

Country Report

Lithuania

The Unfinished Business of the Fifth Enlargement Countries

The views expressed in this report are those of the authors and do not necessarily reflect the views of the Open Society Institute – Sofia.

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

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About this publication

This publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project “The Unfinished Business of the Fifth Enlargement Countries”.

“The Unfinished Business of the Fifth Enlargement Countries” is a policy project of the Open Society Institute – Sofia within the European Policy Initiative (EuPI).

The EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels (www.eupi.eu).

The project was implemented from May 2008 to April 2009. The main outcome of the project is a publication comprised of ten national reports and a comparative analysis. The national reports describe and analyse the post-accession state of affairs in the ten new member states (NMS) from CEE. They do not include data gathered after December 2008, and therefore do not reflect the latest impact of the global economic crisis. The comparative analysis may have references beyond this period.

The project’s research methodology was based on the initial hypothesis that although the new EU member states from CEE have formally complied with all EU membership criteria and thus completed the accession agenda, specific problems persist. These problems are, to a certain extent, common among them due to shared historical experiences and legacies. In view of their comparable level of integration in the EU, the new member states could look for common answers to their post-accession challenges and, in doing so, contribute to the competitive advantage of the EU as a whole.

The research hypothesis has been tested through inquiry and analysis conducted by national experts from each of the ten new member states from CEE: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. These national experts adhered to the same methodology and were asked to describe and analyse the post-accession state of affairs in eleven policy areas. Through this process, the experts were able to identify existing and/or potential post-accession “problem areas” in their countries’ political development and governance, economic development, welfare system and social inclusion, health system, educational system, justice and home affairs, migration, research and innovation, agriculture and rural

development, regional development, level of EU funds absorption and their correlating impact.

The national experts were also asked to identify the existing membership leverage for post-accession problem-solving in each policy area and to provide a typology according to the following criteria: active and passive EU leverage,¹ hard and soft mechanisms for influence, and level of significance and effectiveness of their impact.²

On the basis of the national experts' ten country reports and the typology of the membership leverage represented by a table (Part C) in each report, a comparative analysis of the post-accession state of affairs was developed.

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¹ The *active* and *passive* leverage typology is defined and used by other authors mainly with regard to the EU's role for stimulating reforms in the candidate countries (Vachudova, M. A. (2002) *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002) where the active EU leverage concerns the linking of the progress of accession with the adoption of EU norms while the passive one is the attraction of the EU as a gravity centre of prosperity and successful development. For the purpose of the present study the typology is used to assess the effectiveness of the membership leverage over the new member states from CEE.

² After the accession to the European Union the membership leverage over the member states is *active* with the exception of some policy areas, where the EU still exerts *passive* leverage because further integration depends on meeting certain post-membership conditionality (i.e. accession to the Schengen area; accession to the Euro area). Moreover in the policy areas where decisions are taken primarily on the EU level, the membership leverage is *hard* as breaching the rules is accompanied by sanctions and therefore it is *significant* in terms of influence on a national level and *effective* as it manages to ensure the necessary enforcement by national stakeholders. The opposite is evident with regard to the membership leverage in policy domains of national competence where the EU produces mainly recommendations which are not binding and therefore are not accompanied by sanctions (*soft leverage*) and most often neglected by national decision-makers, which makes them *non-significant* in terms of impact and therefore *non-effective* (e.g. the Open Method of Coordination in education and social inclusion).

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E

xecutive Summary

Since its foundation, the EU was not meant to be an instrument for the reform of public policies of its member states. It has for decades been a forum used to mostly manage interdependences and provide side payments for certain groups (farmers, less developed regions, etc.).¹ With the EU's enlargement to Central and Eastern Europe, the accession process has been considered by both the EU and the candidate-states as a natural prolongation of the transition process and aimed at re-establishing the democratic polity and market economy. At the same time, conditionality – linking progress of accession with the adoption of EU norms – has become the key aspect of the accession prospect, giving the EU an unprecedented leverage over the candidate sovereign countries.²

One can distinguish between *active* and *passive* leverage of the EU: the deliberate conditionality exercised in the EU's pre-accession process versus the attraction of the EU as a community of prosperity and successful development.³ Following the accession of the candidate countries to the EU, it is considered that passive leverage no longer exists, with the exception of some EU policy areas where closer integration (or "leftovers" from the accession process) depends on meeting certain post-membership conditionalities (i.e. justice and home affairs due to the accession to the Schengen area; economic and monetary union due to the accession to the Euro area by meeting the convergence criteria).

The accession treaties contained a specific safeguard clause that could be used for suspending EU membership rights, but it expired after the first

¹ Moravcsik, A., *The Choice for Europe*, Cornell University Press, – Ithaca, NY, 1998.

² Schimmelfennig, F., and U. Sedelmeier, "Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe", *Journal of European Public Policy*, Vol. 4, No. 11, August 2004, pp. 661-679; Schimmelfennig, F., "EU Political Accession Conditionality after the 2004 Enlargement: Consistency and Effectiveness", *Journal of European Public Policy*, Vol. 6, No. 15, September 2008, pp. 918-937.

³ Vachudova, M. A., *The Leverage of the European Union on Reform in Postcommunist Europe*, Paper presented at the Conference of Europeanists, The Council of European Studies, Chicago, 14-16 March, 2002.

three years of membership. The main EU leverage over all non-complying member states in terms of sanctions (rather than the process of naming and shaming) is the fact that the European Commission could start an infringement procedure which could lead to financial sanctions imposed by the European Court of Justice. For instance, the extent of taxation, employment, information society and environmental non-compliance in Lithuania (checked for the total number of secondary legislation) is above the EU average. Also, *country-specific* obligations should be mentioned, including Lithuania's commitment to decommission the Ignalina Nuclear Power Plant according to the EU accession treaty. The high costs of compliance with EU norms and the perceived lack of legitimacy of the EU demands have been the key factors behind the attempts of the Lithuanian authorities to question this commitment.

However, the financial sanctions are usually applicable under the hard law (or the Community method). The European Commission initiated several infringement procedures against Lithuania (e.g. in the policy area of employment, see below), but Lithuania remains the country with the least infringement cases at the EU level. Moreover, since the enlargement of 2004 Lithuania has consistently featured as the best-performing country in terms of transposing EU norms among the EU-25 and later the EU-27 (as well as in terms of the infringement procedures initiated).⁴ Some soft measures such as naming and shaming could be applied by the EU institutions under the so-called Open Method of Coordination (OMC). But the application of the OMC has been ineffective in all policy areas in Lithuania due to the combination of the weak nature of the OMC as well as the negative effect of domestic mediating factors. Therefore, it is possible to distinguish between *hard* and *soft* types of active EU leverage in the post-accession period.

Finally, it has been argued that the leverage exercised by the EU during the accession process has been a positive factor in stabilising the reform process and in contributing to the actual transformation of certain public policies. In some cases the accession itself seems to contradict the trend of the transition process (for example, the increase in the level of subsidies, in particular in agriculture, and external trade protection in Lithuania after accession). However, it can be argued that in some cases precisely the lack of EU competences accounts for the lack of financing, of proper placing of the issues on the public policy agenda during the pre-accession process and therefore the lack of reform.⁵ Justice and home affairs, education and health care are among these neglected areas during the pre-accession period which after the accession and return to "politics as usual" became

⁴ Sedelmeier, U., "After Conditionality: Post-Accession Compliance with EU Law in East Central Europe", *Journal of European Public Policy*, Vol. 6, No. 15, September 2008, pp. 806-825.

⁵ Vilpisauskas, R., "The Political Economy of Baltic States' Accession into the EU: The Impact on the Role of State", in Roy, J. and R. Dominguez, R. (eds.), *Towards the Completion of Europe. Analysis and Perspectives of the European Union Enlargement*, University of Miami, 2006, pp. 209-221.

the arenas of social conflict resulting in litigation and open protest demonstrations by these professions.

However, this does not necessarily imply that from the Lithuanian point of view, the EU should be given exclusive competences in these areas as they form part of the key functions of the modern nation state and/or are financed to a large extent from the state budget (while a shift of financing to the EU level would increase the tax burden and limit the competitiveness of the country). It is suggested that in some policy areas the free movement of services (which is still restricted inside the EU compared to the movement of goods) should act as a pressure for reform, while the exchange of best practices should provide guidelines to national reforms. The main areas where the EU could play a greater role in terms of increased scope for the Single Market rules and financing include respectively services still under the protection of member state rules as well as the infrastructure projects that could facilitate the spread of the Single Market benefits.

The EU has leverage in all policy areas, but the types and scope of EU leverage vary according to the particular policy area. The EU has hard leverage in the areas of welfare and social inclusion, health care, migration, agriculture, regional development and EU Structural Funds. Usually, such hard leverage has proved to be effective in Lithuania. Although the scope of such leverage is large in the area of agriculture and rural development, its application has not been effective. The EU has soft leverage in the areas of economic development, welfare and social inclusion, health, education, justice and home affairs, migration, research and innovation. However, in most policy areas this leverage has been ineffective in Lithuania. Despite the limited effectiveness of the soft leverage, the authors suggest that it should be maintained at the EU level. The EU should facilitate sharing of best practices among EU member states, but it should refrain from imposing any particular model in such policy areas as the welfare system, social inclusion or health system. Also the effectiveness of the OMC depends to a large extent on domestic factors, which can change after parliamentary elections or in the event of an economic crisis. Thus, there is no need to abstain from a coordinated EU policy in the areas of employment and social inclusion, education and research, and health care.

The authors suggest that additional EU leverage would be beneficial in the fields of infrastructure projects such as energy and transport, where the collective action problems hinder the development of infrastructure links which are crucial for reaping the benefits of the Single Market and contribute to the economic growth and convergence of the Central and Eastern EU member states (although infrastructure is not discussed separately in this study). Finally, it could be maintained that the EU should abstain from developing a common EU policy in the fields of taxation, social policy and other areas which are linked directly to the key functions of the nation state and redistributive areas. Agricultural policy could be among the areas where progressive dismantling of EU funding (in particular market-distorting measures) could be considered to reduce prices in the EU.

A **Analysis of the Post-Accession State of Affairs in Selected Policy Areas**

Subsection B.1:
Political Development and Governance

Subsection B.2:
Economic Development

Subsection B.3:
Welfare System and Social Inclusion

Subsection B.4:
Health System

Subsection B.5:
Educational System

Subsection B.6:
Justice and Home Affairs

Subsection B.7:
Migration

Subsection B.8:
Research and Innovation

Subsection B.9:
Agriculture and Rural Development

Subsection B.10:
Regional Development

Subsection B.11:
Level of Absorption of EU Funds and Their Impact

Political Development and Governance

Summary

Lithuania's accession to the EU in 2004 has been marked by relative fragmentation of the political system and formation of coalition governments (in 2006-2008 a minority coalition government ruled the country for the first time since 1990). While the October 2008 parliamentary elections resulted in a ruling centre-right majority coalition, it remains to be seen whether the deteriorating economic conditions and declining budgetary revenues will finally provide incentives for structural reforms which have been lacking after EU accession.

Although all parliamentary parties and a significant share of the population continue to support the country's membership in the EU and no Euro-scepticism is visible, the approaching closure of the second reactor of the Ignalina NPP by 2010 is becoming the first test of post-accession conditionality.

The country's European agenda seems to focus mostly on Eastern neighbourhood and energy policy issues. In most other areas Lithuania's European policy seems to be reactive.

General Context

The Lithuanian political system based on the Constitution adopted in October 1992 is often described as a semi-presidential republic based on the system of checks and balances, or separation of powers between the popularly elected President and Parliament. This system represents a compromise between the then existing two competing visions for the political system – presidential, closely resembling the one which existed during the inter-war period; and parliamentary, which was initially foreseen in the guidelines which had to provide the basis for the Constitution.

This mixed system can be interpreted differently.⁶ Firstly, it means that each political institution has its own powers – the Parliament legislates, controls the activities of the Government (Cabinet of Ministers), and adopts the national budget. The President is the head of state and represents the state; the Government implements the laws and is in charge of daily affairs, including coordination

⁶ Krupavicius, A., and A. Lukosaitis (eds.), *Lietuvos politinė sistema: saranga ir raida*, Poligrafija ir informatika, Kaunas, 2004.

of the work of ministries and other governmental institutions. Secondly, the mixed system also implies checks and balances, which means that the laws adopted by the Parliament only come into force when signed by the President. The Parliament cannot appoint the Prime Minister without receiving the proposed candidacy from the President; the Parliament cannot abolish or establish ministries without a government proposal, etc. This system implies that if there is no clear agreement on a particular policy between the majority of the Parliament and the President, it is quite difficult to adopt new major policy initiatives. The system is further complicated by the informal influences increasingly exercised by the interest groups which have become particularly consolidated in the least reformed public policy fields.

The solidarity of the executive government in terms of its accountability to the Parliament for the activities of the Government is another important characteristic of the political system. Only the Parliament can express no confidence in government ministers, even though they are accountable not only to the Parliament but also to the President. It should be noted that the Government is voted in on the basis of parliamentary approval of the Government's programme, something which is seen as a characteristic of the parliamentary system. The main instruments of democratic control of the executive government are vested in the Parliament. However, the President's powers are important in this process since he/she proposes the candidacy of the Prime Minister, appoints the latter on the basis of a parliamentary vote and approves the composition of the Cabinet of Ministers. In other words, the existence of a dual executive means that the Prime Minister must have the support of the Parliament but shares the power with the President, who is elected by direct vote.

The role of the President, according to the Constitution of the country, is most important in the foreign and defence policy areas; the President also has important powers in nominating and approving the Government, signing the laws passed by the Parliament, and in some other areas (mostly proposing heads of judicial and regulatory institutions which are then appointed by the Parliament).

Issue: Current dynamics of party development

Since 1990, no government has succeeded in winning elections and staying in power for two or more successive terms. During the 1990s, the party system appeared to be quite stable without any major new parties entering the parliament (although the total number of parties has fluctuated above twenty). Vacillation occurred within a moderately fragmented system of five parties with the dominance of Social Democrats and Conservatives. It should also be noted that after the parliamentary elections in 1992 and 1996, there was one (dominant) party majority in the parliament which formed the Cabinet of Ministers. Since 2000 however, the situation has changed as coalition governments have been formed with the rise of liberal parties.

The situation changed further following the 2004 elections, which took place about half a year after Lithuania joined the EU. The newly founded populist Labour Party won around 28% of the vote in the parliamentary elections in 2004 and became part of a centre-left government together with the Social Democrats and Peasants' Union. This coalition dissolved in the summer of 2006, when the two ministers of the Labour Party resigned amid allegations of corruption. After the reshuffling of the Cabinet of Ministers in 2006, a minority centre-left coalition government dominated by the Social Democrats was in power, supported by the opposition Conservatives which in 2007 withdrew their support. This is the first case of minority government since the re-establishment of independence in 1990. In the spring of 2008, only about half a year before the new elections, the minority government was joined by the Social Liberals, forming a fragile majority coalition in the parliament.

Since 1990, no government has succeeded in winning elections and staying in power for two or more successive terms

Issue: Stability of government and capacity to reform

However, this political fragmentation, which became more prominent after 2004, and frequent shifts in the governing coalition since 2004, resulted in a lack of public sector reforms despite the recognition of their need by most political actors in the country. Most parliamentary parties signed an agreement to reform higher education in 2006; a concept paper (Framework for Health Care Development in 2008-2015) on reforming health care was also adopted in 2007. However, no concrete measures have been taken so far to implement the structural reforms which were relatively ignored during the pre-accession period. While Lithuania's spectacular economic growth has allowed an increase in public spending, in particular public sector salaries, social support and public investments, it has not been used to restructure the public sectors which have remained unreformed since the country joined the EU.

It should be noted that after the impeachment of President R. Paksas in 2003, presidential elections were held in June 2004 bringing V. Adamkus back to power. He served as President of the country in 1997/1998-2002/2003 and contributed significantly to Lithuania's accession to NATO and to the EU in 2004. In 2004, elections for the European Parliament were also held, electing 13 members from Lithuania – mostly from the parties which topped the public opinion polls at the time, including a majority from the recently created Labour Party.

Only around 46% of the electorate turned out for the last parliamentary elections in 2004, while the turnover for the 2008 parliamentary elections was slightly above 48%. It should be noted that the October 2008 parliamentary elections were held together with a referendum on postponing the closure of the Ignalina Nuclear Power Plant. The referendum was organised by the

majority of the parliament (after the attempt to collect enough signatures for the popular call of the referendum failed), and most parties supporting it hoped to maximise in this way the participation rate of voters in the elections. This also became the main test for Lithuania's commitment, written in the accession treaty, to decommission the Ignalina NPP by 2010. The main arguments used to support the case for postponement included the doubling of electricity prices and resulting decrease of GDP growth by 3-4 percentage points, possible disruptions of supply of energy resources (in particular, natural gas) and the possible shortage of electricity during peak times – all this in the context of belief in the safety of this nuclear power plant. However, since there is a mandatory participation rate of 50%-plus for the referendum to be valid, it lacked a couple of percentage points and failed. However, it is likely that the failure of the referendum (which, by the way, has only a consultative character) will be used by the political elite as an excuse to cover up the lack of proper preparatory work to provide for the use of alternative energy resources, energy efficiency measures and other projects meant to soften the impact of the closing down of the Ignalina NPP. This will probably further contribute to the mistrust of the public in the main political institutions of the country.

After the October 2008 elections, a new centre-right coalition was formed from a conservative party (Lithuanian Conservatives-Christian Democrats) which won the largest number of seats in parliament although not enough to form a government, two liberal parties (Lithuanian Liberal Movement and Liberal and Centre Union) as well as a newly formed party consisting mainly of former pop stars (Nation's Revival Party). The new coalition has more than 80 of the 141 seats in parliament. However, its most urgent test will be the adoption of a budget for 2009 to be revised in the conditions of fast economic slowdown (and possible recession) as well as so far delayed implementation of structural reforms in the fields of higher education and health care.

Issue: Major issues of public opinion

For a number of years, political parties, parliament and the government have remained among the least trusted institutions in Lithuania (Vilmorus 2008). In September 2008, about 50% of the surveyed population trusted the President, while the numbers for parliament and the government were 6% and 11% respectively.

Corruption remains a relatively important issue in Lithuania. It should be noted that after a slight decrease in 2004, the corruption perception index has remained very stable and differs in this respect from that in most other new EU member states. Since the Lithuanian CPI is still lower than the average 5, Lithuania cannot formally be recognised as a country where corruption is sufficiently contained. It should be noted that in 2008 the corruption perception index went down to 4.6%, again making Lithuania 50th among the 180 countries surveyed.

Extreme nationalism is not widespread on the political scene. Although the October 2008 election campaign saw some marginal parties campaigning on the platforms of populism and nationalism, they did not win seats in parliament.

For a number of years, political parties, parliament and the government have remained among the least trusted institutions in Lithuania

Issue: Euro-scepticism

Another important feature of Lithuania's political system which makes it somewhat different from most of the EU member states is the relative political consensus regarding the importance of EU membership among the parliamentary parties and the majority of the population. Since Lithuania's accession in 2004, there has been no significant rise of Euro-scepticism among the political elite. The population of Lithuania is also among the most Euro-enthusiastic in the EU. In May 2003, Lithuania's population illustrated their support for EU membership by voting 91% (in a 63% turnout) in favour of EU accession. Although popular support for the country's membership in the EU has been changing, it has remained relatively strong, reaching around 75% of those polled in 2008.

Issue: Political coordination and European policy

There is an elaborated legal basis for the coordination of EU affairs in Lithuania, including the system for monitoring implementation of the adopted EU norms allowing Lithuania to be the leading member state among the 27 in terms of progress in implementing the internal market *acquis*. The web-based system of tracking the formation of national positions (information system on Lithuanian membership in the EU – LINESIS) plays an important role in facilitating the coordination process.

In a comparative context, one noticeable feature of Lithuania's system of European policy coordination is the high share of the transposed internal market *acquis communautaire* as monitored by the European Commission. It could be explained by the successful learning from the pre-accession transposition of the *acquis communautaire* and the adoption of the system to the requirements of the post-accession policy process. This part of the system experienced few changes after the accession and remains rather centralised, with the Government Chancellery at its centre.⁷

However, after the changes in the institutional architecture of coordination during 2003-2004, the degree of centralisation was loosened in Lithuania and EU issues now remain a matter of inter-institutional rivalry. The system of coordination has become more fragmented, EU policy has

⁷ Maniokas, K. and R. Vilpisauskas, *National Coordination of European Policy in Lithuania*, draft paper, 2008.

been to a large extent reactionary and defined mostly by the “leftovers” from EU accession (such as introduction of the Euro and joining the Schengen area) with certain exceptions, mostly Eastern neighbourhood and energy policy, where pro-active efforts are particularly visible. National policy on EU issues lacks clearly defined priorities and goals based on sound understanding of national interests and public needs, while the system of coordination is characterised by institutional tensions. The participation in the different EU Council formations and working groups does not constitute a natural extension of domestic policy, as the domestic and EU-related planning and reporting procedures often seem to be undertaken separately. The implementation of the Lisbon Strategy, in particular during the first half of this decade, is the best example of separate reporting to Brussels and taking economic policy decisions domestically often inconsistent with the Lisbon Strategy goals.

The coordination of European policy to a large degree reflects the usual shortcomings of coordinating most horizontal policies. Unless there is a structure under the Prime Minister with clearly defined powers and political backing, horizontal initiatives which require coordination efforts and participation of a number of ministries and other institutions usually turn into a complicated and slow exercise. This reflects the relative autonomy of line ministries, which has been particularly strengthened since the 2004 parliamentary elections after which a coalition government was formed with the Prime Minister clearly distancing himself from the ministries controlled by the coalition partners. This has contributed to the fragmentation of coordination of European policy in Lithuania. Although this has been a strategy of avoiding responsibility for the actions of ministers, it has also contributed to the reinforcement of ministerial culture and departmentalisation.

