, legislation advocacy, preservation and advance of civil liberties and numerous other social goals. In April 2017, upon a fact-finding visit in December 2016, Council of Europe has issued a special report on Lithuania with recommendations on how to advance human rights. Focus was on women, children and persons with disabilities. Lithuania was advised to ratify the Istanbul Convention and to do more in prevention and fighting domestic violence. Broader deinstitutionalization of children or adults with disabilities was also advised. Widespread social conservatism, rather than the mood of the political elites, puts a heavy weight on the struggle for human rights in Lithuania, inter alia making obstacles to more equality of LGBT citizens, or questioning further legality of abortion in any circumstances.

## **Political Freedom**

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### **Free and Fair Elections : 10**

Citizens in Lithuania enjoy high level of freedom and fairness of electoral process. According to OSCE ODIHR, most recent parliamentary elections, held in October 2016, took place in a competitive and pluralistic environment, with respect to fundamental freedom and fairness of the process. Number of reported electoral frauds is in decline, while one case of vote buying by Order and Justice Party led to their party leader having lost his parliamentary mandate. Result of this election was driven by mistrust in entrenched political parties, due to corruption scandals by the main ruling and opposition parties, wherefore the voter turnout was low. Lithuanian Peasant and Green Union, that had previously had only one MP in the parliament, now took 56 seats, out of 141, and created a technocratic government in coalition with the Social Democratic Party of Lithuania.

### **Absence of Unconstitutional Veto Players : 8.33**

There are no unconstitutional veto players in Lithuania, however certain powerful people from media and business sector are seeking to influence political decisions in the country. Although authorities have got effective power to govern, corruption among officials has posed a major problem for democracy. Several cases of high level corruption by the politicians, both ruling and opposition, came to light during 2016. Representatives of 4 out of 6 political parties in the parliament were accused of engaging in corrupt practices. Civilian authorities hold control over security forces.

### **Freedom of Press : 7.9**

Press is free in Lithuania. This country continues to slightly improve its score in Freedom Barometer index, from 7,70 last year. Media scene is pluralistic and diverse. However, some notable problems haven't been changed yet. Ownership of the majority of media outlets remained concentrated and controlled by a few media groups. This power was often used to influence and bribe politicians in charge. Defamation is punishable by the law. Like all other Baltic countries, Lithuania is also faced with partisan reporting by Russian media outlets. Radio and Television Commission of Lithuania lift its restrictions to two TV stations on Russian language. Sustainability of many media, especially the local ones, is very low, making them dependent of state-allocated resources.

## Economic Freedom

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### Security of Property Rights : 6.35

Private property is relatively secure and respected in Lithuania. However, judicial independence and court impartiality are not always upheld, especially in high corruption cases where political influence could still be observed. There are no courts that are specialized in commercial cases only. Although court automation is used to a high degree so as to efficiently and randomly assign cases to judges, the maximum number of adjournments is not stipulated. Shorter procedures and lower costs, as well as specialization, made the Commercial Court of Arbitration, a non-governmental independent institution, increasingly popular for legal resolution of conflicts. Legal enforcement of contracts is expensive due to high enforcement fees, as well as slow procedures regarding filling a claim. Inadequate insolvency procedures lead to low recovery rates and longer procedures as compared to other EU countries. Assets are mostly sold piecemeal, using auctions. Private property registration is efficient and inexpensive, due to professional notary services and utilization of electronic systems and low fees. Since 2014, non-Lithuanian nationals are free to purchase agricultural and forest land. However, law stipulates excessive safeguards, which in practice restricts land purchase. These provisions were challenged by the European Commission in 2015. Legal changes are expected to be made in order to alleviate this problem. Interpretation of the existing regulation could be inconsistent or unclear. Regulatory predictability also remains as an open question.

### Size of Government: Expenditures, Taxes, and Enterprises : 7.55

Lithuania is characterized by frugal public consumption, like other Baltic countries, reaching 34% of GDP in 2016. Public debt is moderate, standing at 40% of GDP, and on a moderate downward spiral. Deficits have been put under control, and now Lithuania has got a balanced budget. Economic growth accelerated after the 2015 slowdown, but is still sluggish as compared to its previous levels. Low level of European funds' utilization considerably contributed to low growth rates, through lower investments. The moderate level of government spending is a result of low government involvement in the economy and relatively meager social transfers (reaching 11.5% of GDP in 2016, as compared to the EU average of 19.2%), allowing for more favourable taxation levels. Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax is set at 15%. VAT has a standard rate of 21%, as well as the reduced rate

of 9% or 5% for certain products, while the excise duties on tobacco, alcohol and energy are among the lowest in the EU. However, overall social contributions are high, leading to a considerable tax wedge on labour. The Lithuanian state has largely exited the market, and most of the state-owned enterprises were privatized. However, the government remains involved in the economy through its 118 SOEs in 2016, mostly public utility companies (electricity and gas) and transport enterprises (the railway company, the postal service and 3 international airports). Private companies, as a rule, do not face restrictions in their competition and dealings with the SOEs; however, management of the latter is not fulfilling high professional standards and is sometimes politicized. That is envisaged to change eventually, since Lithuania has considered joining the OECD, which would expectedly lead to the improvement of SOE management practices. The introduction of independent SOE board members is a step in right direction, but the institution still needs to gain strength.

## **Regulation of Credit, Labour, and Business : 7.09**

Regulatory framework for doing business in Lithuania is overall business friendly. Starting a business is fairly quick and inexpensive. Efficiency of the process was further mitigated by introduction of online VAT registration. However, paid in minimum capital is high, as compared to other EU countries, standing at 2500 euro. Obtaining a construction permit requires numerous procedures, but they are not time consuming or expensive. Getting electricity is also an efficient procedure, which was further improved by introduction of time limits on connection works by the utility company and lowering the connection tariff. Tax procedures are characterized by a low number of annual payments, and although they are predominantly online, they can still be considered as complicated and time consuming, especially for SMEs. Social contributions paid by the employers involve longest operational hours. Labour Code has recently been significantly altered, with its implementation starting from July 2017, with the aim of further flexibilization of industrial relations, mostly by recognizing new types of employment relations, such as job shadowing, project based employment, sharing employer etc. Novelty is also the obligation of establishing worker councils in all companies that are lacking a trade union. Labour regulations are rigid in hiring and firing section and working hours, with a very low number of maximum weekly working days, and reassignment or redundancy rules. Severance pay costs increase with the number of years in tenure, but notice periods do not. 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. High tax rates and inefficient government bureaucracy are considered major obstacles to operating businesses in the country.

## **Freedom to Trade Internationally : 8.7**

As other countries from the region, and as a small economy, Lithuania has been open towards international trade. Lithuania, being an EU member, implements the common EU trade policy, with overall low tariffs for manufactured goods. However, tariffs on agricultural products in some cases remain high (11.1% on average applied for Most Favoured Nations). Border and documentation compliance for exports and imports do not pose a burden to trade (only 6 export or 4 import documents are needed). Electronic filing system is frequently used. Good transportation infrastructure significantly lowers importing or exporting costs associated with international freight. However, as elsewhere across the Baltic region, railroads are not developed as much as other forms of transport, due to historical and political reasons. A good quality railroad connection to the rest of Europe is clearly missing. Lithuanian accession to the Eurozone has further facilitated

trade, eliminating currency-exchange costs. Short-term capital flows still face certain restrictions, but most of the capital transactions are not under stringent control. Although EU citizens have the same legal rights and obligations in the labour market as nationals, the procedure of obtaining a working permit for a third party national is complicated, which is not in line with the expected future labour shortages.