

Lithuania 2018



Total: 74.14

Political Freedom

Free and Fair Elections : 10

Elections on all levels in Lithuania are free and fair. Individual fraudulent activities are indeed happening, but they are in decline and when they happen they are prosecuted in a timely and legal manner. Electoral framework is in place, which allows for efficient work of the CEC. Upon the October 2016 parliamentary elections, technocrat government of the Lithuanian Peasant and Green Union (LVSZ) and the Social Democratic Party of Lithuania (SDPL) was formed. However, disputes within SDPL led to their split in parliament and to resignation of the Minister of Economy. MPs who had left the party continued to support the minority government, itself supported by 69 MPs out of 141. Party system in the country is shaped through fragmentations. Electoral system is a combination of single-seat constituencies (71 MPs) and proportional representation (70 MPs). Recent change in electoral law allowed mayors to be elected by popular vote. Many doubts were cast on the functionality of this system, having in mind subordinate position of a mayor to his municipal council, but aside of a few examples of disputes between these two, the system appeared to be working.

Absence of Unconstitutional Veto Players : 8.33

There are no unconstitutional veto players who are able to undermine democratic procedures in Lithuania. Main problem for democracy still remains the corruption among high-ranking officials and adjacent intentions of wealthy businesses to influence politics. A corruption scandal as of 2016, which involved representatives of the 4 out of 6 parliamentary political parties led to formal indictments against the Liberal Movement and the Labor Party in September 2017. Business influence on politics is notable at the local level as well, which itself is in charge of energy policy. Russia is also perceived as an actor striving to interfere into politics in Lithuania, either through businesses or through propaganda. Rule of law is safeguarded by a clear system of mutual checks and balances.

Freedom of Press : 7.9

Freedom of the press is granted by the constitution in Lithuania and largely up-held in practice. There is a wide range of online, broadcast and print media outlets, offering citizens a diverse spectrum of opinions. However, ownership of those outlets is mostly concentrated in the hands of few companies. A positive move in this direction was made by selling Alfa media company shares by MG Baltic, company that controls large portion of broadcast media outlets with a national reach.

Still, the issue of ownership concentration in the media remains as a burden, to be resolved in order to weaken influence of the businesses on politics. Defamation became harder to pursue due to legal changes, although it isn't yet fully decriminalized. Journalists may face political and economic pressure, especially at the local level, leading to self-censorship by some. Efforts to over-regulate media by using legal tools are "in the air" from time to time, however none of which was put through the parliament. Lithuania wasn't spared from Russian propaganda. It is thus continuing the practice of media restrictions, justified by hatred narrative which is thereby promoted.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 4.92

Judiciary continues to be weak point of the rule of law in Lithuania. Trends during previous years were divergent, thus various monitoring organizations' narrative reports and indexing oscillated. Freedom House, on the basis of the World Economic Forum's research, has noted improvements. Same did the public in the country, which has increasingly trusted the law enforcement sector in general, including the judiciary and police. Crime rates and the total number of prisoners are dropping, while conditions in prisons have improved (despite a few corruption cases). According to portal GAN, on the other hand, companies still rate poorly the efficiency of the legal framework when it comes to settling disputes and challenging regulations. The risk of bribes influencing court decisions in companies' disputes is still "moderately high". Respect of the international and European law has been high, whereby Lithuania did not lose any cases at the ECHR in 2017.

Corruption : 5.9

According to Freedom House, corruption is "the major problem for Lithuania's democracy". Numerous scandals shook the country in 2017. Political party financing and related public procurement irregularities topped the list. Several energy companies seem to have illicitly influenced MPs or government officials, where after an MP had to resign in March 2018. In two other cases, two officials of the Prison Department were suspended, while the head of the National Opera was dismissed. New law on whistleblowers, carried in November 2017, might help provide for more evidence on corruption. Various other sources tell that sporting associations and events are still corruption-vulnerable, although obvious match-fixing cases seem to be history. Transparency International's Corruption Perception Index showed stagnation in 2017 (59 points, same as in 2016), yet a small relative rise in ranking (38th among 180 instead of among 176 countries). Other monitors, such as GAN portal, are mainly portraying corruption-risks in Lithuania as "moderate". Earlier FNF research showed that economic liberalization in the post-Soviet period, building of the democratic institutions along EU-accession, very well regulated lobbying, and civil society activism, have mostly helped Lithuania advance in anti-graft struggle, more than majority of other transition countries.

Protection of Human Rights : 7.63

Lithuania has maintained a decent record on human rights. Personal safety, quality of education and equal opportunities of access to it, as well as freedom of expression and association have been aspects most protected and advanced, reaching the highest EU levels. The protection of minorities, as well as readiness to accept immigrants, has also improved recently. Lithuania has accepted the EU system of quotas for refugees. However, the number of actually settled has been small (309 in 2017), plus that many of them subsequently moved to more affluent EU countries. Throughout 2017 and 2018, LGBT people (and the government) were struggling to get the bill regulating same-sex unions pass the parliament. On the contrary, legislation was approved that actually strengthened the traditionalist definition of family. Transgender people faced two court decisions that enabled them to change legal documents without undergoing surgery but legally they are still under-protected. A conservative campaign to limit some reproductive rights, such as access to abortion, is on, but for the time being with no success.