Finally, the domestic policy agenda which emerged in the first post-accession years does not feature many issues debated at the EU level. In comparison to the pre-accession agenda it lacks focus and is confined to short-term domestic issues, such as the level of pensions or salaries of particular groups of civil servants like police officers or health care sector workers. Distribution of EU structural assistance has become a political issue, but the process is dominated by the issues of distribution of funds to particular ministries or agencies, and the lack of a coordinated and strategic approach towards EU structural assistance is obvious. Recent energy price increases and the approaching closure of the Ignalina Nuclear Power Plant also linked to the forecasted doubling of electricity prices have become the most debated issues, which were also manipulated by some parties during the election campaign.

Conclusion

The EU’s leverage over the political system has been limited in influence and non-effective. After accession to the EU, the strategic political priorities

for which there could be wide political support have been absent. The capacity for public sector reforms in fields such as higher education or health care is weak and the EU's soft coordination of structural reforms has been non-effective. Although the economic convergence of Lithuania with the richer EU member states has been often declared to be a priority, there has been no clear political strategy on how to achieve this goal. However, the political institutions of the country are a matter of national competences, therefore it is not surprising that the EU's influence has been limited. Although it has been argued that EU membership strengthens the executive branch of government at the expense of parliamentary institutions, this influence is difficult to observe in Lithuania which traditionally has a rather centralised political system.

Economic Development

Summary

After seven years of relatively high economic growth averaging 7-8% of GDP, Lithuania's economy is slowing down, and is forecasted to go into recession next year.

The years of fast economic growth coincided with EU accession, and this growth was reinforced by the benefits of the Single Market as well as EU funding. The economic boom, which was mainly driven by domestic consumption, recently saw an acceleration of inflation which in 2008 reached double-digit figures. However, these trends might be reversed by the current difficult economic situation in Europe which is facing possible recession. Thus, the prospects of introducing the Euro are still unclear, while the overall economic development of the country will depend on the economic policy of the newly formed centre-right coalition government.

While the country has been enjoying an easy ride on the back of a buoyant economy and therefore little has been done to improve business competitiveness and the regulatory environment since 2004, the nearest future will require rethinking of this passive policy.

Issue: GDP per capita

Since 2000, Lithuania has been one of the fastest growing economies of the EU-27. The relatively fast economic growth contributed to the country's catching up with the average for the EU, ranging from 35% of the EU-15 in 1995 to around 60% in 2007 (according to Eurostat data). Although some of this convergence is due to the statistical effect and some is a result of declining population numbers, the average GDP per capita has been growing rapidly during this decade, including in the period after EU accession when average monthly earnings grew by more than 15% in 2006 and by more than 17% in 2007.

The current economic slowdown in Europe might interrupt the ongoing convergence process, although Lithuania's economic prospects are forecasted to look better than that of the Eurozone which entered recession in the second half of 2008.

Issue: Economic growth

Relatively fast economic growth has been the most important feature of the Lithuanian economy since 2000 (until the recent economic slowdown).

Relatively fast economic growth has been the most important feature of the Lithuanian economy since 2000

It has not only exceeded the EU average but has been also among the highest in the new EU member states, reaching an average of around 7% to 8% per year. The main sectors driving economic growth in Lithuania include construction and retail, while the growth has been mostly driven by domestic consumption.

Now the cycle is turning due to the effects of tightened credit standards and lower confidence, exacerbated by higher inflation and a less favourable external environment. GDP growth slowed from 8.8% in 2007 to 6.1% in the first half of 2008 (a less steep slowdown of the Lithuanian economy compared to those of the two other Baltic states).

Issue: Structure of the economy

Although services account for most of economic value added (contributing slightly more than 60% of GDP), manufacturing plays an important role in the country's economy (contributing around 25% of the country's GDP) and its exports, particularly in comparison with other Baltic states. Construction and agriculture are also important sectors, although the former is likely to face a contraction after the start of downward adjustment of real estate prices.

The gradual integration into the EU has also contributed significantly to the restructuring of the Lithuanian economy and its rapid development. It has been estimated that participation in the EU's Single Market contributed to Lithuanian GDP growth an additional 1.7-1.9 percentage points during the 2004-2006 period.

Issue: Inflation rate

At the beginning of this decade, Lithuania had relatively low inflation rates which have only recently started to accelerate (coinciding with the attempt to qualify for the introduction of the Euro when the EU institutions assessed Lithuania's inflation and its sustainability). Inflation has risen significantly since mid-2007 to double-digit rates in early 2008 and stood at 12.4% in July 2008 (inflation averaged over the most recent 12 months – the Maastricht criterion – was 9.9%). Rising prices of food products account for about half of the overall rise in inflation given their weight of about one third in the HICP basket. Rising food prices reflect higher global agricultural prices but also rising wage costs and higher margins. Higher global energy prices as well as significant increases in natural gas prices charged by Lithuania's sole gas supplier (Gazprom) have also contributed. Nevertheless, in addition to these largely external factors, more domestic demand pressures have also contributed to price increases as reflected in high wage growth.

Net salaries have grown significantly in recent years, reaching more than 19% average growth in 2006 and more than 22% average growth in 2007

Issue: Employment and unemployment rates

A decreasing unemployment level and a growth of prices accompanied the economic dynamism in Lithuania. The level of unemployment in Lithuania was among the lowest in the EU-27 in 2007, falling from more than 10% in 2004 to

just around 4%. The unemployment rate has started to increase, rising from 4.3% in 2007 to 4.6% in the first half of 2008. Employment growth has been relatively strong (2.3% in 2007), though some of the gains may now be lost (growth eased to 0.2% year-on-year in the first quarter of 2008).

Issue: State of the labour force

Following Lithuania's accession, intense migration of labour from Lithuania to other EU member states, in particular Ireland, the UK and Spain, characterised the country's labour market. Although the current economic slowdown is likely to change the situation in the labour market by increasing the number of unemployed and returning migrants, the future trends will depend on the labour policies of the new coalition government. It has indicated its intention to make the labour market more flexible (labour regulation has been among the key criticisms coming from foreign investors and World Bank assessments).

Issue: Salaries

Net salaries have grown significantly in recent years, reaching more than 19% average growth in 2006 and more than 22% average growth in 2007. Average gross monthly earnings in the whole economy in the first half of 2008 were up 22.5% year-on-year and had similar rates of growth in both the public and private sectors. The growth of salaries is partly the result of a tight labour market, when demand for labour exceeded supply after the significant migration to richer EU countries. In the public sector electoral populism has further accelerated wage growth. Against this background, unit labour costs (labour costs adjusted for productivity) are increasing at a relatively fast rate and eroding competitiveness, especially in labour-intensive sectors. It should be noted that labour productivity has been lagging behind the growth of salaries in Lithuania in recent years.

Issue: FDI flows

Although like other countries in the region, Lithuania has been competing for FDI, it has been among the worst performing countries in the EU-27 in terms of cumulative FDI. Most FDI came during the process of privatisation

of large infrastructure enterprises (telecommunications) and the banking sector. However, FDI flows in recent years have been modest (amounting to 5% in 2006 and 3.5% in 2007). FDI flows decreased over the first half of 2008 and covered only just a quarter of the current account deficit.

The introduction of the Euro, which was for some time planned for 2010, is being postponed now that inflation has reached double-digit rates

Issue: Adoption of the Euro and economic convergence with the EU

Lithuania has a currency board pegging its Litas to the Euro. It joined the ERM II soon after joining the EU in 2004 and has remained in it since then. The inflation rate, which was negative (deflation at the beginning of this decade), reached 2.7% by 2007. Lithuania's plans for introducing the Euro in 2007 have not been fulfilled, only because the inflation criterion was missed by a fraction (around 0.1% above the convergence criterion of 2.6%). The introduction of the Euro would have been a further asset for economic development and credibility of the markets in the current circumstances of financial uncertainty. The recent sudden rise of the Lithuanian inflation rate has jeopardised the introduction of the Euro in the near future. The introduction of the Euro, which was for some time planned for 2010, is being postponed now that inflation has reached double-digit rates. The most optimistic date for introduction of the Euro seems to be 2012. Although in 2006-2007, when Lithuania failed to introduce the Euro, there was a debate about the appropriateness of the convergence criteria for the fast growing new EU member states, it seems unlikely that the EU will review the application of the criteria.

Since 2004, an annual public opinion poll on the introduction of the Euro has been conducted in Lithuania. In 2004, altogether 47.7% of those interviewed believed that Lithuania should introduce the Euro, in 2005 – 34%, and in 2006 – 39.2%. At the time of the survey in 2006, it was already known that Lithuania would not be able to join the Eurozone in 2007 like Slovenia, therefore one might guess that it was precisely the postponement of the date that decreased the number of supporters. According to statistics for 2008, Lithuanian citizens feel that they are quite well informed about the Euro, although in comparison with the data for 2007, the percentage has decreased slightly (from 49% to 44%). The Lithuanians' support for the introduction of the Euro is growing: 40% of the respondents in 2008 answered positively when asked if they were personally satisfied about the possibility of the Litas being replaced by the Euro in Lithuania, compared with just 34% in September 2007.

In comparison with the findings of the survey conducted in 2007, the citizens of the EU-9, except for Slovakia, think that the Euro will be introduced later than planned. The biggest change is seen in Lithuania: in

September 2007, almost half of the respondents (48%) considered that the Euro would be introduced in 2009-2010, while at present only 28% hold such an opinion. Twenty-nine percent of the Lithuanians expect that the Euro will be introduced in 2011-2012, and 22% think this will happen in 2013 or later (Eurobarometer data, May-June 2008).

Issue: Public finances

Even though the fiscal indicators in Lithuania have been relatively good, the economic slowdown and the inability of the governments to use the years of fast economic growth to reach a budget surplus now threaten fiscal stability in 2009. It is quite likely that the fiscal deficit will reach 2.5% of Lithuania's GDP instead of the planned 0.5% in 2008. However, the newly formed ruling coalition declared their intention to manage the budget deficit by keeping it within the limit of 3% of GDP in 2009. The state debt is also far below the 60% of GDP limit set by the Maastricht criteria, being around 16% of GDP in 2008.

Issue: Regulatory business environment and rating of the country

One major characteristic of Lithuania's economic environment is the relative stagnation of its performance in most international rankings and indices since the country joined the EU. Despite the spectacular economic growth, most comparative indicators measuring the business environment have been either stable or decreasing compared to other countries.

Since 2004 Lithuania's ranking in the World Bank's Doing Business Index has been downgraded from 17th to 28th in 2008. Although this has been mostly due to the progress of other countries rather than regress in the Lithuanian business environment, it also shows the overall stagnation of economic policy since accession into the EU.

Similarly to its ranking in the Doing Business Index, Lithuania's position has also worsened in the last few years in the Global Competitiveness Index compiled by the World Economic Forum. Here the country's downgrading, however, has also been influenced by the worsening macroeconomic environment, in particular growing inflation.

Finally, it should be noted that Lithuania has been evaluated as below the EU average performer by the World Economic Forum in terms of implementing reforms related to the Lisbon Strategy.

Issue: Export, import and competitiveness

Lithuania is a small and open economy in which foreign trade plays a major role. Exports of goods and services account for more than 50% of the country's GDP, around two thirds of them going to other EU member states. Significant shares of Lithuania's exports are to Russia and other CIS countries.

Interestingly, trade with these markets has been on the rise in recent years, although the current economic slowdown in Russia might change this trend.

Imports of goods and services account for around 70% of Lithuania's GDP. Exports and imports have been growing rapidly in recent years, although the growth of imports has been higher and has contributed to a widening current account deficit (reaching 14% in 2007). However, the situation started changing in 2008, with exports still growing by 30% in the first half of the year but the growth of imports decelerating.

Conclusion

Lithuania's accession to the EU has been accompanied by rapid economic growth, partly influenced by positive expectations linked to EU membership and the liberalisation of Lithuania's trade with the external world. Along with the rapid economic growth, the Lithuanian political elite experienced a major setback with the failure to introduce the Euro because of failure to fulfil the inflation criteria. Although Lithuania's fiscal indicators remain well within the Maastricht criteria, the current economic slowdown is likely to make the introduction of the Euro more difficult because of the risk of exceeding the budget deficit limit. Thus, although the EU provided passive leverage in the monetary policy area, Lithuania – partly for objective economic reasons, partly for the lack of political enthusiasm among the country's elite – failed to take advantage of it. Although the application of inflation criteria for the converging economies could be debated, it is unlikely that the EU will review the Eurozone accession criteria, in particular since from 2009 two Central European countries will be already in the EMU.

Lithuania's external trade has been growing constantly since EU accession, and one of the particular features has been its acceleration eastwards. Lithuania's trade remains quite diversified in terms of countries (almost one-third being directed towards non-EU members) and in terms of products (with a relatively high share of manufacturing). It should be noted that Lithuania has been one of the key supporters of the original Services Directive adopted recently by the EU in a watered down version. The main risks of the current state of the economy include a potential imprudent fiscal policy and the lack of infrastructure connections (in particular energy links) with the rest of the EU. The latter will become particularly important in 2010 when the Ignalina NPP, which currently produces about 70% of the electricity consumed in the country, is planned to be shut down. In this respect, the main recommendation to the EU would be to exercise more actively hard leverage in terms of removing existing obstacles to the Single Market (in particular, in services) as well as of providing additional funds for infrastructure connections (in particular, in the energy sector to link the Baltic states with the Nordic and Central European energy market). The latest proposal from the European Commission in the form of a plan for European economic recovery provides suggestions for additional funding of energy infrastructure projects. Also, it seems that the EU would be ready to provide financial assistance should Lithuania need external funding because of a deteriorating fiscal situation.

Welfare System and Social Inclusion

Summary

Despite rising employment in recent years, the target of an overall employment level (70%) has not been attained yet. It is the market economy (rather than state intervention) that has driven employment in Lithuania. Income inequality has been gradually decreasing but still remains one of the highest in the EU. The Roma are the most socially excluded in Lithuania.

The country's social expenditure remains one of the lowest in the EU, despite increasing pensions and other forms of social support in recent years.

Despite the small volume of the *acquis*, the European Commission is exercising its leverage in the area of employment through the infringement procedures. In contrast, the application of the OMC is rather ineffective in this policy area at the domestic level.

Issue: Employment and labour market

Employment has been rising and unemployment has been falling in Lithuania in recent years. In the period between 1998 and 2007, the number of employed people increased from 1.489 million to 1.534 million (by 3%). The level of employment in Lithuania, which dropped from 62% to 57% in the 1998-2001 period, has recently started rising (in 2007 it amounted to 64.9%, almost matching the EU-27 average of 65.4%), though the target of overall employment level (70%) is yet to be attained. Also, there has been a significant decrease in the level of unemployment in recent years as a result of the rapid economic growth and emigration. The level of unemployment, which amounted to 17.4% in 2001, dropped to 4.3% in 2007 (compared with an average 7.1% in the EU-27).

However, it remains relatively high among young people. Also, there is some structural unemployment in Lithuania due to a certain mismatch between labour market supply and demand. Since a slowing economic growth, or even a possible recession, will have a downward effect on employment, it remains necessary to facilitate employment (especially that of youth and women), as well as to increase the overall flexibility of the labour market (layoffs etc.).

However, the overall labour force and economic activity of the population has decreased. In the period between 1998 and 2007, the Lithuanian labour force shrank from 1.716 million to 1.603 million because of intensive emigration, in particular after the country's accession to the

EU. The activity level of the Lithuanian labour force decreased from 72% in 1998 to 67.9% in 2007 (the EU-27 average in 2007 was 70.5%). To reduce poverty and improve social inclusion, it is necessary to facilitate the activity of the labour force by involving non-active population in the labour market and reconsidering the existing system of social benefits, which creates incentives for people not to join the labour market.

In its 2007 report the European Commission concluded that Lithuania had made some progress in 2005-2007 regarding policies to address its labour market challenges. However, there had been no progress in promoting internal labour mobility. Although the Council had previously invited Lithuania to focus on improving youth employability, expanding entrepreneurship education, increasing the availability of childcare, and strengthening occupational health and safety, Lithuania's policy response was limited.⁸ According to the European Commission, it is important to reform higher education and promote flexible working arrangements for young people. Finally, the European Commission previously recommended to Lithuania to "intensify efforts to increase the supply of skilled labour, with a special focus on the participation of older workers by: improving the regional mobility, reforming the education and training systems to ensure their quality and relevance to the labour market needs and implementing the revised lifelong learning strategy."⁹ Also, structural reform measures are necessary to remove existing labour market bottlenecks in Lithuania.

The 2006 assessment of the EU Lisbon Strategy in Lithuania found that the implementation of employment measures was good compared to the area of macroeconomic and microeconomic policy. However, although responsible authorities planned many ongoing measures, they clearly lacked ambition. Progress in achieving the employment targets of the national reform programme in Lithuania stemmed largely from the forces of market economy rather than the influence of public interventions. Attempts of the Lithuanian government to foster territorial labour mobility, which was recommended by the European Commission in its 2006 progress report, were blocked by certain interest groups in the Lithuanian parliament.¹⁰

Issue: Poverty and social inclusion (including the Roma)

In recent years the income of citizens has increased, but regional income disparities and income inequality remains rather high in Lithuania. Although

⁸ The European Commission, *Lithuania. Assessment of National Reform Programme*, 2007.

⁹ The European Commission, *Lithuania: Assessment of National Reform Programme*, 2006, p. 6.

¹⁰ There was a fear of additional labour outflow from poorer Lithuanian regions after the introduction of some support to territorial labour mobility. Nakrošis, V. (ed.), *Lithuania's Participation in the European Union Open Method of Coordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006, p. 64. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian)

People of Roma origin (about 3 000 in Lithuania) are more often socially excluded than others

the ratio of household income and expenses has improved over the last years, disposable income in the cities remains about 30% higher compared with rural areas. According to the Gini coefficient (a measure of income inequality), income inequality is gradually decreasing

in Lithuania, but it still remains one of the highest in the EU. In 2006 in Lithuania this indicator equalled 35 compared to the EU-25 average of 30.

In Lithuania, the poverty risk level (after social benefits) remains rather high, particularly for some social groups. The poverty risk level before social benefits in Lithuania does not differ substantially from the EU-25 average, but the poverty risk level after social benefits is one of the highest among all EU countries. In 2006 the latter was 20%, exceeding the EU-25 average by 4%. This could be explained by dispersed and poorly targeted social expenditure in Lithuania. Poverty remains most threatening to such groups as unemployed individuals, incomplete families or families with many children, and single persons. Therefore, there is a need to better target the poorest groups while, at the same time, reconsidering support which reduces incentives to work and becomes a permanent source of income.

Also, social exclusion is most probable in certain groups of society. The number of the unemployed disabled persons still remains rather high, despite their more active participation in the labour market. Furthermore, people of Roma origin (about 3 000 in Lithuania) are more often socially excluded than others. According to sociological surveys, almost 50% of the men and 70% of the women belonging to this ethnic minority are not employed. However, their employment chances are rather low because most Roma are not educated and do not know the official language. Also, according to surveys, Lithuanian citizens have a negative attitude towards the Roma. Other minorities (the Russians, the Polish) are well integrated into the political, economic and cultural life of Lithuania. The only important problem faced by these minorities is insufficient knowledge of the Lithuanian language.

Issue: Social security and pensions

To reduce poverty, social support and services are provided to the population. The largest share of social support in cash was allocated for children and families raising children; the amount of social support for families raising children has recently increased by 10%.

There have been some changes in providing social services in recent years. In addition to stationary social care, provision of short-term care at the recipient's home has been introduced. However, there is still a shortage of long-term stationary social care services.

Pensions have been regularly increased in recent years, so their purchasing power has grown. In the period between 2005 and 2007, the

average pension increased by 42%, and the incapacity for work pension by 29%. Despite the increase, Lithuanian pensions are relatively low if compared with the EU average. In 2005, the share of GDP allocated for social insurance pensions in Lithuania amounted to 6.6% (the EU-25 average was 12.2%).

In part because of the pension reform, Lithuania is at lower risk with regard to the sustainability of public finances

The Lithuanian government expects a rise in the expenditure-to-GDP ratio due to higher social transfers. However, it is difficult to generate additional budgetary revenues in an environment of rapidly decreasing economic growth. The increases in social benefits before the 2008 parliamentary elections already threaten the short-term sustainability of the social security system.

Pension reform has been ongoing in Lithuania for several years now. A three-pillar pension system is in place in Lithuania, covering PAYG (pay-as-you-go) and two private-funded pillars. A second pillar of the pension system was established in 2004: an increasing share of contributions (currently 5.5%) from the State Social Insurance Fund budget is transferred to private pension funds. About 69% of all insured (according to 2008 data) joined this voluntary pillar. This contributes to the sustainability of public finances in Lithuania.

In part because of the pension reform, Lithuania is at lower risk with regard to the sustainability of public finances: the budgetary impact of an ageing population is likely to be lower compared to the EU average. However, this risk could be further reduced by undertaking certain reforms. In its 2007 progress report the European Commission found that Lithuania's preparations to increase the statutory retirement age are still pending.¹¹ The Lithuanian government is planning a very gradual increase in the age of retirement to 65 years in the 2012-2026 period.

Conclusion

The Lithuanian government has implemented a great deal of its social policy commitments in recent years (2006-2008). Increasing social expenditure, which was made possible due to higher budget revenues, constitutes its main achievement. However, a large part of this increase was politically motivated in the pre-election context rather than carefully targeted to the poorest groups. Also, necessary structural reforms have been lacking in the Lithuanian labour market, which is likely to cause social tensions during times of halting economic development and falling budgetary revenues coupled with global financial instability and radically reduced possibilities for borrowing.

¹¹ The European Commission, *Lithuania. Assessment of National Reform Programme*, 2007, p. 5. http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-progress-report-LT_en.pdf

In the post-accession period the EU exercises hard leverage. The volume of the *acquis* in the area of employment is rather small (5% of all EU secondary legislation in effect). However, the European Commission is exercising its hard leverage in the employment area through infringement procedures. In 2006 it started an infringement procedure against Lithuania (and other countries), requesting it to complete the implementation of the directive on occupational pensions. In 2008, an infringement procedure was started against Lithuania (and other countries) concerning the implementation of the employment equality directive (prohibition of discrimination in employment and occupation on various grounds). It should also be noted that in some cases the EU directives regulating employment are applied in Lithuania in a more restrictive way, thereby limiting the flexibility of the labour market (for example, part-time employment).

Also, the EU can exercise its soft leverage under the Lisbon Strategy, which includes the EU employment strategy, as well as the process of social inclusion. However, the application of the OMC in the areas of employment and social inclusion has been rather ineffective due to two main reasons: the weak nature of the OMC (absence of any legal or financial sanctions) as well as the negative effect of domestic mediating factors (lack of political priorities, negative influence of domestic interest groups, etc.). Despite the limited effectiveness of soft leverage, it should be maintained at the EU level. There is no need to abstain from a coordinated EU policy in the areas of employment and social inclusion. Despite the weaknesses of the OMC, its application could improve in Lithuania following the appointment of the new government in 2008 or in the context of an economic crisis.

Compared with the post-accession period, EU leverage in the area of employment and social inclusion was stronger before EU membership. Also, owing to its priority of EU membership Lithuania was subject to passive EU leverage. Lithuania's participation in the OMC of employment, which started in 1999, was a requirement for EU membership. On the basis of the EU employment strategy, Lithuania prepared a national employment programme, signed a joint employment assessment document with the European Commission and produced a progress report.

H Health System

Summary

The health system is one of the public sectors that are not directly regulated by the EU, except for certain provisions related to the movement of people between EU member states. The period of membership in the EU has seen debates on needed reforms rather than concrete actions, while the EU's soft coordination measures have been non-effective. Although there is widespread public agreement on the need for reforms of regulation and financing of the system, and although some key indicators show the poor state of health in the country, policy-makers have been very cautious about unpopular measures legalising payments. The potential budgetary tensions might become the main incentive to proceed with the reform in the coming years.

State of Affairs in the Sector

Currently the health system in Lithuania is regarded by most policy-makers as one of the public policy areas (together with higher education) which require radical reforms. Despite the fact that the Lithuanian medical profession is seen as qualified and many doctors emigrate to Norway and other countries where they can earn higher salaries for their services, the system is characterised by a relatively low level of funding, inappropriate structure of incentives for the efficient use of resources and low quality of services. By a number of indicators Lithuania does not compare well with other EU member states.

Thus, life expectancy in Lithuania is one of the shortest in the EU. For example, in 2006 it was 71.2 years, the

second shortest in the EU-25 (approximately eight years shorter than the EU-15 average and four years shorter than the EU-10 average).¹² Moreover, it decreased somewhat compared to 2003. More than two thirds of all deaths in 2007 resulted from circulatory (cardiovascular) system and cancer diseases, which exceeded significantly the EU average. Lithuania was the third country after Latvia and Bulgaria in the EU-27 in terms of deaths from circulatory system diseases, and exceeded the EU-27 average by three times. Around 75% of Lithuanians of working age died from a

¹² This and the following indicators are from the Health for All Database, Copenhagen, WHO Regional Office for Europe, <http://www.euro.who.int/hfad>

The health system in Lithuania is regarded by most policy-makers as one of the public policy areas which require radical reforms

disease. According to the World Health Organisation, mortality due to external causes rose between 1990 and 2005 by about 30% (from 121 to 156 deaths per 100 000 population) and male mortality from external causes is 4.5 times higher than that of females. According to the World Health Organisation classification,

Lithuania is in the group of European countries with low child and high adult mortality. The net change in the population growth was -4% in 2007.

Issue: Quality of health services

About 6% of the Lithuanian workforce are employed in the health care sector in Lithuania. In 2007, there were about 40 doctors per 10 000 people in Lithuania, which is one of the highest indicators in the EU. The concentration of physicians has remained almost unchanged since 1990. About 70% of all health care employees work in the urban areas.

Despite the high number of people working in the health care system, as it was indicated above in terms of life expectancy, circulatory system and cancer diseases and deaths from external causes Lithuania compares badly with most EU member states. Cardiovascular diseases are the leading cause of mortality in Lithuania, resulting in the deaths of 45% of all males and 65% of all females; they are also responsible for 16% of hospitalisations. It should be noted that the number of deaths from ischaemic heart diseases in Lithuania is three times higher than the EU-15 average, and deaths from cerebrovascular diseases exceed the EU-15 average twice.

During the past decade Lithuania has had a steady decline in population growth, a fertility rate about 40% below the replacement rate, and a large discrepancy between female and male life expectancy leading to one of the highest female/male ratios in the EU. The inappropriate mix of incentives for the use of resources (physicians, money) seems to play an important role in explaining this mismatch between the relatively high share of doctors with well regarded qualifications and the relatively bad demographic indicators noted above. The insufficient quality and accessibility of health care services is admitted in the Framework for the Development of the Health Care System in 2008-2015, which cites long waiting times, restrictions for private institutions to operate in the system, the heavy bureaucratic load for doctors, the gap between officially declared "free" services and the widespread practice of shadow payments. These have been the reasons behind the recent political debates on the need for structural reform of the health care system.

Issue: Reform of the health sector

The legal framework for the first health care reform in Lithuania after the re-establishment of independence was set in the mid-1990s. The main aim

of the reform of 1995-1997 was to move away from the centralised system that had too many specialised personnel and hospital beds, establishing the central role of general practitioners, and setting up state accreditation and medical audit agencies to license practitioners and monitor malpractices, thus aiming at quality of services. Although the productivity of health care service providers and responsiveness to patient needs were the main criteria behind the reform, the ongoing debate on further reform of the system shows that there is popular dissatisfaction with the quality of services and the continuing practice of shadow payments.

The inappropriate mix of incentives for the use of resources (physicians, money) seems to play an important role in explaining the mismatch between the relatively high share of doctors with well regarded qualifications and the relatively bad demographic indicators

The next step in the reform of the Lithuanian health care system was taken in 2006 when the Minister of Health Care decreed the creation of a working group to prepare a Framework for the Development of the Health Care System in 2008-2015. The working group included state institutions, NGOs and professionals from the health care system and in 2007 it presented the Framework for public debate. The main suggestions for the reform included structural reform (increasing the role of private institutions and providing a level playing field for competition with state institutions) and reform of financing (defining the range of health care services covered by state insurance and introducing voluntary private insurance, allowing more realistic pricing of services and legalising payments by patients).

Although some key elements of the reform, such as voluntary private insurance, had to be implemented in 2008, the Framework was not approved by the centre-left governing coalition. The main elements of the suggested reforms are now being considered by the centre-right coalition formed after the October 2008 parliamentary elections. It is quite likely that the economic slowdown and the lack of state funding might provide an incentive to reform the financing of the health care system. At the same time, the reform is likely to be controversial due to the sensitivity of the public to the legalisation of payments for health care services.

Issue: Financing

The share of financial resources from the state budget provided for health care has remained more or less the same in the last ten years, although in absolute numbers it has increased during this decade of fast economic growth. It equalled 4.6% of GDP in 1998 and 4.3% in 2006. It is expected to remain at a similar level in 2009. It was below the EU-25 average, which equalled 6.6% in 2006. However, it should be noted

that the practice of shadow payments to doctors for health care services remains widespread in Lithuania. Therefore the actual amount of financial resources allocated to health care is higher than officially provided. The World Health Organisation estimates that total health expenditure has remained around 6% of GDP. About 70% of all expenditures are accounted as public expenditures.

The publicly financed health system covers all residence for emergency care. Access to other services depends on payment of contributions to the statutory health insurance scheme which covers quite a wide range of benefits (see below on insurance system). Cost sharing applies to outpatient prescription drugs and dental care for adults, with exemptions for children, disabled people and pensioners. Patients pay out of pocket for non-essential care if they are not covered by the statutory scheme. Farmers contribute based on a proportion of the minimum wage and the state covers pensioners, registered unemployed, dependents, single parents, people receiving statutory benefits, disabled persons and others.

The professional associations in the health care sector have been asking the authorities to raise the salaries of people working in this sector. However, it seems that no significant changes are likely to take place unless significant reforms of financing of the sector are undertaken. Currently the new governing coalition formed after the October 2008 parliamentary elections is debating the health care reform, which might result in a separate tax being levied instead of dedicating a share of the collected personal income tax and social security contributions. The introduction of voluntary private health insurance as well as legalisation of payments for certain health care services could provide additional important sources of funding. The forecasted economic recession and the declining budgetary revenues might provide important incentives to start these reforms aimed at attracting private funds to the health care sector.

Issue: Hospital privatisation

Primary health care is provided in both state and private institutions, while secondary and tertiary care institutions (general and specialised hospitals, sanatoriums) are state-owned. Primary-care state institutions are centres, general practitioner's offices, ambulatory clinics and polyclinics. The network of primary-care institutions is administered on the municipality level, with the Ministry of Health Care playing a general policy-making and supervisory role. The private sector provides mostly outpatient care which is purchased out of pocket (dental care, cosmetic surgery, psychotherapy, gynaecology). Almost none of the hospitals or polyclinics have been privatised.

There has been an ongoing debate about privatising primary-care institutions, also regarding the provision of a level playing field for state and private health care institutions to compete for funding from public investment programmes, pay real estate tax, etc. Applying public-private partnership in municipal health care institutions has also been discussed,

although the first attempts to apply the concession model failed after the municipal elections reversed the process.

Issue: Private health insurance funds

In 1997 a statutory health insurance system was introduced in Lithuania. It is administered by the National Health Insurance Fund and regional funds. Contributions are set centrally by law, with employers contributing 3% of their employees' gross earnings; 30% of the revenues from employees' and self-employed persons' personal income tax are earmarked for health. The Fund is separated from the national budget.

As some analysts note, private health insurance plays a very minor supplementary role in Lithuania.¹³ It is provided by employers as an element of incentive packages for employees in private sector businesses. The introduction of widespread supplementary voluntary private insurance is one of the key elements in the current debate on the reform of the sector and it is being considered by the new coalition formed in November 2008.

Conclusion

The health system is one of the public sectors which is not directly regulated by the EU, except for certain provisions related to the movement of people between EU member states. Therefore, Lithuania's preparations for EU accession did not include direct reform of the health sector, and the post-accession period has seen debates on needed reforms rather than concrete actions.

In recent years, there has been a steady decline in key demographic indicators, such as population growth, fertility rate and life expectancy, while mortality from circulatory (cardiovascular) system and cancer diseases is among the highest in the EU. Although there is widespread public consensus on the need for reforming the regulation and financing of the system, policy-makers have been very cautious about unpopular measures legalising payments. The potential budgetary tensions might become the main incentive to proceed with the reform in the coming years.

The EU's leverage has been limited to soft coordination and some hard measures related to the movement of people in the EU. It has been limited in influence and non-effective. However, there seems to be no need for EU-wide measures, as the functioning of the health care system is directly linked to public finances and each country has its own mix of elements, although competition for skilled personnel between member states is likely to indirectly affect the trends in the profession.

¹³ Thomson, Sarah, Thomas Foubister and Elias Mossialos, *Health Care Financing in the Context of Social Security*, study requested by the European Parliament, February 2008, p. 129.

Educational System

Summary

Lithuania is very advanced in terms of completed upper-secondary education, but lagging behind the EU average in terms of lifelong learning as well as vocational education and training. The reform of the pupil's basket has been implemented, but the optimisation of the educational network has not been completed.

Also, there is a need to increase efficiency of educational spending in Lithuania. The performance of Lithuanian students is improving, but it remains necessary to improve the quality of teaching. Reform of the educational system, which remains unfinished in Lithuania, depends more on domestic factors (rather than on the EU) in the future.

State of Affairs in the Sector

Lithuania is very advanced in terms of completed upper-secondary education. In 2007, a total of 89% of the Lithuanian population had completed upper-secondary education (the EU-27 average is 78.1%; Lithuania's target for 2012 is 90%). Also, Lithuania (together with Ireland and the UK) has a high number of graduates per 1 000 young people (86.7% at the levels of ISCED 5 and 6 in the population aged 20 to 29, compared with an EU average of 56%).

Lithuania is lagging behind the EU average in the area of lifelong learning (percent of the adult population aged 25 to 64 participating in education and training). According to Eurostat, in Lithuania in 2006

participation in education and training was 4.9%, compared to an EU-25 average of 10.2%. The Lithuanian government has set a target of 11% by 2013 in the relevant national strategic documents. Lifelong learning is constrained by the lack of training opportunities for adults as well as by the business community's insufficient attention to upgrading the qualifications of employees.

Moreover, Lithuania is lagging behind the EU in terms of participation in initial vocational education and training. In 2006 this participation at the level of ISCED 3 stood at 25.7%, compared with the EU-27 average of 51.7%. Also, participation in continuous vocational education is rather low in Lithuania (15% in 2005, compared with an EU average of 33%). Vocational education and training is not popular among young Lithuanians, who prefer higher education.

Issue: Reform of the educational sector

The system of education in Lithuania includes formal education (primary, basic and secondary education, vocational education and training, higher education), non-formal education (pre-school education, other non-formal education of children and adults), informal education (or self-education), assistance to pupils, students, teachers and schools.

Lithuania started its education reforms in 1992. Several important reforms have been implemented to date. From 2002 onwards, financing is based on the principle of education funds per pupil (the so-called pupil's basket), with other financing available for learning environment, special programmes, etc. However, the principle of pupil's basket is not fully applied: some financing is redistributed among local schools. Also, Lithuania started optimising its educational network (by reducing the number of educational establishments and changing their profile).

A new stage of the educational reform in Lithuania started in 2003, when the Lithuanian parliament approved a State Educational Strategy for 2003-2012, followed by the adoption in 2005 of a government programme on the implementation of this strategy. There is a risk that some targets of this programme will not be achieved by 2012, including the target of upgraded schools (due to insufficient financing, its level was only about 10% in 2005, the 2012 target being 70%).

Issue: Governance and school management

There is a dense network of schools in Lithuania. However, the reform of the educational network has been rather slow. The National Audit Office of Lithuania has found that the reform of the educational network is not coherent, and some local authorities (36 from 60) have not fully implemented the optimisation plans for their school networks.¹⁴

School principals are in charge of the schools of general education (primary, basic, secondary, youth school or gymnasium). School principals are appointed by the founders of state and municipality schools for a period of five years according to the qualification requirements for candidates approved by the Ministry of Education and Science and following an open competition procedure.

Higher education institutions are more autonomous. According to the Law on Higher Education, the highest body of academic autonomy in public universities is the senate, and in public colleges the academic council. Faculties or other independent units elect their representatives. One of the main reform issues in Lithuania is higher education governance: there is strong resistance against the proposal of the Ministry of Education and Science to subject the selection and appointment of executive heads

¹⁴ LR Valstybės kontrolė. *Valstybinio audito ataskaita: Švietimo sistemos reforma*. Vilnius, 2008 m., p. 3. http://www.vkontrole.lt/auditas_ataskaitos.php?tipas=v

One of the main reform issues in Lithuania is higher education governance

of the universities to some external influence through the establishment of new councils with the representation of social partners and strategic decision-making powers.

Issue: External evaluation, inspection and quality of education

Lithuania has a well-developed system of internal and external evaluation covering all educational levels. For instance, the Centre for Quality Assessment in Higher Education, which was established by the Ministry of Education and Science, implements the policy of external quality assurance in Lithuania (at the level of both institutions and study programmes). The state authorities monitor and control the process and results of education. The state authorities define the register of specialities, compulsory requirements for curricula and separate modules, qualification requirements for teachers, learning conditions and control of evaluating the obtained knowledge and skills. Also, every year the Ministry of Education and Science issues an official annual report concerning the state of the education system.

Issue: Teacher training and career

Lithuania has a well-developed system of teacher training. The process of teacher training covers initial training, in-service training and retraining of teachers. Teachers are trained at universities, colleges and other institutions.

The number of teachers trained in Lithuania exceeds the actual needs of the labour market. It is estimated that only about 10% of all graduates are employed in Lithuanian schools. Also, the quality of teacher training is not sufficient. There has been a call to reduce the number of teachers trained, focusing on their quality. However, the demand for teachers is likely to increase somewhat in the future because of the need to replace retired teachers.

Moreover, the popularity of teaching as a career is rather low because of the low salaries and high teaching workload. Therefore, it is difficult for Lithuanian higher education institutions to attract motivated students in pedagogical courses. Also, it is difficult for some Lithuanian schools to recruit new teachers (especially in certain subject areas).

Issue: Financing of education

It is interesting that government spending on education as a share of GDP is slightly higher than the EU-25 average. In 2005 Lithuania's expenditure on education was 5.5% of GDP, compared to the 5.3% average

for the EU-25 countries. However, due to the large number of students, Lithuania's expenditure per student/GDP per capita is rather low compared to the EU average (78% at the level of ISCED 2-4). Nevertheless, this is affected by differences in relative wage levels between the richer and poorer member states of the EU.

In 2003, private funding by households for tertiary education (as a percentage of total expenditure received by tertiary institutions) amounted to about 25%.¹⁵ From 2008-2009 more private financing will be attracted to tertiary education. Following a decision of the Lithuanian Constitutional Court and changes in higher education legislation, it will become possible to charge additional fees from students whose grade average is below 8 points.

The sector of education employed about 36% of all public sector employees in 2007. Also, the number of teachers (as a percentage of the active population) was 3.4% in 2006 (the third highest indicator among the EU-27 after Belgium and Malta, according to Eurostat). Lithuania experienced the highest rise in the number of teacher population in the period of 2000-2007 (by 22%).¹⁶ At the same time, the teacher-student ratio in Lithuania became one of the lowest among the EU-27 (after Portugal). This could be explained by a combination of increasing teacher population and decreasing pupil population (the number of pupils in primary education decreased by 31.1% in 2000-2006).

Lithuanian teachers are constantly demanding higher salaries. In 2007, there were 161 strikes in Lithuania, all of them in the sector of education, 147 of which at the secondary level, according to statistics. The Lithuanian government has recently increased teachers' salaries and approved a special long-term programme for increasing teachers' salaries. Also, the rectors of all Lithuanian universities have demanded a similar programme for university teachers.

In Lithuania, there is some mismatch between the relatively large government spending and teacher population on the one side, and educational outcomes on the other. An OECD analysis based on evidence collected in the sectors of education and health notes that efficiency gains could be obtained by increasing the scale of operations, meaning the concentration of the educational infrastructure, staff and teaching activities.¹⁷ Also, another paper argues that efficiency in the sector of education could be promoted by adopting an output orientation (as opposed

¹⁵ Eurydice, *Higher Education Governance in Europe: Policies, Structure, Funding and Academic Staff*, 2008, p. 74. <http://eacea.ec.europa.eu/portal/page/portal/Eurydice/Products?sortByCol=5>

¹⁶ The European Commission. *Progress Towards the Lisbon Objectives in Education and Training: Indicators and Benchmarks*, 2008, p. 39. http://ec.europa.eu/education/policies/2010/doc/progress08/report_en.pdf

¹⁷ Lonti, Z. and M. Woods, "Towards Government at a Glance: Identification of Core Data and Issues Related to Public Sector Efficiency", *OECD Working Papers on Public Governance*, No. 7, OECD Publishing, 2008, p. 19.

to an input orientation) through institutional reforms that focus incentives on performance.¹⁸ Because of the wide network of educational service providers and large teacher population in Lithuania, there is a clear need for further institutional optimisation and result-oriented management.

Issue: Student performance and outcomes

The recent report of the European Commission illustrates that Lithuania is catching up with other European countries on the basis of five benchmarks (low performers, upper secondary education, early school dropouts, graduates of MST, lifelong learning participation).¹⁹ Lithuania is even moving further ahead in the areas of upper secondary education and MST (mathematics science technology) graduates. However, it is not clear how long this positive trend could be sustained.

Results of pupils' or students' performance could be assessed on the basis of international surveys. In 2006 Lithuania participated in the PISA survey. Reading literacy proficiency of Lithuanian pupils was found to be lower compared with the EU average.²⁰ Another literacy assessment, which was conducted by the PIRLS in 2007, showed average reading proficiency among Lithuanian pupils.²¹

The quality of formal education is insufficient at all levels. Graduates lack specific professional qualifications required by the labour market. Vocational education and training suffers from a lack of qualified staff, outdated equipment and other factors. The Ministry of Education and Science will invest a considerable share of the 2007-2013 EU Structural Funds into human and material resources of this type of education.

Also, the educational sector is facing unfavourable trends in the future. For instance, at the tertiary level a large decline in birth rates will have a negative effect from 2009 onwards. Another challenge for Lithuanian institutions of higher education is international competition: studying abroad is becoming increasingly popular among Lithuanian students.

¹⁸ Wößmann, L. and G. Schütz, "Efficiency and Equity in European Education and Training Systems", unpublished paper for the European Commission, 2006, p. 30.

¹⁹ The European Commission, *Progress Towards the Lisbon Objectives in Education and Training: Indicators and Benchmarks*, 2008. http://ec.europa.eu/education/policies/2010/doc/progress08/report_en.pdf

²⁰ The European Commission, *Progress Towards the Lisbon Objectives in Education and Training: Indicators and Benchmarks*, 2008, p. 87. http://ec.europa.eu/education/policies/2010/doc/progress08/report_en.pdf

²¹ Deteriorating literacy proficiency results were attributed to a more widespread use of computers by Lithuanian pupils. See Lietuvos Rytas, *Tarptautinis tyrimas: Lietuvos ketvirtokų skaitymo įgūdžiai suprastėjo*, 30 November 2007. <http://www.lietuvosrytas.lt/-11964233441194988843-p1-%C5%BEaid%C5%BEiame-klases-tarptautinis-tyrimas-lietuvosketvirtok%C5%B3-skaitymo-%C4%AFg%C5%ABd%C5%BEiai-suprast%C4%97jo.htm> However, the Lithuanian language is rather difficult compared to other EU languages (e.g. Estonian).