Economic Freedom

Security of Property Rights : 6.32

Private property is relatively well respected in Lithuania. Judiciary is mostly independent from the executive government and impartial in its dealings. Nevertheless, political influence could still be identified in high corruption cases. There are no courts that are specialized in commercial cases only, so these cases are assigned to local or district courts. However, the administrative courts adjudicate in administrative cases that often involve regulatory agencies and private or business entities. Court automation is used to a high degree, in order to efficiently and randomly assign cases to judges. The Commercial Court of Arbitration, as a non-governmental independent institution, is becoming increasingly popular for legal resolution of conflicts, due to shorter procedures and lower fees, as well as to specialized knowledge that is often lacking in public courts. Legal enforcement of contracts is expensive due to high enforcement fees, as well as slow procedures regarding filling a claim. Private property registration is very efficient and inexpensive, due to professional notary services coupled with electronic systems and low fees. Insolvency procedures are inadequate, as compared to the other EU countries, leading to low recovery rates of just 45% on average, and lengthy procedures (insolvency lasts for well above 2 years). During insolvencies, the assets at stake are mostly sold piecemeal, using auctions. Since 2014, non-Lithuanian nationals are free to purchase agricultural and forest land. However, the law stipulates excessive safeguards, which in practice restricts land purchase.

Size of Government: Expenditures, Taxes, and Enterprises : 7.52

Lithuania is characterized by frugal public consumption, like other Baltic countries, reaching 33% of GDP in 2017. Public debt is moderate, standing at 36.5% of GDP, and slowly falling. Deficits have been put under control in the last couple of years, and now Lithuania even shows a small

surplus. Economic growth accelerated to 3.8% in 2017, supported by rising exports and domestic consumption but is expected to slow down. Unemployment is now below 7%. EU cohesion funds are not fully utilized, which lowers the total investments and growth. The moderate level of government spending is a result of low government involvement in the economy and relatively low social transfers that are almost one half of the EU average. Lithuanian tax system is flat, with some minor progressive characteristics – personal and corporate income tax is set at 15% (or 5% for micro companies). 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 above 40%. The Lithuanian state has largely left the market to private companies, and most of the state-owned enterprises were privatized. However, SOEs remain present in the economy in certain strategic industries, such as the energy (electricity and gas) and transportation (railways, airports, the post office). Their number stood at 130 in 2017, but was scaled down through the bureaucratic consolidation so as to meet OECD recommendations. Private companies, as a rule, do not face restrictions in their competition and dealings with the SOEs; however, SOEs management is often not up to the high professional standards, with cases of misconduct. Lithuania completed the accession process for the Organization of the Economic Cooperation and Development (OECD) in 2018, whereby this is expected to improve the SOE management practices – several new laws in this regard have been recently introduced, but their full implementation is yet to be discerned.

Regulation of Credit, Labour, and Business : 6.93

Regulatory framework in Lithuania is overall business friendly. However, interpretation of existing regulation is not consistent or is unclear; and regulatory predictability is also an issue. Corruption, although at a low level, still exists but is mostly restricted to public procurements and licenses. Starting a business is fairly quick and inexpensive and efficiency of the process was further mitigated by introduction of online VAT registration. However, paid in minimum capital is high, standing at 2500 euro. Obtaining a construction permit is a very streamlined process, neither time consuming nor expensive. This procedure has recently improved by reducing the amount of time necessary to obtain technical conditions and building permit. Getting electricity is also an efficient procedure: apart from recent introduction of time limits on connection works by the utility company and lowering of the connection tariff, streamlining procedures and imposing deadlines for internal wiring inspections also improved the process. Tax procedures are characterized by a low number of annual payments and recently introduced online electronic system for filing and paying the VAT, CIT and social security contributions. In July 2017, the new Labour Code was introduced, in order to encourage foreign investments and spur job creation. The new law decreases the advanced notice required when employers terminate an employment contract, and adds new contract options for employers, such as project-based and job-sharing contracts. The law also requires non-union employers to form workers councils to represent employee interests, while employers have to establish and publicize standard company compensation policies. Fixed term contracts are not prohibited for permanent tasks, and their maximum length is up to 5 years, but there is a law on maximum weekly working days, while reassignment or redundancy rules are also present. Severance pay costs increase with the number of years in tenure, but prior notice periods do not. The minimum wage (set at 400 euro a month in January 2018) is considerably high in comparison to the average wage, encouraging shadow employment and increasing unemployment level among older workers with lower qualifications. High tax rates and inefficient government bureaucracy are considered major obstacles to operating businesses in the country.

Freedom to Trade Internationally : 8.69

Lithuania mostly upholds the freedom of international trade. Trade has always been important for the country, as a small and open economy, and Lithuania due to its geographical position also serves as a transit trade hub in the Baltic region. Being an EU member since 2004, Lithuania implements the common EU trade policy, with overall low tariffs for manufactured goods – the Most Favoured Nation tariff rate is set at 5.1%. However, agricultural products face much higher tariffs (11.1% on average applied for Most Favoured Nations). Border and documentation compliance for exports and imports do not pose a burden to trade, due to efficient custom office and widespread electronic filing system. 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: quality railroad connections to the rest of Europe are missing and most of the tracks are not electrified. Lithuanian accession to the Euro-zone in 2015 has further facilitated trade, eliminating currency-exchange costs. Although most of the capital transactions are not under stringent control, short-term capital still faces restrictions, in order to eliminate temporary shocks. 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.