Conclusion

The educational reform remains unfinished in Lithuania. Reform of higher education is particularly lagging behind other levels of formal education due to the lack of political will and strong opposition from some interest groups (see the Research and Innovation Section). The implementation of the education reform at the basic and secondary level experiences problems of capacity and willingness at the local level. Although some local authorities have failed to implement their plans and to comply with certain legal provisions, the Ministry of Education and Science lacks leverage against them. Also, the National Audit Office of Lithuania has found that the cooperation between this Ministry and local authorities has not been sufficient during the educational reform.²²

The EU leverage in the area of education and training is of a soft nature. The Education and Training 2010 work programme provides for a separate process of the Open Method of Coordination at the EU level. It is closely related to the EU Lisbon Strategy without being a formal part of it. However, the influence of this soft OMC is much weaker in comparison with the Lisbon Strategy. Although the Education and Training OMC includes Community objectives, targets, indicators, reports, benchmarking, dissemination of good practice and other soft measures of governance, no national commitments and progress reporting are foreseen. Also, unlike under the EU Lisbon Strategy, there are no formal recommendations from the EU institutions to worse-performing countries. Therefore, the Education and Training OMC could be strengthened and integrated into overall framework of the EU Lisbon Strategy.

Educational reforms can stem from Lithuania's involvement in various EU programmes or networks in the area of education and training. Lithuania became involved in various EU education and training programmes from 1998 (5th, 6th and 7th framework programmes in the area of R&D, such education and training programmes as Socrates or Erasmus). However, there is no direct link between Lithuania's participation in these programmes and educational reforms. Also, Lithuania is involved in the inter-governmental Bologna process. Lithuania's progress has been assessed as being very good: it has a well-developed system of quality assurance, two-level system of educational degrees (but the length of bachelor's studies is four years, and that of master's studies – two years) as well as a developed system of recognising qualifications and diplomas. However, the Bologna process is not an important driver of educational reforms in Lithuania.

Despite the limited effectiveness of the soft leverage in the area of education and training, the same conclusion could be made as in the policy area of employment and social inclusion: it should be maintained at the EU level. Political changes following the 2008 parliamentary elections or other domestic-level changes could foster educational reform in combination with the coordinated EU policy at the national level. Moreover, the educational system is one of the areas where free movement of services could act as a pressure for reform at the national level, thus complementing the existing EU leverage of a soft nature.

²² LR Valstybės kontrolė, *Valstybinio audito ataskaita: Švietimo sistemos reforma*, Vilnius, 2008 m., p. 47. http://www.vkontrole.lt/auditas_ataskaitos.php?tipas=v

J

ustice and Home Affairs

Summary

Joining the Schengen area was one of the key priorities of Lithuania after EU accession. This was achieved in 2007. The situation in home affairs in terms of the crime rate and trust in police has been quite stable since accession. A new reform of the police system has been started recently. One particular feature of the Lithuanian justice system is the relatively low trust of the population in the court system.

Cooperation between EU member states in justice and home affairs is based on solving together the externality problems. These areas do not require harmonisation, and most common action problems can be solved by cooperation procedures and exchange of best practices. In the future, a more important EU role in financing and coordinating external border management is justified, and it is particularly important for Lithuania which borders two non-EU member states.

State of Affairs in the Sector

Justice and home affairs is a public policy area which is characterised as one of the basic ("guardian") functions of the modern nation state. It is also a public policy which is not regulated by the EU except for the issues falling under cross-border movements of people.

EU accession did not involve any significant reforms of justice and home affairs except for general provisions on the functioning of the justice system, removing incentives for corruption and other issues falling under the democracy criteria as well as particular issues of external border protection, the Schengen agreement, cooperation in the fields of justice and police.

It should be noted that EU funds in this field are limited mostly to projects related to external border management and technical preparations for the functioning of the Schengen area of internal

freedom without frontiers. National budgetary funding for home affairs has been limited although it has increased gradually since 2004 (in particular, growing significantly in 2007-2008, to about 10% of national budget expenditures, although it remains smaller than funding for agriculture). Adequate motivation and increasing the level of qualification remain the key objectives in this field in the context of low salaries and intense turnover of personnel.

Issue: Internal security situation

According to a public opinion survey conducted in July 2008, a total of 53% of the surveyed trusted the police in Lithuania while 39% did not.²³ More than half (52%) of those who contacted the police had a very good or good opinion about the latter. About 11% of those surveyed had suffered from crime or illegal activities during the last 12 months. This indicator improved by 4 percentage points since 2004. According to the overwhelming majority of respondents (98%), the biggest threat to them was posed by traffic accidents. Around 96% of the respondents indicated juvenile crime and a similar share said that thefts posed the biggest threat. Violent crimes, crimes by drug users and organised crime were also mentioned. So were the problems of smuggling from neighbouring non-EU countries (Kaliningrad Region and Belarus).

During the first half of 2008, a total of 39 579 crimes were committed in Lithuania – which is 2.2% more than during the same period in 2007, but 7.9% less than during the first half of 2006. The number of crimes per 100 000 population was 1 169 in the first half of 2008, up from 1 144 in the first half of 2007. The crime detection rate was 46% in the first half of 2008. Most of the crimes (77%) were registered in urban areas. During the first half of 2008 the number of traffic accidents decreased by almost 20%, while the number of deaths went down by more than 36%.

Issue: General JHA sector reform

In 2008, a reform of police was started in order to optimise police organisation and territorial units, mainly to reduce the number of police officers on the basis of counties. Also, after an analysis of police management functions, actions have been planned to separate auxiliary functions from the main functions of police. A quality management system has been gradually implemented in territorial police units; evaluation of personnel procedures and long-term career planning are also being implemented. There are also plans to establish a specialised college for police.

Issue: Functioning and reform of the justice system

The main elements of the current court system in Lithuania were established before EU accession (the role of the courts is defined by the Constitution adopted in 1992 and subsequent laws establishing the procedures for the independence of courts and other principles, in particular the Law on Courts in 2002). The Constitution of the Republic of Lithuania provides that courts have the exclusive right to administer justice. While administering justice, judges and courts are independent. While

²³ *Pažyma apie policijos veiklą per 2008 m. pirmą pusmetį ur gyventojų lūkesčius*, Vilnius, 30 July 2008.

investigating cases, judges obey only the law. They may not apply laws that contradict the Constitution. There are courts of general jurisdiction (the Supreme Court, the Court of Appeals, district courts and regional courts) as well as special-administrative courts.

Courts are among the institutions which have a relatively low level of trust from the population of Lithuania. The Lithuanian public differs from the EU average in this respect, as it is more mistrustful of justice and home affairs institutions. According to Eurobarometer, in spring 2008 only 28% of the surveyed respondents in Lithuania said they trusted the justice system, while the same indicator for the EU-27 was 46%.

In 2006, a working group set up by the President proposed a framework for the reform of the justice system in Lithuania. Although a relevant draft law has been discussed in parliament, it has not been adopted yet (with the exception of certain procedural amendments to allow the functioning of the system).

Since 2004, Lithuania cooperates with other EU member states in the field of justice by exchanging information about court rulings, exchange of other documents, and other legal assistance measures.

Issue: External border management and Schengen agreement implementation

Lithuania completed the procedures of accession to the Schengen area in December 2007 (the most important ones being the accession to the information exchange system and setting the technical and information infrastructure) and continued cooperation with other EU member states by undertaking joint patrol operations. Joining the Schengen area has been among the priorities of Lithuania's European policy, and it has played an active role in supporting the enlargement of the Schengen area to the new EU member states. Information on missing persons, automobiles, documents, guns, etc. is continuously supplied to the Schengen information system.

Issues of cooperation on EU level (justice, police)

Lithuanian ministers take part in the Council formations of Ministers of Justice and Ministers of Interior. Joining the Schengen area and recognition of crimes committed by the communist and Nazi regimes in the twentieth century have been among the priority issues in cooperation at the EU level.

Lithuanian institutions participate in the cooperation mechanisms in the fields of police, such as the Pruem agreement on cooperating during investigations of crimes (automatic exchange of data, undertaking joint operations, etc.). Lithuanian police took part in the missions in Bosnia and Herzegovina, Macedonia, Kosovo, Afghanistan, EU police mission in Georgia.

Conclusion

Lithuania participates in the intergovernmental cooperation procedures in justice and home affairs. Since these are the key functions of the modern nation state, they are financed mostly from the national budget. However, the EU provides funds for the infrastructure of external border protection, information systems, training of officials. Joining the borderless area of Schengen was one of the key steps in this field, which integrated Lithuania into the EU by allowing its citizens to move freely inside the Schengen area. Thus the passive attraction of the EU has been quite effective, in particular after the failure to join the EMU at the start of 2007. Overall, the EU's influence in justice and home affairs has been limited.

Since justice and home affairs are typical public goods, cooperation between EU member states is based on solving together the external problems (assistance in dealing with crime, cross-border issues, etc.). In the future, a more important EU role in financing and coordinating external border management is justified, and it is particularly important for Lithuania which borders two non-EU member states. However, there is no need for extending EU competences in this area, as intergovernmental cooperation provides an appropriate format. EU member states have different justice systems which do not require harmonisation, and most common action problems can be solved by cooperation procedures and exchange of best practices.

Migration

Summary

Between 1990 and 2005, the Lithuanian population decreased by 7.7% due to low birth rates and intensive emigration. Emigration from Lithuania has been more intensive than emigration from other member states which joined the EU in 2004. Although immigration to Lithuania has been growing in recent years, in relative terms its scope remains rather low. It is too early to assess the effectiveness of the national migration strategy, which was adopted by the Lithuanian government in 2007. EU leverage over migration policy is rather limited. More coordination of national migration policies is necessary at the EU level.

Issue: Demographic Trends

In 2005, about 3.4 million people lived in Lithuania. Between 1990 and 2005, the size of the Lithuanian population decreased by 7.7%. According to the Public Policy and Management Institute (located in Vilnius), the following factors were conducive to the current situation:²⁴

(1) *Low birth rate.* In 2007, the birth rate was 1.35, compared to 2.03 in 1990.

(2) *Rather stable life expectancy.* In 2006, the life expectancy of the Lithuanian population was 71.12 years, compared to 71.46 in 1990.

(3) *Rather high death rate.* In 2007, the death rate amounted to 13.5 per 1 000 population.

(4) *Rather intensive emigration of the Lithuanian population.* It is estimated that about 450 000 of the Lithuanian population emigrated in the period between 1990 and 2008.

According to Eurostat forecasts, Lithuania's population is likely to decrease to 2.55 million by 2060. Furthermore, the increasing number of inactive population will aggravate the problems of social protection and health care.

Immigration could at least partly offset the negative effects of these demographic trends. According to existing research, to keep its population stable in the 2002-2052 period, Lithuania would need to attract about 911 000 immigrants.

²⁴ Viešosios politikos ir vadybos institutas, *ES migracijos politikos iniciatyvų poveikis Lietuvai: tarpinė ataskaita*. Vilnius, 2008 (unpublished report).

Issue: Emigration

As mentioned above, about 450 000 of the Lithuanian population emigrated between 1990 and 2008. According to Statistics Lithuania, the scope of emigration has been more intensive in Lithuania than in the other new member states which joined the EU in 2004 (measured by number of emigrants per 1 000 population). However, the pace of emigration has been decreasing in recent years. According to Statistics Lithuania, 26 500 people emigrated to live permanently or longer than six months outside Lithuania in 2007, compared to 27 800 in 2006 and 48 100 in 2005.

The most popular destination countries of emigration remain the EU member states, where about two thirds of all emigrants have settled (33% in the UK, 16% in Ireland, 8% in Germany). The remaining emigrants went to the United States (11%), Russia (7%) and Belarus (5%).

About 44% of all emigrants were young people aged 20 to 34. Women constitute a larger share of the Lithuanian emigrants (53%, compared to 47% men). It is interesting that emigration of more qualified labour force with higher education is increasing from Lithuania.

The main reason for emigration is employment. About 70% of all emigrants sought employment in other countries. About 50% of the emigrant population were not employed in Lithuania. According to the Bank of Lithuania, remittances (transfers of money by emigrants to Lithuania) amounted to about €870 million in 2007. They contributed to increasing overall welfare in Lithuania. The global economic slowdown is reducing employment opportunities outside Lithuania, with a downside effect on emigration in Lithuania.

Issue: Immigration

Immigration to Lithuania has been growing in recent years. According to the Lithuanian Labour Exchange, the number of work permits issued for foreign workers increased from 877 in 2004 to 4 253 in 2007. The volume of immigration is associated with economic growth in Lithuania in recent years. However, slower economic growth in 2008 and 2009 is likely to reduce the volume of immigration.

In relative terms the scope of immigration to Lithuania remains rather low (compared to the number of employed people – 1 534 000 in 2007). According to the surveys, this is explained by a combination of sufficient supply of Lithuanian workers as well as significant cultural and social differences of foreign workers.

Actual illegal immigration could be higher in Lithuania. For instance, the media reported a few companies having foreign workers on business missions (without work permits and taxes to the Lithuanian budget). Also, a few companies employed foreign workers in the construction sector without obtaining work permits from the Lithuanian authorities.

Immigration to Lithuania has been growing in recent years

Immigration of labour force from non-EU countries is regulated by a tight set of requirements for obtaining a permit to work and to reside in Lithuania. Immigration rules in some cases act as a barrier to the residence

of foreign investors (and are mentioned often by the Investor's forum as an important barrier to FDI). For instance, there is a strict requirement for investors to reside for up to two years before they can bring their family members to unite in a new place of residence.

The number of refugees is rather limited in Lithuania. Only 122 foreign refugees lived in the Refugees' Reception Centre in Lithuania in 2007. Their number was rather stable in 2004-2005, with a similar number of arriving and departing refugees. However, Lithuania is a transit country for illegal migrants from the East to the West. The increasing level of prosperity in Lithuania is likely to attract more foreign refugees in the future, but this depends on the global migration flows.

Integration of vulnerable target groups (including immigrants) is supported under the EU structural funds in Lithuania. Under the ESF-financed operational programme on human resources, it is planned to support the integration of immigrants into the labour market and society in the 2007-2013 programming period.

Conclusion

In 2007 the Lithuanian government adopted an economic migration regulation strategy and its implementation plan. Various institutions are involved in the implementation of the migration policy (the Ministry of Social Security and Labour, the Ministry of Finance, the Ministry of Education and Science, the Ministry of Economy, the Ministry of Foreign Affairs, the Ministry of Interior, etc.). It is too soon to assess the implementation of this strategy, but overall migration trends depend largely on the economic situation. Also, this strategy deals primarily with the issues of emigration; there is no clear position of the Lithuanian government concerning immigration.

The EU initiated a common immigration policy in 1999. Due to the high political salience of immigration, several attempts have been politically blocked by the EU member states. However, in October 2008 the pact on immigration and asylum was adopted at the EU summit. This symbolic document is based on a selective approach towards migration according to the individual needs of EU member states, despite aiming to shape a common position on immigration at the EU level. It shows that soft leverage of the EU is increasing in the area of immigration, but its scope still remains rather small compared with other EU policy areas (such as employment). More coordination of national immigration policies would be useful at the EU level.

The EU exerts certain hard leverage. The European Commission has proposed a general framework directive based on the 2005 policy plan

on legal migration. Furthermore, four special directives are planned by the European Commission for specific target groups (high-qualification workers, seasonal workers, intra-corporate transferees, remunerated trainees). However, it has been found that most EU-level initiatives are not very relevant for Lithuania.²⁵ Seasonal work is rather non-intensive, intra-corporate transfer is very small as is the number of remunerated trainees in Lithuania. The migration of high-qualification workers (under the so-called Blue Card initiative) is more relevant to Lithuania, but the number of such immigrants is also likely to remain small in Lithuania.

²⁵ Viešosios politikos ir vadybos institutas. *ES migracijos politikos iniciatyvų poveikis Lietuvai: tarpinė ataskaita*, unpublished report, Vilnius, 2008.

R

esearch and Innovation

Summary

Lithuania lags behind the EU average in the area of R&D, but some catching up is taking place. Although Lithuania committed to increasing its R&D spending to 2% of GDP by 2010, this target is unlikely to be achieved. Despite ambitious R&D policy goals, their implementation has been very slow in Lithuania. Reforming higher education (especially in the areas of governance and financing) is a must.

General State of Affairs in the Sector

Lithuania has an extensive system of higher education institutions, but it is rather fragmented (with 15 universities, 18 independent institutes, 17 other institutes in the small state). Lithuania has a good potential in certain areas of applied research (such as biotechnology and laser equipment). However, the quality of R&D infrastructure and staff does not match the existing needs.

In 2003, the World Bank indicated that the output of the R&D community – in terms of publications, citations, patents and licences – is modest. There is a particularly significant development gap between Lithuania and the EU-25 in the area of R&D. However, the number of publications and citations is increasing, pointing to some catch-up process with the EU average.

Issue: Model of R&D investment and generation (universities, private companies, etc.)

It is unlikely that Lithuania will meet the main target of its national reform programme under the EU Lisbon Strategy: namely, to raise its R&D expenditure to 2% of GDP by 2010 (the level of expenditure was 0.80% in 2006).²⁶ Lithuania's Lisbon programme in the area of research and development was assessed as ambitious, but it suffers from an implementation gap.²⁷ In its 2007 report, the European Commission recommended to accelerate

²⁶ Nakrošis, V. (ed.), *Lithuania's Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

²⁷ Nakrošis, V. (ed.), *Lithuania's Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

“the implementation of the structural reform of its R&D and innovation system so as to raise the efficiency and public spending and create conditions favourable to increased private investments in this area”.²⁸

Intensity of private R&D funding is especially low

Intensity of private R&D funding is especially low (0.2% in 2006, compared to the target of 1% of GDP by 2010). It points to a very low R&D and innovation potential in the private sector. Also, cooperation between science and industry is underdeveloped compared to more advanced countries.

The World Bank has indicated that funding instruments are outdated, focusing largely on institutional funding.²⁹ In Lithuania, “there are no performance indicators related to teaching in the formula used to calculate the annual state budget allocation awarded to higher education institutions. But results concerned with the quality of study programmes or research productivity that have been taken from the evaluation of institutions or study programmes for accreditation purposes count when determining the amounts awarded.”³⁰ Although 20% of all institutional resources for science and arts should be allocated on the basis of previous performance, this provision has not been fully adhered: under the practice of so-called “polishment”, additional resources are allocated for worse-performing establishments of higher education for maintaining their previous level of financing.³¹

In Lithuania there is separate funding for research projects awarded in the framework of competitive bidding procedures. However, the volume of this programme-based and competitive funding is very small: only about 4% of the total R&D financing in 2004. Nevertheless, assistance from the EU Structural Funds to higher education institutions is increasing. Ten percent of all ERDF assistance to Lithuania in the 2007-2013 programming period was devoted to R&D.

Moreover, too much funding goes to basic research, while technology development and transfer are neglected.³² There are plans to develop integrated research, studies and innovation centres (so-called valleys) that could foster applied research. There are also plans to reform the management of research and development (R&D) expenditure through

²⁸ The European Commission, *Lithuania. Assessment of National Reform Programme*, 2007, p. 6. http://ec.europa.eu/growthandjobs/pdf/european-dimension-200712-annual-progress-report/200712-annual-progress-report-LT_en.pdf

²⁹ The World Bank, *Lithuania: Aiming for a Knowledge Economy*, March 2003, p. 13. http://www.lrv.lt/pasaul_bankas/Lithuania%203_10_03.pdf

³⁰ Eurydice, *Higher Education Governance in Europe: Policies, Structure, Funding and Academic Staff*, 2008, p. 56. <http://eacea.ec.europa.eu/portal/page/portal/Eurydice/Products?sortByCol=5>

³¹ “The Reform of Performance Management in Lithuania: Towards Result-Based Management”, in Peters, B.G. (ed.), *New Public Management in Russia and Former Soviet Republics: Mixes, Matches and Mistakes*, Open Society Institute, forthcoming, p. 21.

³² The World Bank, *Lithuania: Aiming for a Knowledge Economy*, March 2003, p. 13. http://www.lrv.lt/pasaul_bankas/Lithuania%203_10_03.pdf

the establishment of a Lithuanian Research Council (for basic research) as well as a Technology Agency (for applied research), which would manage programme-based competitive financing. However, the implementation of this reform is not certain.

Issue: Human resources and brain drain

Lithuania has a high rate of student enrolment partly due to good accessibility to higher education. According to many stakeholders, the quality of higher education is insufficient and it does not meet the needs of Lithuania's business.

Lithuania is lagging behind the EU average in terms of number of researchers (especially in the business sector). Despite increasing mobility of researchers and students, its level remains rather limited. Lithuania is also subject to ageing in the R&D community. In 2004, about one third of all researchers with a PhD degree were aged over 55.

Another problem is the brain drain of researchers and other R&D staff. This is caused by uncompetitive working conditions in Lithuanian institutions of higher education (large differences between Lithuania and more advanced countries in terms of remuneration, infrastructure and information base). The career of a researcher remains rather unpopular in Lithuania, with the number of PhDs lagging behind other EU member states (including in the area of technology and natural sciences).

Additional financial incentives are necessary to make this career more popular and to reduce the brain drain. The Lithuanian government plans to concentrate human and material resources of several higher education institutions in five geographical territories of Lithuania (the so-called "science and technology valleys").

Conclusion

The reforms of R&D remain unfinished in Lithuania. Despite ambitious R&D policy goals, their implementation has been very slow. In the pre-accession period the European Commission stated that it was necessary for Lithuania to ensure that its legal order is coherent with the Community *acquis*, although no legal transposition was required.³³ EU leverage over R&D in the post-accession period, however, is rather limited.

The OMC, which governs the implementation of the EU Lisbon Strategy, is weak and is ineffectively applied in Lithuania:³⁴ Despite some learning

³³ Commission of the European Communities, *1999 Regular Report from the Commission on Lithuania's Progress Towards Accession*, 1999, p. 33. http://europa.eu.int/comm/enlargement/report_10_99/

³⁴ Nakrošis V. (ed.), *Lithuania's Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

at the EU level, its results are poorly transferred to the national level. Also, peer pressure is small. The European Commission itself has given up its “naming and shaming” strategy. Meanwhile, Lithuania seeks to reduce the critical tone of recommendations from EU institutions (the “window-dressing” strategy).

Lithuania’s participation in the OMC process of R&D at the EU level has been constrained by frequent change of its representatives. For instance, 12 out of 19 representatives of the Ministry of Education and Science in various EU arrangements were changed.³⁵ The main problems of implementing the OMC processes at the national level are related to insufficient implementation capacities, weak and unclear legal status of the OMC documentation in the legal system, resistance from interest groups, shortage of financing.³⁶

A strategic orientation of the EU cohesion policy, linking the Structural Funds with the EU Lisbon and other strategies, allows additional EU leverage outside the OMC. Lithuania has earmarked about 55% of its total 2007-2013 EU assistance for the categories of the Lisbon Strategy. Although it falls below the mandatory target of 60% for the Convergence regions in the old EU member states, Lithuania has allocated about 16% of its total 2007-2013 EU assistance for R&D. During the implementation of the 2007-2013 EU operational programmes, the European Commission should monitor financial and physical progress of the R&D assistance, linking it with Lithuania’s commitments under its national reform strategy in the area of R&D.

Therefore, the design and implementation of R&D policy depends on domestic factors. A more successful implementation of EU strategies in Lithuania according to the OMC requires stronger political support for reforms, stronger capacities of responsible institutions, better coordination in thematic areas and a more effective partnership.³⁷ However, the reform of higher education has been delayed several times in Lithuania in recent years.

³⁵ Nakrošis, V. (ed.), *Lithuania’s Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

³⁶ Nakrošis, V. (ed.), *Lithuania’s Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

³⁷ Nakrošis, V. (ed.), *Lithuania’s Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy*, Final Report, 2006. <http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian).

Agriculture and Rural Development

Summary

Agriculture is one of the sectors where the impact of EU membership has been most visible. Since Lithuania's accession to the EU, the number of people employed in agriculture has been decreasing, while the average size of farms and the productivity of the sector have been increasing. However, compared to other EU member states, Lithuanian farms are still less productive than the EU-27 average, and more people are still employed in this sector than the EU-27 average.

Lithuania remains one of the most agricultural member states in the EU.

The period after EU accession has been characterised by fast growth of farmer's incomes although the impact of the Common Agricultural Policy on different groups of agricultural holdings and price levels is still under-researched. Possible changes in the CAP resulting from the "health check" and the EU budgetary review process will have direct and significant impact on Lithuanian agriculture.

Socio-Demographic Trends in Rural Areas

Agriculture has traditionally played an important role in Lithuanian society and economy. Lithuania was more agricultural than Latvia and Estonia throughout the twentieth century. After the re-establishment of independence in 1990, more than one-fifth of the labour force was estimated to be employed in agriculture and about one-third of the population was in some way linked to the rural areas. Interestingly, the share of population living in rural areas has remained stable. According to the Lithuanian Department of Statistics, it amounted to 33.1% in 2002 and remained stable until 2007, amounting to 33.2% of the total population.

The opening of the economy and economic reforms together with integration into the EU exposed the agricultural sector to growing competition as well as new funding flows. This resulted in the consolidation of farms, decrease of subsistence farming and gradual reduction of the labour force employed

in this sector. The share of labour employed in agriculture has particularly decreased with accession to the EU. It equalled 17.2% of total employment in 2002, decreasing to 15.2% in 2004 and going down further to 9.5% in

2007.³⁸ It is forecast that by 2013 the share of the working population employed in agriculture would amount to 8%.

Financial support from the EU, even though still limited compared to farmers in EU-15, has contributed to the disappearance of publicly voiced farmers' demands for more state support. However, tensions in rural areas remain, partly due to differentials in economic development between large farmers and small family farms, emigration of young population to richer EU member states, social issues such as abuse of alcohol.

The share of population older than 64 years is higher in rural areas compared to urban ones. According to the Department of Statistics, between 2004 and 2007 the share of people younger than 15 years decreased by 16%. It should be noted that although the number of people employed in agriculture has decreased, the share of people working in services in rural areas has increased since EU accession. Also, the level of unemployment in rural areas has decreased significantly (by more than 50%).

Issue: Economic significance of agriculture and rural areas

While the number of people employed in agriculture has decreased almost twice during this decade, the productivity of farming has been increasing. Production per employee has doubled in the last four years since EU accession. However, the gross production of agricultural companies has been growing much faster than the production of farmers' and family farms. Moreover, the share of agriculture in gross value added of Lithuanian economy decreased from 4.8% in 2002 to 4% in 2004 and 3.8% in 2007. This indicates still relatively low productivity of agriculture compared to the other sectors of Lithuanian economy. The combined share of agriculture, forestry and fishery amounted to 4.5% of the Lithuanian GDP while the comparable EU-27 average was 1.9%.³⁹ The share of people working in agriculture, forestry and fishery amounted to 12.4% of total employment in Lithuania in 2007 (the third largest after Bulgaria and Poland), while the same indicator for the EU-27 was 6.3%. This shows that Lithuanian productivity in the sector still lags significantly behind the EU average.

The most important activities in Lithuanian agriculture include production of cereals (22.3% of gross agricultural production in 2007), milk (19.4%), fodder crops and other (13.8%), pig breeding (11.4%), poultry breeding (7.9%), industrial crops (7.1%) and vegetables (6.1%).⁴⁰ Crop production accounted for almost 53% of total agricultural production in 2007, the remaining 47% coming from animal production.

³⁸ Lithuanian Department of Statistics, *Agriculture in Lithuania 2007*, Vilnius, 2008, p. 14.

³⁹ Lithuanian Department of Statistics, *Agriculture in Lithuania 2007*, Vilnius, 2008, p. 83.

⁴⁰ Lithuanian Department of Statistics, *Agriculture in Lithuania 2007*, Vilnius, 2008, p. 17.

Since EU accession, export of agricultural products has almost tripled. In 2007, the share of food and agricultural products amounted to 16% of Lithuania's total exports (while the comparable indicator for the EU-27 was just 7.3%). Only Denmark, Greece and Cyprus exported relatively more agricultural products than Lithuania. The share of agricultural imports in Lithuania's total imports was 8.9% in 2007 (the comparable indicator for the EU-27 was 7.3%).

Issue: Effectiveness of EU funds and subsidies

Direct payments to farmers, funds for rural development and other financial support to agriculture, amount to about one-third of total EU financial support received by Lithuania. For example, in 2006 EU support for agriculture amounted to around 70% of total expenditures in this sector. In 2007 the amount of EU funding for Lithuanian agriculture was also higher than national budgetary support and amounted to more than €400 million out of the total of more than €1.3 billion EU financial support to Lithuania.⁴¹

The increase in farmers' income level in Lithuania during the last four years has been the highest in the EU. The growth in 2007 amounted to almost 40% and was the highest among EU-27.⁴² The period after accession also coincided with the global rise in food prices. For example, the average producer price indices for agricultural production grew from 101 in 2004 to 119.9 in 2007.

However, the impact of the EU Common Agricultural Policy (CAP), even though contributing significantly to supporting farmers' income, in particular large agricultural holdings, is still too narrowly perceived by the public. The focus in public debates has been on funding flows and bureaucratic requirements for absorbing EU money rather than on the impact of CAP measures on the productivity and competitiveness of farms and the price level of food products. The narrowness of the debate on agricultural and rural issues in Lithuania is partly a reflection of the lack of analysis and impact assessments of EU membership in this area.

Issue: Vitality of the agricultural sector; consolidation of land

At the beginning of 2008, there were 3 956 100 hectares of agricultural land out of a total 6 530 000 hectares of land in Lithuania.⁴³ Private land amounted to 2 949 100 hectares. The average size of declared farms

⁴¹ Grybauskaitė, D., ES biudžetas Europai i Lietuvai: šuolio galimybė ir tikimybė, Pranešimas, Vilnius Spalio 12, 2007.

⁴² Eurostat News Release, *EU agricultural income per worker up by 5.4 percent*, 11 March 2008.

⁴³ Lithuanian Department of Statistics, *Agriculture in Lithuania 2007*, Vilnius, 2008, p. 31.

grew from 8-9 hectares in 2004 to around more than 12 hectares in 2007. Agricultural holdings and farms of up to 20 hectares constituted more than 90% of all entities in Lithuania.

However, although a consolidation process has been taking place during this decade and especially after EU accession, the average size of farms still remains lower than the EU average. Consolidation has been slow due to the ongoing land reform of restituting rights to previous owners, which has been under way for almost 20 years but has not been completed yet. Moreover, land regulation is one of the areas which have been criticised by investors for being overregulated, thus limiting the consolidation and more efficient use of land resources.

The impact of the EU Common Agricultural Policy (CAP), even though contributing significantly to supporting farmers' income, in particular large agricultural holdings, is still too narrowly perceived by the public

Issue: Fisheries

Fisheries constitute a relatively small field of employment compared to agriculture. While around 146 000 people were employed in agriculture in 2007, only 2 600 were working in fisheries. The number of vessels in the fishing fleet grew from 199 in 2005 to 255 in 2008. At the same time, the gross tonnage decreased from 75 506 tonnes in 2005 to 60 978 tonnes in 2008. The total catch of fish in live weight increased from 160 665 tonnes in 2004 to 190 890 in 2007.⁴⁴

Conclusion

Lithuania remains one of the most agricultural member states in the EU. This raises the issue of EU policies which directly impact on the socio-economic structures of agriculture and rural areas in EU member states. The CAP has been criticised for benefiting large-scale farming at the expense of consumers and tax payers. Although there is a lack of assessments of EU's policy measures on the Lithuanian agriculture and economy in general, the question of food prices and the main beneficiaries of EU support are likely to become increasingly important. Together with the debate on the new financial perspective and competitiveness of the EU and its member states, it might provide incentives for Lithuanian policy-makers to abandon the status quo policy on CAP reform (when the main objective is to maximise net financial support for agriculture), and to rethink the status of agriculture in the national economy (which has traditionally been seen as exceptional, and therefore exempt from most taxes and social security contributions).

⁴⁴ Lithuanian Department of Statistics, *Agriculture in Lithuania 2007*, Vilnius, 2008, p. 68.

The EU leverage in this area has been active and hard, combining both intense regulatory measures and financial instruments. However, although the effects of EU influence have been highly visible, the question of their effectiveness remains open. Although the income level of farmers has been on the rise and productivity has been increasing, it is also likely that food prices would have been lower if the CAP was reformed. In addition, possible future enlargement of the EU, in particular if Turkey is accepted, will make the current policy highly problematic.

R

Regional Development

Summary

Lithuania is one of the poorest EU member states. Its GDP per capita amounted to 62% of the EU average in 2007. There is a growing gap between the Lithuanian regions in terms of GDP per capita.

The territorial effect of the 2004-2006 Single Programming Document was uneven in Lithuania. The process of decentralisation has been rather slow. Lithuania remains a very centralised state. Moreover, the capacity of the Lithuanian institutions responsible for cohesion policy implementation remains uneven. There is no PPP strategy or policy in Lithuania.

The regionalisation of the EU Structural Funds in the 2007-2013 period would increase to some extent the EU leverage over regional development in Lithuania.

Issue: Trends in social and economic development of the country's regions

There is a growing gap between Lithuanian regions (counties) in terms of GDP per capita. In 2006, only two counties exceeded the national average in terms of GDP per capita: the Vilnius county (149.1%) and the Klaipėda county (104.4%). GDP per capita in the Vilnius county exceeded that in the counties of Alytus, Marijampolė, Šiauliai and Tauragė by two or more times. The level of unemployment in Lithuania decreased from 11.4% in 2004 to 4.3% in 2007. Only Panevėžys county registered a more significant unemployment rate above the national average in 2007 (6.5%).

Issue: Cohesion and convergence

Lithuania is one of the poorest EU member states: compared to the EU average, its GDP per capita amounted to 51% in 2004 and 62% in 2007. Lithuania is a single NUTS 2 region eligible to receive the EU Structural Funds under their Objective 1 priority (in the 2004-2006 programming period) or the Convergence priority (in the 2007-2013 programming period).

The territorial effect of the 2004-2006 SPD on the Lithuanian counties and local authorities was uneven. The region of the Ignalina Nuclear Power Plant, which was the single Lithuanian region selected for special assistance under the 2004-2006 SPD, attracted 162% of the total project

The processes of decentralisation and de-concentration have been rather slow in Lithuania

value per one inhabitant. Some poorer regions, which were nominated as main regional development centres in the 2005 regional development strategy, received less than 100% (e.g. the counties of Tauragė and Telšiai received only 88% and 72% respectively).

Issue: Decentralisation and sub-national governance

Lithuania is a unitary state. There are two levels of government in Lithuania: central government and local government (with 60 local authorities). The central government organises government at the territorial level (the ten counties whose governors are appointed by the government). The competence and resources are concentrated at the central level (the share of municipal expenditure in the overall governmental expenditure constituted about 25% in 2005).

The existence and role of the ten counties has been an important issue of political competition in Lithuania. The President argued in favour of abandoning the counties, but the ruling majorities did not initiate such reforms in 2001-2008. However, it is possible that a few larger regions will be established in Lithuania after abandoning the ten counties in the future.

The fact that some EU-financed projects of a regional nature (e.g. operations of energy efficiency in the public sector, such as the renovation of public schools and hospitals) were selected by the central authorities in the capital city of Vilnius without consulting sub-national authorities created some tensions between the national and sub-national levels.

Also, the processes of decentralisation and de-concentration have been rather slow in Lithuania. Although the public administration development strategy until 2010 contains the objective of improving territorial government, according to the World Bank there has been a lack of political will to decentralise the central government in Lithuania.⁴⁵ Most political parties argued in favour of decentralisation in their 2008 election programmes, but it is not clear what position will be adopted by the new government. Also, slowing economic growth or even recession would reduce the possibilities of financing any decentralisation (especially strengthening the fiscal capacity of local governments).

Issue: Ability to absorb SF on local and regional level, and administrative capacity

Lithuania has adopted a centralised system of implementing the EU cohesion policy without any delegation of power to the sub-national level

⁴⁵ World Bank, *Report on Strategic Planning and Policy Management in Lithuania and Latvia*, October 2006, pp. 25-26. <http://www.lrv.lt/strateginis/Pasaulio%20banko%20studija.pdf>

(the counties and local authorities). It was decided to introduce a more regionalised approach to the management of the EU structural funds in the 2007-2013 programming period. Regionalised implementation is planned through one sub-priority for urban development in the Cohesion Promotion Operational Programme (amounting to about five percent of the total allocation to Lithuania) and a special "regional dimension" under some other priorities (amounting to about seven percent of the total allocation). Therefore, the volume of financial assistance which will be channelled through the regional structures and mechanisms constitutes about 12% of the total EU assistance to Lithuania. This regionalised assistance will be concentrated in 5-7 regional development centres and about 14 problem territories according to the national regional development strategy.

Since 2004 more staff stability has been achieved in the civil service at the central level. Previously, there was a large turnover of staff responsible for national regional policy: for example, following the Ministry of Public Administration Reform and Local Authorities' integration into the Ministry of Interior, only one civil servant from its Regional Development Department continued his employment.⁴⁶ However, change of staff remains more frequent at the local level. Moreover, the capacity of Lithuanian institutions which are responsible for cohesion policy implementation remains uneven. A regionalised selection of EU-financed projects in 2007-2013 (especially under one priority of the Cohesion Promotion OP) poses a risk because neither the Ministry of Interior (as a new intermediate body) nor the county administrations have previous administration experience.

Issue: Ability to establish public-private partnerships

The instrument of PPP (public-private partnership or concessions, as they are called in Lithuania) is ineffectively applied in Lithuania. There is no PPP strategy or policy in Lithuania. A PPP unit, which was established in the Lithuanian Ministry of Finance, no longer exists.

At the regional level only the Vilnius municipality has sufficient expertise to undertake such projects. However, several ongoing PPP projects have not been very successful.⁴⁷ PPP is rather popular in the district heating sector.

The National Audit Office of Lithuania, which analysed concession projects in Kaunas, Panevėžys and Elektrėnai, found that their implementation was inefficient.⁴⁸ Sometimes the implementation of concession projects is revoked following the change of local governments.

⁴⁶ Nacionalinė regionų plėtros agentūra, *Europos Sąjungos regioninės politikos pasekmių įvertinimas Lietuvos viesajai administracijai*, Nacionalinė regionų plėtros agentūra, Vilnius, p. 62.

⁴⁷ Public Policy and Management Institute, *Public and Private Partnership in Lithuania and the Use of EU Structural Funds*, 2005. <http://www.vpvi.lt/edit/uploads/LT.pdf>(in Lithuanian).

⁴⁸ Delfi, *Valstybės kontrolė: privataus kapitalo galimybės teikti viešąsias paslaugas yra menkos*. 2008 m. sausio 24 d. <http://www.delfi.lt/news/economy/business/article.php?id=15731565>

Conclusion

The EU played a more influential role in regional policy during the pre-accession period. For instance, in 1997-1999 the European Commission recommended establishing a legislative framework whose provisions should comply with the Community *acquis*. Therefore, in 2000 the Lithuanian parliament passed a Law on Regional Development, which set up a regionalised framework for national regional policy under the authority of the regional development councils for each county (bringing together representatives of the country administrations and all local authorities). However, this regionalised framework was not really used for the implementation of EU structural funds in Lithuania because before Lithuania's accession the management of EU Structural Funds was centralised under the authority of the Ministry of Finance. Therefore, EU influence was significant, but its effectiveness was not sustained.

Since Lithuania is a single NUTS 2 region (like the other Baltic states and Slovenia), in the post-accession period the EU leverage over Lithuania's regional policy is smaller compared to more decentralised new members of the EU. However, for the 2007-2013 programming period in its communication the European Commission⁴⁹ emphasised an integrated approach to regional policy, which can include the concentration of resources in the poorer areas. Some regionalisation of the EU Structural Funds in Lithuania will somewhat increase EU leverage in the 2007-2013 programming period. However, the EU institutions could exercise their leverage in the area of regional development largely through the implementation of the structural funds (see the policy area of EU funds in subsection B.11 below).

⁴⁹ Europos Komisija, Komisijos komunikatas, *Struktūriniai fondai ir jų koordinavimas su Sanglaudos fondu: 2000-06 m. laikotarpio programų gairės*, EB Nr. 344/1999, 1999m. liepos 1 d.

Level of Absorption of EU Funds and Their Impact

Summary

Financial absorption accelerated after Lithuania took some measures in this respect. It is unlikely that any amount of the EU Structural Funds would be de-committed.

Lithuania adopted a centralised system for implementing the EU cohesion policy in the 2004-2006 programming period.

Further simplifications were planned for the 2007-2013 Operational Programmes, including the introduction of the electronic application process.

The EU Structural Funds have helped improve the quality of governance in the country. However, the capacity of Lithuanian institutions responsible for cohesion policy implementation remains rather insufficient.

Issue: Level of absorption of structural funds

Lithuania's progress in absorbing EU funds has been rather mixed. If Lithuania was more advanced among the new EU member states in 2004, it dropped to the bottom of this list in 2006: only about one third of all 2004-2006 EU assistance was absorbed in Lithuania by March 2007.⁵⁰

One of the main problems in implementing EU cohesion policy in Lithuania was its overly bureaucratic procedures. According to a survey, the main obstacle in Lithuania is the "large workload of administration" (47.1% of all respondents agree).⁵¹ Management of the ESF was particularly slow, because of various small operations and overly bureaucratic procedures. For instance, Lithuania required

checking every payment request from a project beneficiary.

After taking some measures to accelerate financial absorption (changes to the programme complement, the re-allocation of assistance among/within measures, some simplification of procedures and regular monitoring of financial progress), the pace of absorption rapidly increased.⁵² Real

⁵⁰ Lietuvos Rytas, *Lietuva sugebėjo pasiimti tik trečdalį ES paramos*, 3 April 2007, p. 12.

⁵¹ Public Policy and Management Institute, *Evaluation about the Implementation of the Horizontal Priorities during the Absorption of the European Union Structural Assistance: Final Report*, unpublished, 2008, p. 36.

⁵² Nakrošis, V., "Breaking It Through: From Absorption to Strategic Delivery of the EU Cohesion Policy in Lithuania", in Marek, D. and M. Baun (eds.), *EU Regional Policy after Enlargement*, Palgrave Macmillan, forthcoming.

The capacity of Lithuanian institutions responsible for cohesion policy implementation remains rather insufficient

acceleration for the majority of projects started from 2007 onwards. For instance, in the environmental sector the absorption level almost doubled within one year. This is associated with the fact that the implementation of a few environmental projects started, following long preparation. The personal factor

of a Lithuanian Commissioner responsible for the Budget and Programming and frequently criticising the government for poor progress in absorbing EU funds could be another factor speeding up the absorption process.

On 10 September 2008 the Commission's payments from all EU Structural Funds to Lithuania amounted to 91% (third place among the nine member states which joined the EU in 2004 and receive Objective 1 assistance). Any de-commitment of the EU Structural Funds is very unlikely in Lithuania for the 2004-2006 programming period.

Further simplifications were planned for the 2007-2013 OPs. Although some simplifications originated at the EU level (for example, the eligibility rules), most of them are of a domestic nature, including the electronic application process.

Issue: Effectiveness of the public administration in managing EU Structural Funds

Lithuania has a rather small civil service, employing about 25 000 civil servants in 2006, and about 28 000 in 2008. The size of the civil service has been increasing since 2004, due largely to the growing demands of managing EU assistance. In general, politicisation of the civil service has decreased in recent years (turnover was estimated to be about 30% after the 1996 general elections). In the meantime, employment in the civil service has become less attractive and the morale of civil servants is decreasing because of internal factors, including problems of leadership and remuneration, and opportunities provided by the expanding private sector.

For the 2004-2006 programming period Lithuania adopted a centralised system for implementing EU cohesion policy, without any delegation of power to the sub-national level (the counties and local authorities). A rather complex three-level administrative system was set up in Lithuania for managing EU Structural Funds, involving one Managing Authority, the Ministry of Finance, eight intermediate bodies (seven ministries and one government committee) and six implementation agencies. However, new units have been set up to manage EU assistance and additional staff has been recruited for various institutions. Additional staff was recruited in 2007-2008 for implementation of the 2007-2013 OPs.

Moreover, the capacity of Lithuanian institutions responsible for cohesion policy implementation remains rather insufficient. A regionalised selection

of EU-financed projects in 2007-2013 (especially under one priority of the Cohesion Promotion OP) poses a risk because neither the Ministry of Interior (as a new intermediate body) nor the county administrations have previous administration experience.

Some surveys show that the management of the Structural Funds in Lithuania is not transparent enough

Issue: Mismanagement and corruption practices

According to the European Commission, in 2007, member states reported 3 740 irregularities under Regulation (EC) No. 1681/94 covering all the EU Structural Funds as well as 92 irregularities – under Regulation (EC) No. 1831/94 (concerning the Cohesion Fund).⁵³ Most irregularities were reported in the large member states with the highest overall funding. Lithuania reported only 12 irregularities with no serious fraud suspected.

Some surveys show that the management of the Structural Funds in Lithuania is not transparent enough. For instance, about one third of all respondents agreed that Lithuanian companies, institutions and persons which received EU structural assistance make unofficial pay-backs to civil servants and politicians. The procedures of project assessment, selection and grant award were found to be the most corrupt by Transparency International during the implementation of the 2004-2006 SPD.⁵⁴

There have been a few legal disputes and resignations linked to the lack of openness in the management of EU assistance in Lithuania (in particular in the business support sector). The Vilnius city court banned a former deputy director of the Lithuanian Business Support Agency – one of Lithuania's implementing agencies – from employment in the civil service for two years because of his misconduct in office. He was found to be involved in increasing the score from 62 to 65 in one project assessment for the benefit of a project applicant seeking a grant award.⁵⁵

Also, a former Minister of Economy from the populist Labour Party, Viktor Uspaskich, was blamed for corrupt management of EU money. He was forced to resign from the Cabinet in 2005, when the Lithuanian Higher Service Ethics Commission decided that he had breached conflict-of-interest rules by initiating the establishment of a joint company in Russia.⁵⁶

⁵³ Commission of the European Communities, *Report from the Commission to the European Parliament and the Council*, Brussels, 2008. http://ec.europa.eu/anti_fraud/reports/commission/2007/statistics_en.pdf

⁵⁴ Transparency International, *Europos Sajungos struktūrinių fondų paramos Lietuvai paskirstymo skaidrumas*, 2006. http://www.transparency.lt/new/images/es%20parama_tils_tyrimas.pdf

⁵⁵ Delfi, Teismas dar karta isteisino Z.Balcycio sunu. 7 December 2007. <http://www.delfi.lt/news/daily/lithuania/article.php?id=15248627>

⁵⁶ Delfi, *Uspaskichas atsistatydina is ukio ministro pareigu ir traukiasi is Seimo*, 16 June 2005. <http://www.delfi.lt/archive/article.php?id=6912992>

Another problem was associated with national processes of planning and public procurement. Sometimes it was difficult to obtain construction permits due to the complex requirements of land use, planning and design. There have also been many complaints during the tendering process with litigation in the courts. This has delayed the implementation of EU-financed projects, often forcing Lithuanian courts to make quick decisions.

Issue: Capacity to generate and manage projects

In 2000 the European Commission argued that the capacity to prepare projects for the Structural Funds in Lithuania was insufficient and the culture of project management in its infancy.⁵⁷ Nevertheless, Lithuania managed to develop enough projects to absorb all EU assistance in the first programming period after accession (about 3 000 projects under the 2004-2006 SPD). Also, the quality of projects improved during the 2004-2006 programming period as the project beneficiaries improved their skills in project design and implementation.

The implementation of environmental projects financed from the Cohesion Fund suffered from excessively long preparation periods (an average of four years from granting assistance to the start of actual physical work). Such delays were associated with many bureaucratic requirements, inadequate cooperation between the Ministry of Environment and municipalities, and the shortage of qualified staff for preparing big investment projects. But these problems were largely solved towards the end of the 2004-2006 programming period.

The implementation of EU cohesion policy has helped improve the quality of governance in Lithuania. This is especially evident in the area of programme and project management in the public sector. Also, monitoring and evaluation of the EU Structural Funds has improved. But despite generating a lot of monitoring and evaluation information, there is a need to improve its quality and use in decision-making.

At the same time, conditionality – linking progress of accession with the adoption of EU norms – became the key aspect of the accession prospect, giving the EU an unprecedented leverage over the candidate sovereign countries.

Conclusion

In the pre-accession period the European Commission applied the following instruments of influence: “gate-keeping”, monitoring, provision of legal and institutional models, technical assistance and twinning, financial assistance. The combination of these instruments and the domestic priority of EU membership was significant and effective in developing an

⁵⁷ Commission of the European Communities, *Regular Report on Lithuania's Progress towards Accession*, Luxembourg, 2000.

administrative framework for the implementation of the Structural Funds in Lithuania.

Although EU leverage over the EU cohesion policy is more limited in the post-accession period, it is still effective compared to other EU policy areas. The main instrument of EU leverage is the rule of automatic de-commitment under the so-called "n+2" rule: any unspent amount of the structural funds is de-committed. The application of the "n+3" rule until 2010 will mitigate the risk of a de-commitment of EU assistance in the first part of the 2007-2013 programming period.

In addition to financial leverage, the European Commission has certain leverage over the physical results of EU assistance. It is represented in the monitoring committees and reviews annual monitoring reports presented by the national authorities. However, the Commission's role is limited to scrutiny of physical progress; no financial sanctions are possible in the case of failing to achieve any targets. During the 2007-2013 programming period the EU institutions will undertake both strategic and operational monitoring of the Structural Funds. In addition, it would be worth linking financial progress of the EU Structural Funds under the so-called categories of the Lisbon Strategy (e.g. R&D) with domestic reform commitments under the EU Lisbon Strategy.

No OMC is applied to the management of EU Structural Funds. However, EU institutions are involved in the facilitation of cooperation among the EU member states benefiting from the EU budget. Also, there is a special network of the new EU member states exchanging national practices of the EU Structural Funds. These cooperation arrangements should be maintained in the future.

C

Conclusions and Recommendations

| Policy Area | Need for EU Leverage | Existing Types of EU Leverage | Recommendations for Problem-Solving on National Level | Recommendations for Problem-Solving on EU Level |
|--------------------------------------|----------------------|--|--|--|
| Political Development and Governance | Yes | <ul style="list-style-type: none"> ■ Limited, non-effective | <ul style="list-style-type: none"> ■ Reach a consensus among the veto players on the plan to cope with economic challenges and structural reforms | <ul style="list-style-type: none"> ■ Facilitate sharing of best practices in undertaking structural reforms |
| Economic Development | No | <p>Lisbon process</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective <p>Common market rules</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective <p>Euro Area Accession</p> <ul style="list-style-type: none"> ■ Passive, significant, non-effective | <ul style="list-style-type: none"> ■ Conduct sound fiscal policy in the face of economic slowdown ■ Advance with infrastructure (energy, transport) projects to integrate Lithuania into the EU market | <ul style="list-style-type: none"> ■ Provide assistance in integrating energy infrastructure network into the rest of the EU ■ Remove existing barriers to the Single Market (for services etc.) |

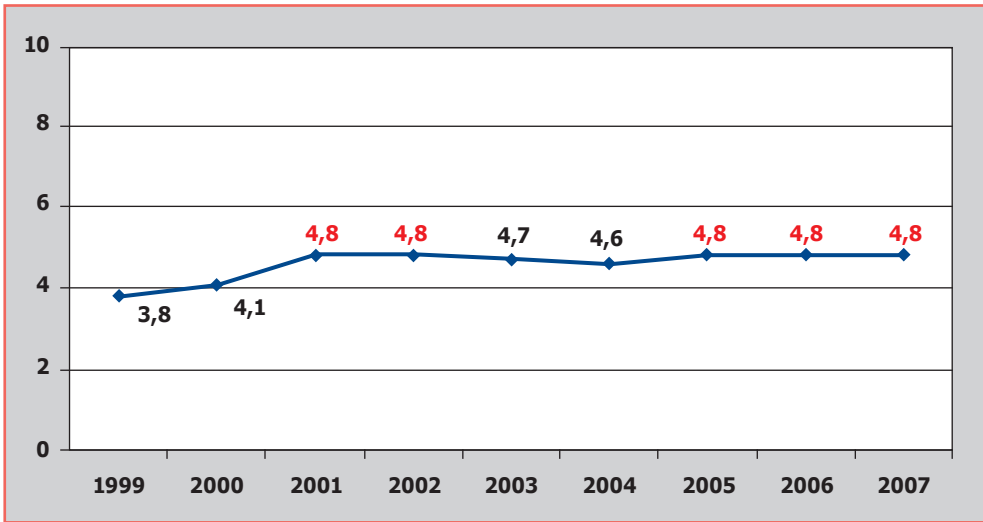
| | | | | |
|-------------------------------------|-----|--|---|---|
| Welfare System and Social Inclusion | Yes | <p>OMC</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective <p>Lisbon Strategy</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective | <ul style="list-style-type: none"> ■ Undertake structural reforms in the labour market ■ Better coordinate issues of employment and social security ■ Apply the EU directives at the national level without major restrictions ■ Apply the OMC more effectively at the domestic level | <ul style="list-style-type: none"> ■ Keep initiating infringement procedures against EU member states in cases of non-implementation, inadequate or delayed implementation |
| Health System | Yes | <p>EU Regulations for public health services</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective <p>OMC</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective | <ul style="list-style-type: none"> ■ Start reforms in regulating and financing of the health care system | <ul style="list-style-type: none"> ■ Facilitate sharing of best practices in undertaking structural reforms, but refrain from imposing any particular model |
| Educational System | Yes | <p>OMC in education and training</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective <p>Horizontal EU programmes</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective | <ul style="list-style-type: none"> ■ Continue reforms of the educational system (especially optimising the educational network and increasing the quality of teaching) ■ Implement higher education reforms (especially with regard to governance and financing) | <ul style="list-style-type: none"> ■ Strengthen the Education and Training OMC and integrate it into the overall framework of the EU Lisbon Strategy ■ Initiate legislative proposals concerning the extension of the Single Market rules to the educational sector |

| | | | | |
|--------------------------|-----|--|--|---|
| Justice and Home Affairs | No | <p>Police and judicial cooperation in criminal matters</p> <ul style="list-style-type: none"> ■ Active, soft, significant, effective <p>Schengen membership</p> <ul style="list-style-type: none"> ■ Passive, significant, effective EU leverage | <ul style="list-style-type: none"> ■ Continue institutional reforms to increase the efficiency, effectiveness and transparency of the system as well as public trust | <ul style="list-style-type: none"> ■ Increase funding for external border management |
| Migration | Yes | <p>EU policy on immigration and asylum – potential common policy</p> <ul style="list-style-type: none"> ■ Active, hard/soft EU leverage (in progress) | <ul style="list-style-type: none"> ■ Formulate a clear policy position concerning immigration to Lithuania and project it at the EU level ■ Continue implementing the national migration strategy and revise it based on its results | <ul style="list-style-type: none"> ■ Facilitate coordination of national migration policies at the national level |
| Research and Innovation | Yes | <p>Lisbon Strategy OMC</p> <ul style="list-style-type: none"> ■ Active, soft, limited, non-effective | <ul style="list-style-type: none"> ■ Strengthen the national R&D and innovation framework ■ Increase the volume of competitive programme-based funding vis-à-vis institutional R&D funding ■ Apply the OMC more effectively at the domestic level | <ul style="list-style-type: none"> ■ Monitor and evaluate the absorption of EU assistance in the area of R&D, linking it to the national reform commitments under the EU Lisbon Strategy |

| | | | | |
|--|-----|--|--|---|
| Agriculture and Rural Development | Yes | <p>CAP (product and process standard regulation, funding, market protection)</p> <ul style="list-style-type: none"> ■ Active, hard, significant, non-effective | <ul style="list-style-type: none"> ■ Assess the impact of EU funding for agriculture on the economy and consumers ■ Complete the land reform | <ul style="list-style-type: none"> ■ Assess CAP in the face of current challenges and the need for the restructuring of EU member states |
| Regional Development | Yes | <p>Structural Funds</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective (not sustained) | <ul style="list-style-type: none"> ■ Test the regionalised implementation of EU Structural Funds at the county level ■ Gradually decentralise power to local authorities ■ Improve administrative capacity at the regional and local levels | <ul style="list-style-type: none"> ■ Refrain from imposing a particular regional development model on any applicant country |
| Level of Absorption of EU Funds and Their Impact | Yes | <p>Structural Funds</p> <ul style="list-style-type: none"> ■ Active, hard, significant, effective | <ul style="list-style-type: none"> ■ Further simplify the administration of EU Structural Funds and make it more transparent ■ Improve strategic management of EU Structural Funds through planning, monitoring and evaluation | <ul style="list-style-type: none"> ■ Link the national reform commitments with monitoring and evaluation of EU assistance under the categories of the EU Lisbon Strategy |

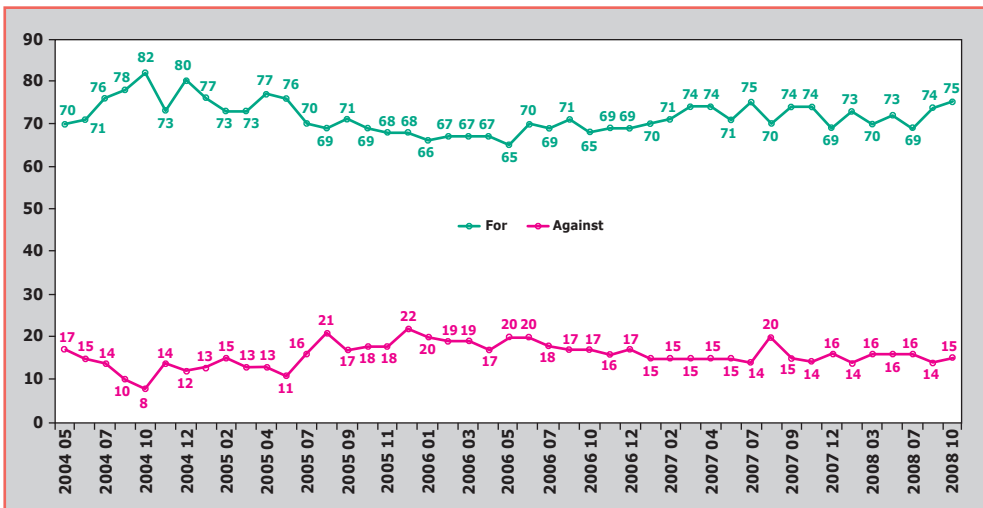
Statistical data

Graph: Corruption Perception Index (CPI) in Lithuania



Source: Transparency International, Lithuania

Graph: Opinion on Lithuanian membership in the European Union, 2004-2008



Source: www.euro.lt

Table: Progress in notification of national measures implementing all adopted directives

| | Member states | Directives whose deadline for implementation has passed by the reference date | Directives for which measures of implementation have been notified | Percentages of notifications |
|-----------|----------------------|--|---|-------------------------------------|
| 1 | Lithuania | 2984 | 2981 | 99.90% |
| 2 | Slovakia | 2979 | 2972 | 99.77% |
| 3 | Bulgaria | 3081 | 3073 | 99.74% |
| 4 | Romania | 3081 | 3071 | 99.68% |
| 5 | Denmark | 2922 | 2912 | 99.66% |
| 6 | Germany | 2925 | 2913 | 99.59% |
| 7 | France | 2926 | 2913 | 99.56% |
| 8 | United Kingdom | 2919 | 2906 | 99.55% |
| 9 | Latvia | 2978 | 2964 | 99.53% |
| 10 | Austria | 2928 | 2914 | 99.52% |
| 11 | Estonia | 2964 | 2949 | 99.49% |
| 12 | Slovenia | 2977 | 2961 | 99.46% |
| 13 | Netherlands | 2924 | 2908 | 99.45% |
| 14 | Hungary | 2972 | 2955 | 99.43% |
| 15 | Ireland | 2937 | 2918 | 99.35% |
| 16 | Sweden | 2908 | 2889 | 99.35% |
| 17 | Belgium | 2979 | 2959 | 99.33% |
| 18 | Spain | 2942 | 2922 | 99.32% |
| 19 | Italy | 2934 | 2914 | 99.32% |
| 20 | Malta | 2972 | 2951 | 99.29% |
| 21 | Poland | 2977 | 2953 | 99.19% |
| 22 | Finland | 2920 | 2896 | 99.18% |
| 23 | Czech Republic | 2980 | 2955 | 99.16% |
| 24 | Cyprus | 2970 | 2938 | 98.92% |
| 25 | Luxembourg | 2929 | 2893 | 98.77% |
| 26 | Greece | 2928 | 2888 | 98.63% |
| 27 | Portugal | 2964 | 2923 | 98.62% |
| | Average EU | 2959 | 2940 | 99.36% |

Source: ASMODEE II

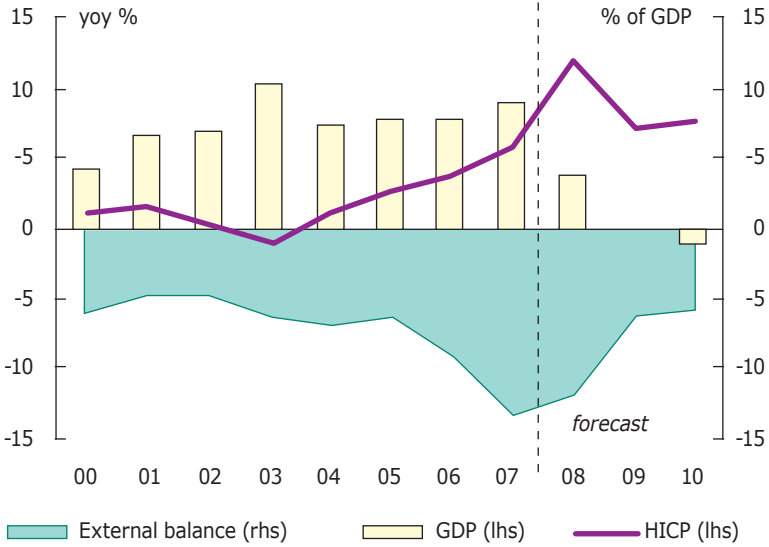
Table: Main features of country forecast – Lithuania

| | 2007 | | Annual percentage change | | | | | | | |
|--|--------|--------------|--------------------------|-------|-------|-------|-------|------|------|------|
| | bn LTL | Curr. prices | % GDP | 92-04 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| GDP at constant prices | 98.1 | 100.0 | 0.3 | 7.8 | 7.8 | 8.9 | 3.8 | 0.0 | -1.1 | |
| Private consumption | 63.5 | 64.7 | - | 12.2 | 10.6 | 12.4 | 5.6 | -2.6 | -1.2 | |
| Public consumption | 17.9 | 18.2 | - | 3.5 | 3.7 | 3.3 | 5.3 | 3.7 | 2.6 | |
| Gross fixed capital formation | 27.5 | 28.0 | - | 11.2 | 19.4 | 20.8 | -3.2 | -6.5 | -2.3 | |
| of which : equipment | 8.8 | 9.0 | - | 11.5 | 16.8 | 18.3 | -5.5 | -3.2 | -2.6 | |
| Exports (goods and services) | 53.4 | 54.4 | - | 17.7 | 12.0 | 4.3 | 12.5 | 3.2 | 3.7 | |
| Imports (goods and services) | 66.5 | 67.8 | - | 16.4 | 13.7 | 11.6 | 11.4 | -2.2 | 3.8 | |
| GNI at previous year prices (GDP deflator) | 94.3 | 96.1 | - | 8.3 | 7.3 | 7.1 | 2.8 | 0.1 | -1.2 | |
| Contribution to GDP growth : | | | | | | | | | | |
| Domestic demand | | | - | 11.1 | 11.9 | 13.8 | 3.7 | -2.7 | -0.8 | |
| Stockbuilding | | | - | -2.8 | -2.2 | 0.5 | 1.0 | -0.7 | 0.0 | |
| Foreign balance | | | - | -0.5 | -1.9 | -5.5 | -0.9 | 3.4 | -0.3 | |
| Employment | | | -1.4 | 2.5 | 1.7 | 1.9 | -1.3 | -2.5 | -1.5 | |
| Unemployment rate (a) | | | 9.9 | 8.3 | 5.6 | 4.3 | 4.9 | 7.1 | 8.4 | |
| Compensation of employees/head | | | - | 11.5 | 16.8 | 18.2 | 19.0 | 10.8 | 5.2 | |
| Unit labour costs whole economy | | | - | 6.0 | 10.2 | 10.6 | 13.2 | 8.0 | 4.8 | |
| Real unit labour costs | | | - | -0.6 | 3.4 | 1.7 | 1.5 | 1.8 | -0.1 | |
| Savings rate of households (b) | | | - | - | - | - | - | - | - | |
| GDP deflator | | | 46.5 | 6.6 | 6.5 | 8.8 | 11.5 | 6.0 | 4.9 | |
| Harmonised index of consumer prices | | | - | 2.7 | 3.8 | 5.8 | 11.9 | 7.1 | 7.5 | |
| Terms of trade of goods | | | - | 0.6 | -3.5 | 1.8 | 4.6 | 1.7 | -0.7 | |
| Trade balance (c) | | | - | -11.3 | -13.9 | -15.1 | -12.4 | -8.1 | -9.0 | |
| Current account balance (c) | | | - | -7.1 | -10.4 | -15.1 | -13.8 | -8.7 | -8.9 | |
| Net lending(+) or borrowing(-) vis-à-vis ROW (c) | | | - | -6.1 | -8.9 | -13.2 | -11.7 | -6.2 | -5.8 | |
| General government balance (c) | | | - | -0.5 | -0.4 | -1.2 | -2.7 | -3.6 | -4.0 | |
| Cyclically-adjusted budget balance (c) | | | - | -1.4 | -1.5 | -2.9 | -3.9 | -3.6 | -3.0 | |
| Structural budget balance (c) | | | - | -1.4 | -1.5 | -2.9 | -3.9 | -3.6 | -3.0 | |
| General government gross debt (c) | | | - | 18.4 | 18.0 | 17.0 | 17.5 | 20.0 | 23.3 | |

(a) Eurostat definition. (b) gross saving divided by gross disposable income. (c) as a percentage of GDP.

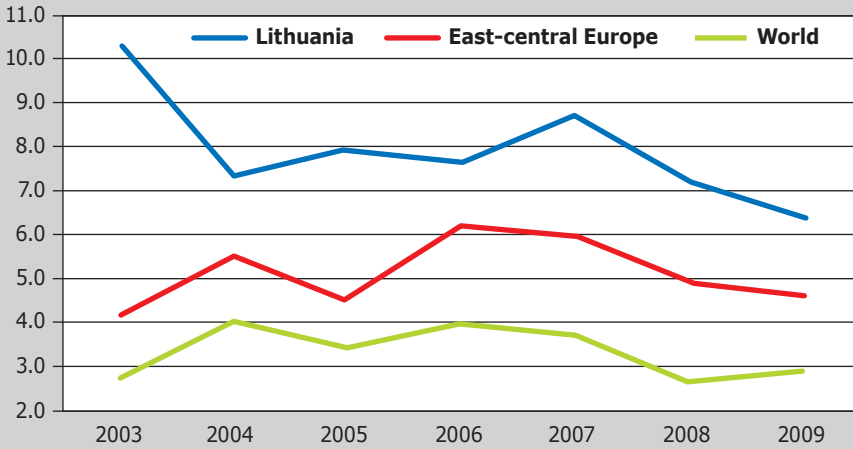
Source: European Commission 2008

Graphs: Lithuania – external balance, GDP and inflation



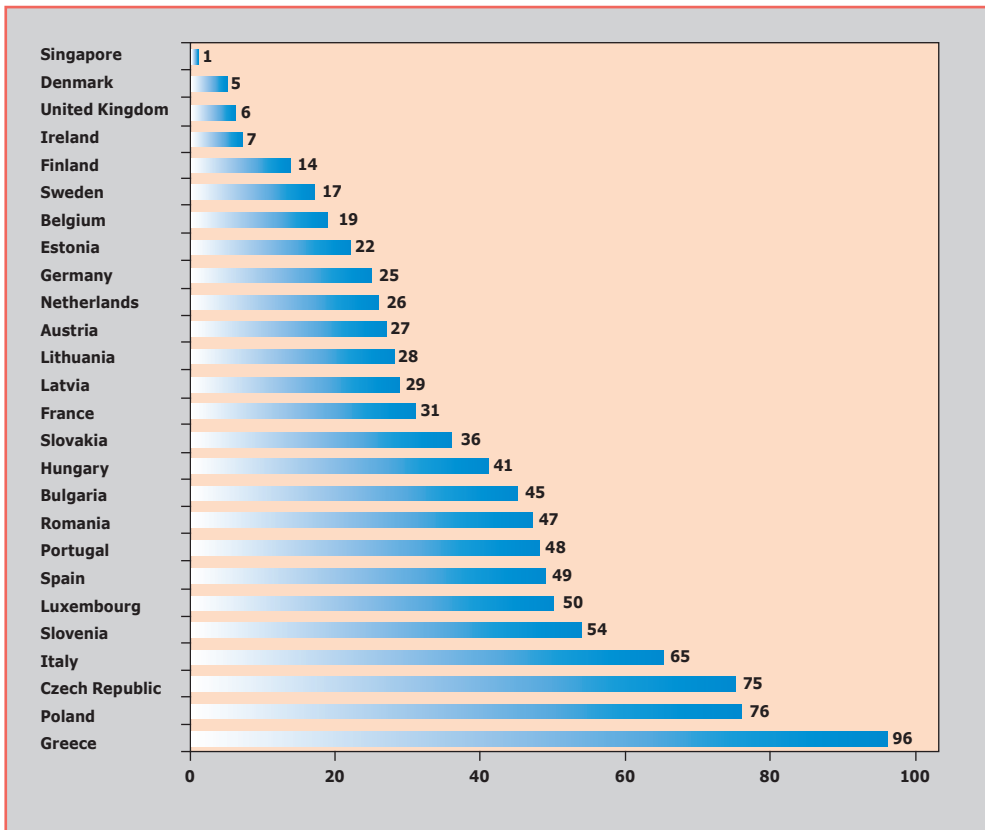
Source: European Commission 2008

Real GDP growth (% change)



Source: Economist Intelligence Unit.

Chart: Doing Business Index in 2008



Source: Doing Business 2008, World Bank

Table: Lisbon Scores – Ranking and Scores of EU Countries

| Economy | Final Index | | Subindexes | | | | | | | | | | | | | | | |
|----------------------|-------------|-------------|-----------------------|-------------|--------------------|-------------|----------------|-------------|--------------------|-------------|--------------------|-------------|------------------------|-------------|------------------|-------------|-------------------------|-------------|
| | | | Informational Society | | Innovation and R&D | | Liberalization | | Network Industries | | Financial Services | | Enterprise Environment | | Social Inclusion | | Sustainable Development | |
| | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score |
| Sweden | 1 | 5.71 | 1 | 6.07 | 2 | 5.60 | 3 | 5.64 | 4 | 6.18 | 1 | 6.30 | 7 | 5.23 | 3 | 5.55 | 2 | 5.12 |
| Denmark | 2 | 5.64 | 3 | 5.71 | 3 | 5.30 | 4 | 5.61 | 2 | 6.26 | 2 | 6.17 | 6 | 5.28 | 1 | 5.74 | 4 | 5.03 |
| Finland | 3 | 5.64 | 7 | 5.27 | 1 | 5.95 | 6 | 5.51 | 6 | 5.99 | 4 | 6.08 | 1 | 5.48 | 2 | 5.67 | 1 | 5.13 |
| Netherlands | 4 | 5.44 | 2 | 5.76 | 5 | 4.86 | 1 | 5.70 | 2 | 5.91 | 3 | 6.11 | 5 | 5.28 | 4 | 5.33 | 7 | 4.56 |
| Austria | 5 | 5.34 | 6 | 5.30 | 8 | 4.69 | 2 | 5.66 | 5 | 6.05 | 5 | 6.05 | 11 | 4.94 | 6 | 5.15 | 6 | 4.91 |
| Germany | 6 | 5.34 | 9 | 4.96 | 4 | 5.08 | 5 | 5.60 | 1 | 6.67 | 9 | 5.91 | 15 | 4.70 | 9 | 5.02 | 5 | 4.96 |
| Luxembourg | 7 | 5.22 | 8 | 5.12 | 13 | 3.93 | 9 | 5.26 | 8 | 5.85 | 7 | 5.96 | 3 | 5.40 | 7 | 5.12 | 3 | 5.10 |
| France | 8 | 5.12 | 10 | 4.96 | 9 | 4.68 | 10 | 5.25 | 3 | 6.20 | 10 | 5.91 | 13 | 4.82 | 14 | 4.81 | 11 | 4.33 |
| United Kingdom | 9 | 5.12 | 5 | 5.42 | 7 | 4.70 | 11 | 5.16 | 9 | 5.81 | 11 | 5.82 | 8 | 5.06 | 15 | 4.69 | 12 | 4.28 |
| Belgium | 10 | 5.11 | 13 | 4.51 | 6 | 4.73 | 8 | 5.34 | 10 | 5.76 | 8 | 5.93 | 9 | 5.02 | 5 | 5.25 | 10 | 4.36 |
| Ireland | 11 | 5.03 | 14 | 4.44 | 10 | 4.44 | 7 | 5.38 | 16 | 5.13 | 6 | 6.01 | 2 | 5.46 | 10 | 5.01 | 9 | 4.40 |
| Estonia | 12 | 5.02 | 4 | 5.56 | 12 | 4.06 | 12 | 4.99 | 14 | 5.26 | 12 | 5.69 | 4 | 5.34 | 13 | 4.83 | 8 | 4.44 |
| Cyprus | 13 | 4.68 | 15 | 4.33 | 21 | 3.54 | 13 | 4.94 | 11 | 5.76 | 15 | 5.43 | 17 | 4.54 | 8 | 5.06 | 17 | 3.85 |
| Portugal | 14 | 4.61 | 16 | 4.32 | 16 | 3.87 | 18 | 4.70 | 12 | 5.58 | 16 | 5.42 | 16 | 4.62 | 18 | 4.34 | 15 | 4.01 |
| Slovenia | 15 | 4.58 | 12 | 4.71 | 11 | 4.12 | 19 | 4.43 | 18 | 5.11 | 21 | 4.90 | 20 | 4.47 | 16 | 4.61 | 13 | 4.28 |
| Czech Republic | 16 | 4.53 | 18 | 4.03 | 15 | 3.93 | 15 | 4.82 | 19 | 5.10 | 19 | 4.94 | 21 | 4.40 | 12 | 4.87 | 14 | 4.17 |
| Spain | 17 | 4.52 | 17 | 4.07 | 14 | 3.93 | 14 | 4.87 | 13 | 5.42 | 14 | 5.52 | 23 | 4.16 | 19 | 4.32 | 18 | 3.83 |
| Malta | 18 | 4.43 | 11 | 4.75 | 25 | 3.37 | 16 | 4.80 | 15 | 5.16 | 13 | 5.68 | 23 | 3.84 | 11 | 4.87 | 26 | 2.96 |
| Lithuania | 19 | 4.39 | 19 | 3.95 | 18 | 3.82 | 20 | 4.40 | 20 | 5.04 | 18 | 5.02 | 14 | 4.76 | 17 | 4.35 | 20 | 3.80 |
| Slovak Republic | 20 | 4.34 | 20 | 3.94 | 24 | 3.48 | 17 | 4.77 | 24 | 4.54 | 20 | 4.92 | 10 | 4.96 | 20 | 4.20 | 16 | 3.91 |
| Latvia | 21 | 4.25 | 21 | 3.93 | 23 | 3.48 | 22 | 4.38 | 23 | 4.55 | 22 | 4.87 | 12 | 4.87 | 21 | 4.07 | 19 | 3.83 |
| Hungary | 22 | 4.18 | 22 | 3.86 | 19 | 3.76 | 21 | 4.40 | 22 | 4.75 | 23 | 4.77 | 19 | 4.51 | 21 | 3.87 | 22 | 3.50 |
| Greece | 23 | 4.10 | 27 | 3.18 | 17 | 3.85 | 23 | 4.31 | 17 | 5.12 | 17 | 5.07 | 26 | 3.78 | 22 | 4.06 | 23 | 3.46 |
| Italy | 24 | 4.05 | 23 | 3.83 | 20 | 3.76 | 24 | 4.27 | 21 | 4.90 | 24 | 4.63 | 27 | 3.69 | 25 | 3.82 | 21 | 3.51 |
| Romania | 25 | 3.84 | 24 | 3.70 | 26 | 3.30 | 26 | 4.04 | 27 | 3.74 | 26 | 4.35 | 18 | 4.52 | 23 | 3.92 | 25 | 3.19 |
| Poland | 26 | 3.76 | 26 | 3.18 | 22 | 3.51 | 25 | 4.24 | 26 | 3.93 | 25 | 4.45 | 25 | 3.80 | 26 | 3.79 | 24 | 3.21 |
| Bulgaria | 27 | 3.68 | 25 | 3.57 | 27 | 3.04 | 27 | 3.90 | 25 | 4.08 | 27 | 4.12 | 22 | 4.21 | 27 | 3.59 | 27 | 2.89 |
| EU-27 | - | 4.73 | - | 4.53 | - | 4.18 | - | 4.90 | - | 5.32 | - | 5.41 | - | 4.71 | - | 4.66 | - | 4.11 |
| United States | - | 5.44 | - | 5.73 | - | 6.07 | - | 5.23 | - | 5.92 | - | 5.97 | - | 5.27 | - | 4.86 | - | 4.50 |

Source: World Economic Forum 2008

| | GDP per capita at PPS | | Credit/GDP | Ex. Deb t/ GDP | Δ PROD | ΔGDP | ΔPriv. Cons. | ΔI | ΔX | ΔM | CA/ GDP | Real interbank IR | Δ Credit | ΔER (euro) | Δ REER CPI | Δ REER ULC | Budget /GDP | Δ WAGE | ΔHICP | ER |
|------------|-----------------------|-------|------------|----------------|----------------------|------|--------------|------|------|------|---------|-------------------|----------|------------|------------|------------|-------------|--------|-------|---------|
| | 1995 | 2007 | 2007 | 2006 | Average in 2004-2007 | | | | | | | | | | | | | | | |
| Cyprus | 99.3 | 93.6 | 176.5 | 81.5 | -0.4 | 3.9 | 4.7 | 6.4 | 4.0 | 4.6 | -5.6 | 2.0 | 11.8 | 0.1 | 0.0 | 0.4 | -2.2 | 5.7 | 2.1 | fixed |
| Malta | 87.0 | 76.3 | 143.2 | n.a. | 1.7 | 2.4 | 2.5 | 10.8 | 2.2 | 3.4 | -6.3 | 1.3 | 7.4 | -0.2 | 1.1 | -0.9 | -3.1 | -0.9 | 2.1 | fixed |
| Czech Rep. | 73.7 | 81.9 | 54.0 | 40.8 | 7.9 | 5.3 | 3.7 | 6.6 | 14.8 | 12.0 | -3.3 | 0.1 | 11.6 | 3.5 | 3.0 | 2.9 | -3.2 | 8.3 | 2.3 | float |
| Slovenia | 72.7 | 91.6 | 76.3 | 82.9 | 6.2 | 4.5 | 3.2 | 6.8 | 10.5 | 9.9 | -2.8 | 0.9 | 23.8 | -0.6 | -0.2 | 0.5 | -1.4 | 6.2 | 3.1 | managed |
| Hungary | 50.7 | 65.3 | 69.3 | 108.6 | 11.2 | 3.8 | 1.9 | 0.5 | 14.7 | 10.9 | -6.6 | 2.7 | 13.4 | 0.3 | 3.2 | 3.6 | -7.3 | 7.1 | 5.6 | float |
| Slovakia | 47.8 | 67.5 | 54.8 | 58.5 | 7.0 | 7.1 | 6.0 | 12.0 | 15.3 | 14.8 | -6.1 | 0.0 | 17.1 | 5.3 | 6.8 | 6.8 | -2.9 | 9.9 | 4.1 | float |
| Poland | 43.1 | 55.1 | 41.0 | 49.4 | 8.7 | 5.3 | 4.3 | 11.9 | 11.6 | 12.3 | -3.3 | 2.6 | 17.5 | 4.0 | 3.4 | 3.7 | -4.1 | 8.4 | 2.4 | float |
| Estonia | 36.0 | 71.7 | 95.1 | 101.2 | 7.6 | 9.7 | 11.5 | 14.6 | 14.3 | 14.8 | -13.1 | -1.4 | 35.6 | 0.0 | 2.0 | 4.2 | 2.6 | 15.4 | 4.6 | fixed |
| Lithuania | 34.5 | 61.5 | 55.4 | 63.7 | 9.3 | 7.4 | 12.0 | 7.7 | 11.1 | 15.3 | -9.9 | -0.1 | 42.7 | 0.0 | 0.1 | 4.5 | -0.9 | 13.6 | 3.4 | fixed |
| Bulgaria | 32.0 | 38.7 | 56.0 | 84.1 | 9.4 | 6.3 | 6.8 | 18.9 | 10.1 | 13.7 | -13.1 | -2.7 | 32.2 | -0.1 | 3.4 | 1.8 | 2.6 | 12.7 | 6.8 | fixed |
| Romania | 31.6 | 39.3 | 37.8 | 42.4 | 8.9 | 6.8 | 12.5 | 14.1 | 10.5 | 20.8 | -10.3 | 2.3 | 47.2 | 3.3 | 9.1 | 13.9 | -1.9 | 15.2 | 8.1 | float |
| Latvia | 31.5 | 60.6 | 110.1 | 118.2 | 4.0 | 10.2 | 13.2 | 16.0 | 10.9 | 15.4 | -17.9 | -2.4 | 52.9 | -2.2 | 2.3 | 8.4 | -0.2 | 20.3 | 7.5 | fixed |
| EA12 | 100.0 | 100.0 | 134.5 | 171.6 | 3.7 | 2.2 | 1.7 | 4.0 | 6.5 | 6.6 | 0.2 | 0.7 | 4.0 | 0.0 | 0.6 | 1.0 | -1.9 | 1.9 | 2.1 | fixed |
| Austria | 136.0 | 129.4 | 122.7 | 199.7 | 5.9 | 2.6 | 2.0 | 2.1 | 7.3 | 6.2 | 2.3 | 0.9 | 5.2 | 0.0 | -0.1 | 0.7 | -1.3 | 3.3 | 2.0 | fixed |
| Finland | 108.0 | 118.2 | 85.2 | 124.1 | 4.0 | 3.8 | 3.5 | 5.3 | 8.2 | 8.6 | 5.8 | 1.9 | 11.8 | 0.0 | -1.0 | 1.2 | 3.4 | 3.7 | 1.0 | fixed |
| Ireland | 103.1 | 143.7 | 193.4 | 730.7 | 4.9 | 5.2 | 5.8 | 6.2 | 5.4 | 6.6 | -3.2 | 0.4 | 23.0 | 0.0 | 1.4 | 4.6 | 1.6 | 3.7 | 2.5 | fixed |
| Spain | 92.0 | 102.5 | 194.6 | 146.6 | 2.7 | 3.6 | 3.9 | 6.1 | 4.4 | 8.1 | -7.7 | -0.3 | 18.8 | 0.0 | 1.3 | 2.3 | 1.1 | 3.0 | 3.2 | fixed |
| Portugal | 75.2 | 73.8 | 170.1 | 195.9 | 3.9 | 1.2 | 1.8 | -0.6 | 5.3 | 4.1 | -9.0 | 0.4 | 8.9 | 0.0 | 0.6 | 0.6 | -4.1 | 0.1 | 2.5 | fixed |
| Greece | 84.5 | 98.3 | 105.9 | 122.9 | -0.1 | 4.1 | 4.0 | 5.9 | 6.7 | 6.1 | -10.1 | -0.3 | 11.0 | 0.0 | 0.8 | 3.7 | -4.5 | 2.7 | 3.2 | fixed |

Source: European Economy, Economic Papers 304, February 2008

Figure: Dynamics of labour force activity, employment and unemployment levels during 1998–2007 in Lithuania

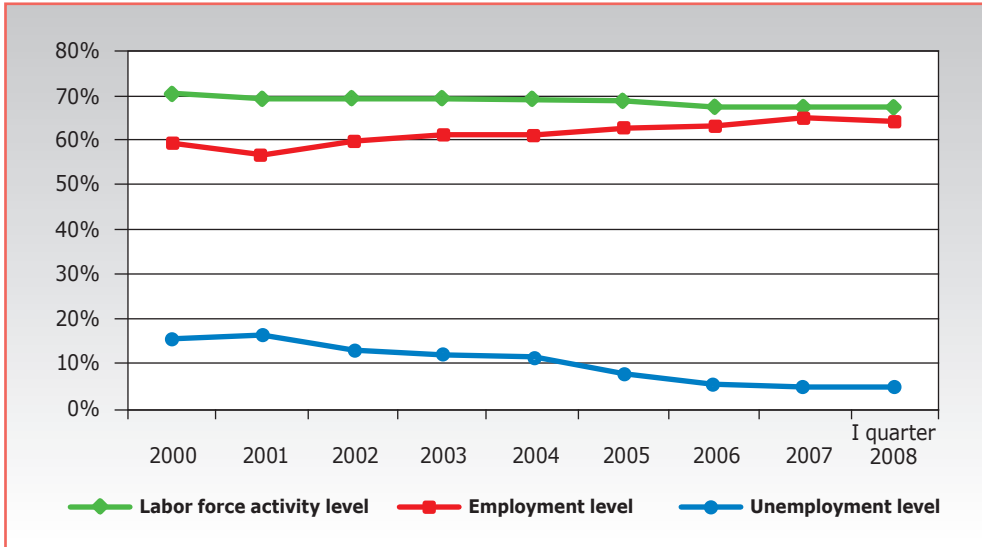
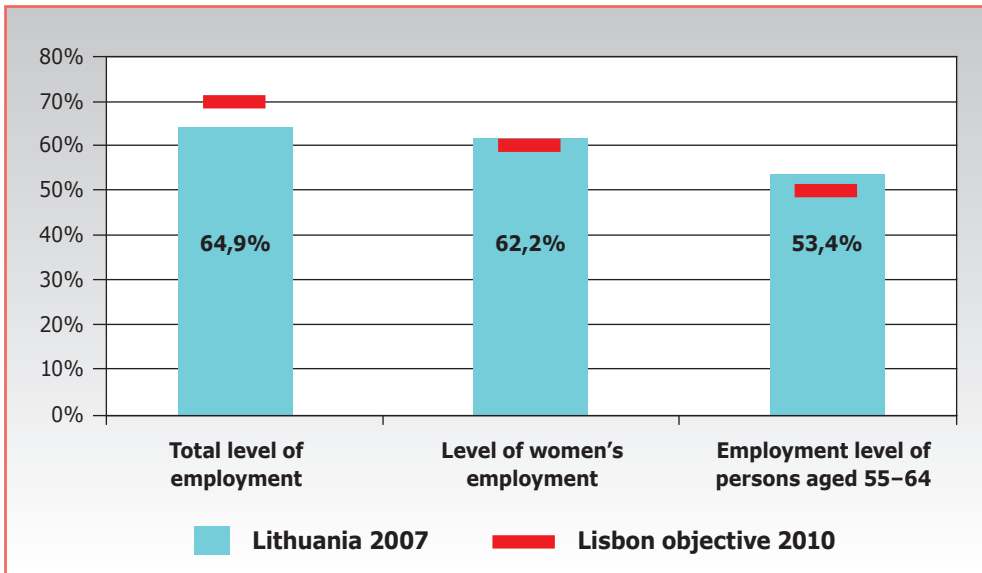


Figure: Level of employment of women, people aged 55–64 and the entire population in 2007 in Lithuania



Source: National Report of Lithuania on Social Protection and Social Inclusion Strategies 2008–2010. http://ec.europa.eu/employment_social/spsi/strategy_reports_en.htm

Table: Employment and unemployment indicators in Lithuania and the EU27, 2006

| | Indicator | 2006 Lithuania | 2010 National target | 2006 EU27 | 2010 EU target |
|----|----------------------------------|-----------------------|-----------------------------|------------------|-----------------------|
| 1. | Employment rate | 63.6 | 68.8 | 64.4 | 70.0 |
| 2. | Employment rate of older workers | 49.6 | | 43.5 | |
| 3. | Long-term unemployment rate | 2.5 | | 3.7 | |

Source: Eurostat, the European Commission

Table: Progress of implementing the national reform programme in Lithuania (until 11 October 2006)

| Parts of the programme | Completely implemented until the last deadline | Partly implemented/ being implemented | Not implemented until the last deadline | No information available |
|-------------------------------|---|--|--|---------------------------------|
| Macroeconomic policy | 18.64% | 72.88% | 5.08% | 3.40% |
| Microeconomic policy | 7.70% | 84.61% | 6.84% | 0.85% |
| Employment policy | 3.26% | 95.65% | 0% | 1.09% |
| Total (average in %) | 9.87% | 84.38% | 3.97% | 1.78% |

Source: Nakrošis, V. (ed.) *Lithuania's Participation in the European Union Open Method of Co-ordination Processes: Impact Assessment on Public Administration and Public Policy. Final report, 2006.*

<http://www.euro.lt/documents/AKM%20tyrimo%20ataskaita.pdf> (in Lithuanian)

Table: Causes of death and disease burden

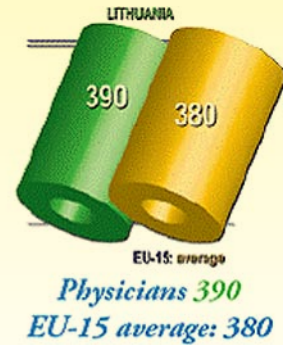
| | % of deaths caused* | | % of disease burden* | |
|-----------------------------------|---------------------|-------------|----------------------|-------------|
| | Lithuanian group | EU-15 group | Lithuanian group | EU-15 group |
| Cardiovascular diseases | 59 | 41 | 28 | 17 |
| Neuropsychiatric disorders | 1 | 5 | 14 | 26.5 |
| Cancer/malignant neoplasms | 13 | 26.5 | 8.5 | 16.5 |
| Unintentional injuries | 9 | 3.4 | 14 | 5.8 |
| Respiratory diseases | 2.8 | 5.6 | 2.8 | 6.5 |
| Infectious and parasitic diseases | 2.7 | 1.2 | 5.2 | 1.7 |
| Respiratory infections | 1 | 4.4 | 1 | 1.3 |
| Perinatal conditions | <1.0 | <1.0 | 1 | <1.0 |
| Intentional injuries | 4.6 | 1.3 | 7.4 | 2 |
| Diabetes | <1 | 2.3 | <1.0 | 2.1 |
| Sense organ disorders | 0 | 0 | 3.6 | 4.7 |
| Total communicable diseases | 4.3 | 6 | 9 | 5 |
| Total noncommunicable diseases | 82 | 89 | 69 | 87 |
| Total injuries | 14 | 5 | 22 | 8 |

* Data refer to the European mortality groups that include Lithuania and the EU-15 countries, respectively.

Source: World Health Organization 2006

HEALTH PROFESSIONALS (per 100 000 population)

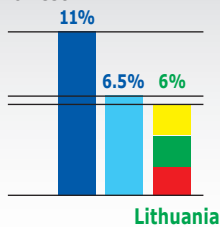
| | | |
|-----------------------|-----|--------------------|
| Dentists | 660 | EU-15 average: 640 |
| Nurses | 770 | EU-15 average: 670 |
| Pharmacists | 640 | EU-15 average: 790 |
| General practitioners | 70 | EU-15 average: 102 |



HOSPITALS

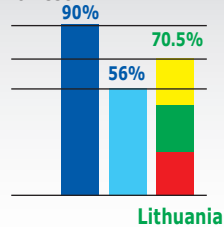
| | | |
|---------------------------------------|---------|--------------------|
| Hospitals (per 100 000 population) | 5.6 | EU-15 average: 3.4 |
| Hospital beds (per 100 000) | 922 | EU-15 average: 611 |
| Annual inpatient admissions (per 100) | 24 | EU-15 average: 18 |
| Average length of stay | 11 days | EU-15 average: 10 |

EU-15: highest
lowest



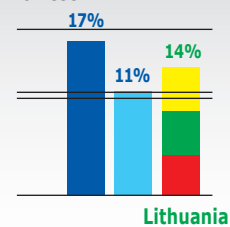
Total expenditure
on health, % of GDP

EU-15: highest
lowest



Government expenditure
on health, as % of total
expenditure on health

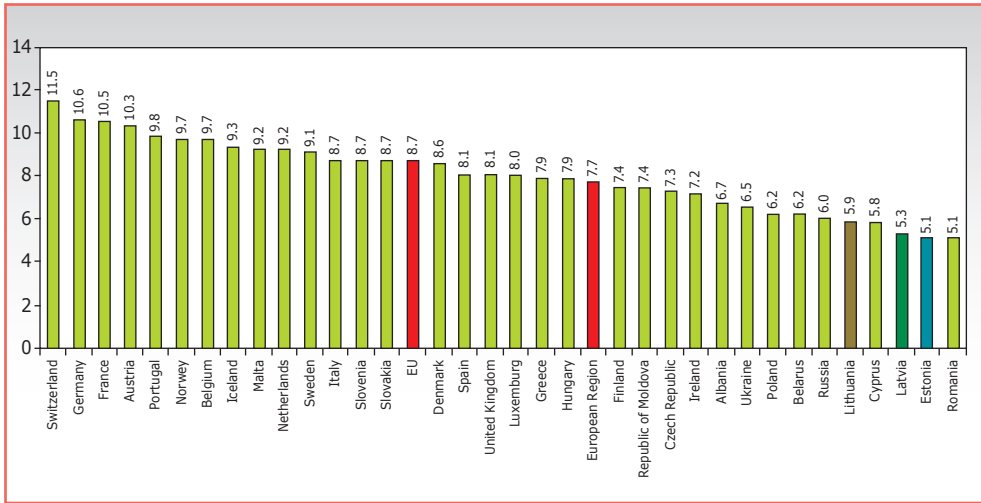
EU-15: highest
lowest



Government expenditure
on health, as % of total
government expenditure

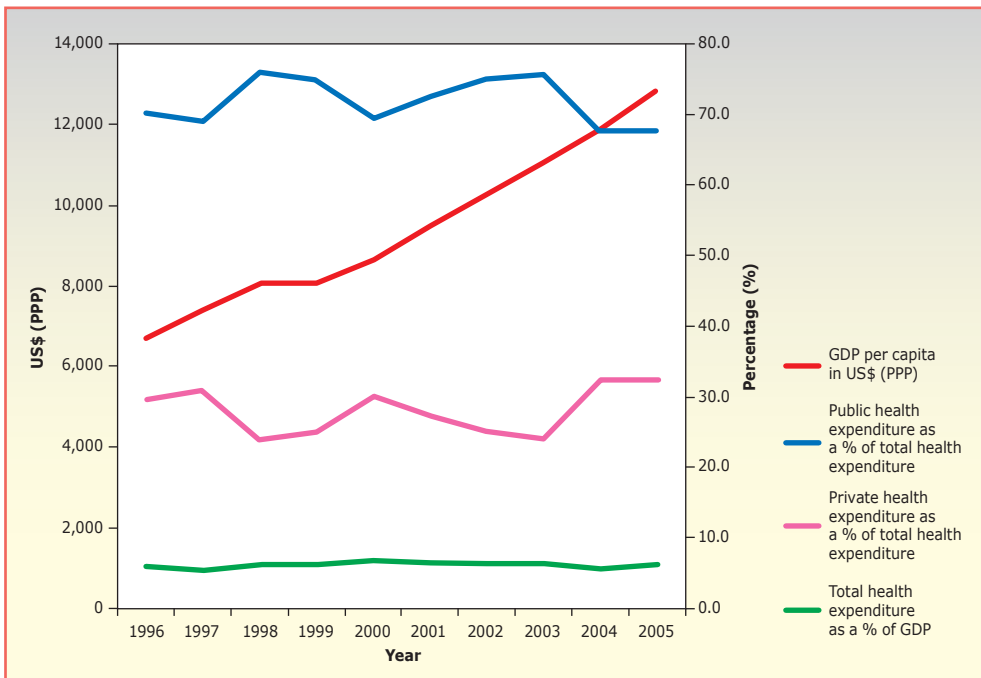
Source: WHO 2006

Figure: Total health care expenditure as % of GDP



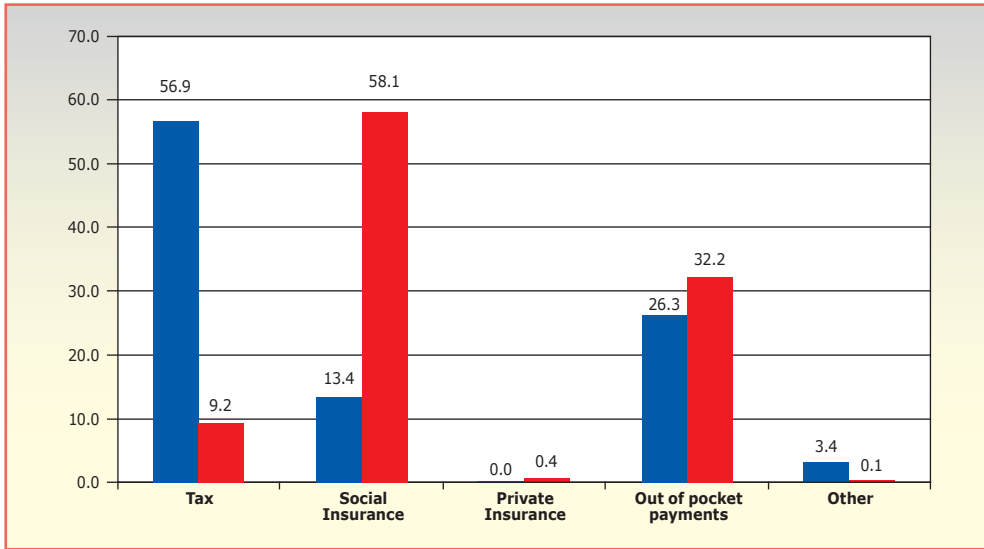
Note: WHO data 2004; data for Latvia and Estonia – 2005; Lithuania – 2006
 *Estonia – calculated using the SHA (OECD)

Trends in health care expenditures in Lithuania, 1996-2005



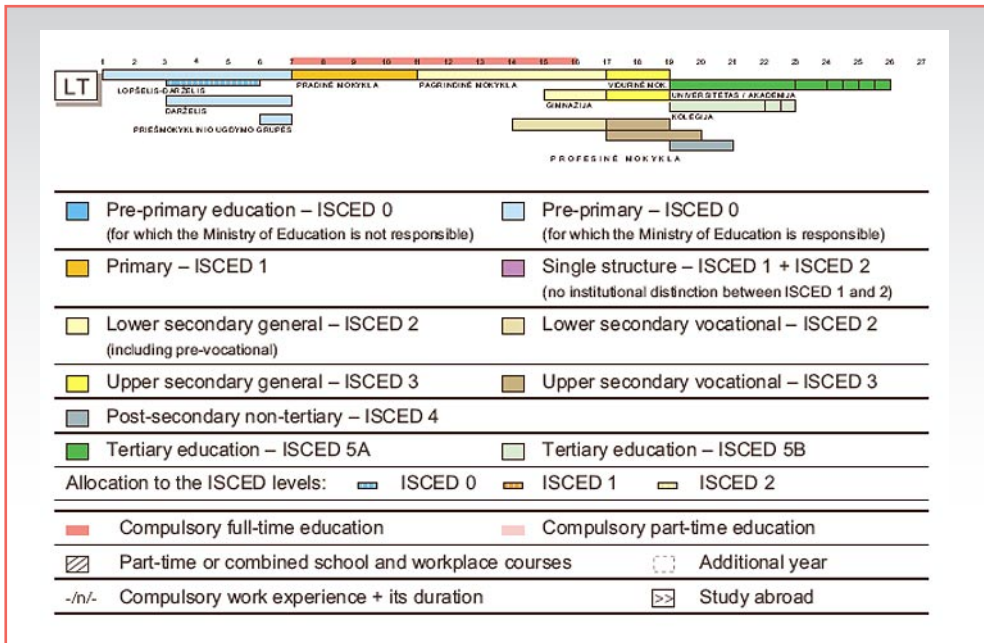
Source: WHO 2007

Breakdown of total expenditure on health by main contribution mechanisms, 1996 and 2005



Source: WHO 2007

Figure: Organisation of the education system in Lithuania



Source: Eurydice.

Table: Main development gaps between Lithuania and the EU in the area of education and training

| Indicator | Year | Lithuania | EU average |
|---|------|-----------|------------|
| 20-29 aged population with higher education (per cent at the level of ISCED 5 and 6) | 2005 | 86.5 | 56 |
| percentage of the population aged 20-24 having completed upper-secondary education | 2007 | 89 | 78.1 |
| Students in vocational programmes as a percentage of all students at the level of ISCED 3 | 2006 | 25.7 | 51.7 |
| Percentage of the adult population aged 25 to 64 participating in education and training | 2006 | 4.9 | 10.2 |

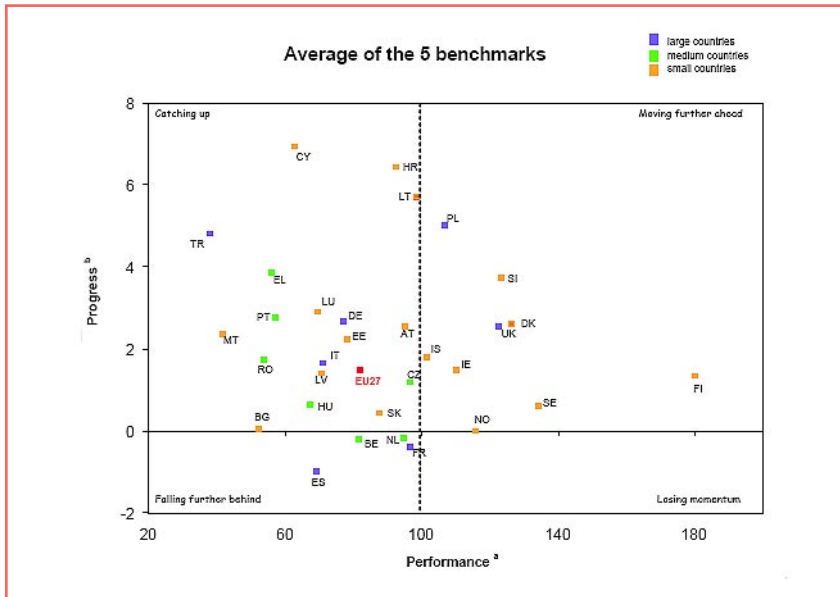
Source: Eurostat

Spending per student and relative to GDP per capita (2005)

| | Spending per student in 1000 EUR PPS | | Expenditure per student/ GDP per capita compared with EU average (EU 27=100), 2004 | |
|----------------|--------------------------------------|------------|--|------------|
| | ISCED 1 | ISCED 2-4 | ISCED 1 | ISCED 2-4 |
| EU-27 | 4.5 | 5.9 | 100 | 100 |
| Belgium | 5.6 | 6.5 | 105 | 95 |
| Bulgaria | 1.7 | 1.6 | 95 | 78 |
| Czech Republic | 2.3 * | 3.9* | 72 | 95 |
| Denmark | 7.2 | 8.0 | 127 | 109 |
| Germany | 4.2 | 6.6 | 84 | 86 |
| Estonia | : | : | : | : |
| Ireland | 4.8 | 6.1 | 75 | 77 |
| Greece | 3.8 | 4.9 | 87 | 95 |
| Spain | 4.7 | 6.1 | 97 | 102 |
| France | 4.5 | 7.7 | 89 | 118 |
| Italy | 5.6 | 6.3 | 128 | 109 |
| Cyprus | 5.2 | 8.3 | 119 | 151 |
| Latvia | 2.5 | 2.5 | 108 | 82 |
| Lithuania | 1.8 | 2.2 | 73 | 78 |
| Luxembourg | : | : | : | : |
| Hungary | 3.7 | 3.2 | 116 | 91 |
| Malta | 2.5* | 3.5* | 80 | 85 |
| Netherlands | 5.3 | 6.6 | 94 | 89 |
| Austria | 6.9 | 8.3 | 115 | 115 |
| Poland | 2.8 | 2.4 | 119 | 83 |
| Portugal | 3.8 | 5.1 | 113 | 117 |
| Romania | 1.1 | 1.3 | : | : |
| Slovenia | 6.6 | 4.6 | 172 | 91 |
| Slovakia | 2.4 | 2.3 | 72 | 74 |
| Finland | 4.7 | 6.2 | 95 | 99 |
| Sweden | 6.4 | 6.9 | 122 | 102 |
| United Kingdom | 5.6 | 7.0 | 97 | 90 |
| Croatia | : | : | : | : |
| FYR Macedonia | : | : | : | : |
| Turkey | : | : | : | : |
| Iceland | 7.0* | 7.0* | 127 | 99 |
| Liechtenstein | 7.0 | 7.7 | : | : |
| Norway | 7.6 | 9.3 | 103 | 79 |

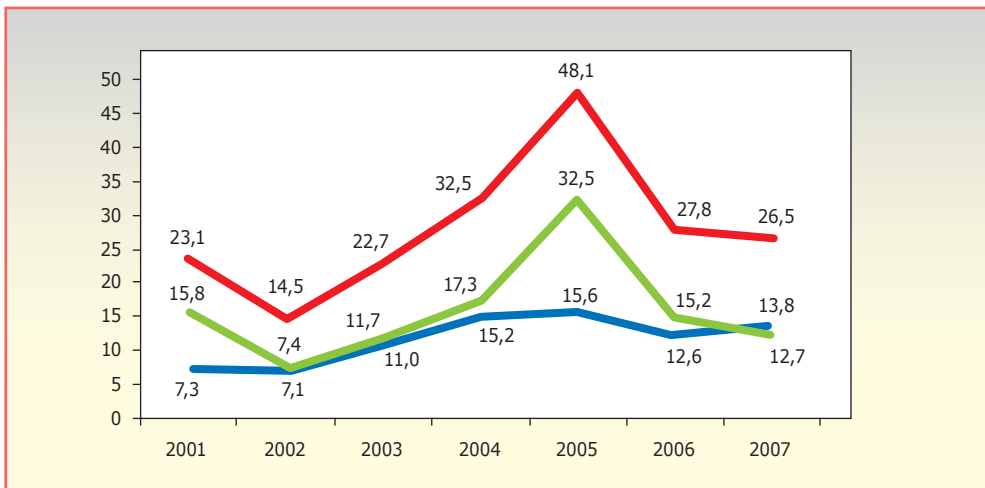
Source: Eurostat (UOE). * = 2004 data

Average levels of country performance (2006) and progress (2000–2006) across the five benchmarks areas



Source: CRELL/Joint Research Centers 2008

Figure: Emigration from Lithuania in 2001-2007, in thousands



Source: Statistics Lithuania

Table: Main development gaps between Lithuania and the EU in the area of higher education

| Indicator | Year | Lithuania | EU average |
|---|------|-----------|------------|
| Scientific publications for mln inhabitants | 2003 | 165 | 639 |
| Patent applications to the European patent bureau for mln inhabitants | 2002 | 2.6 | 133.6 |

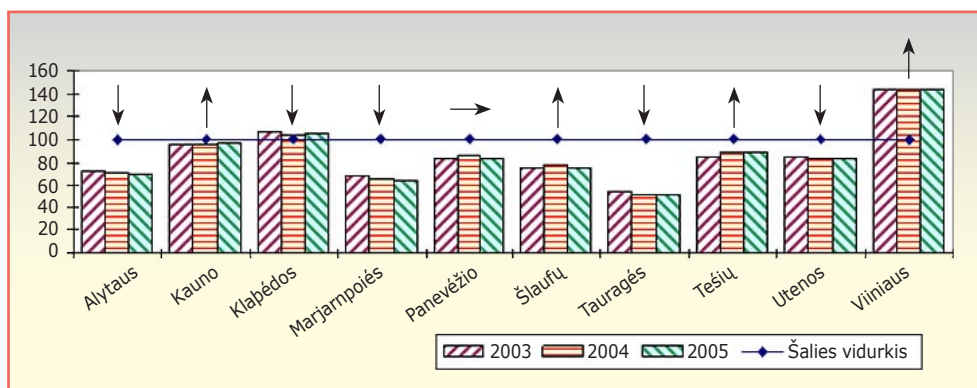
Source: Eurostat.

Table No. 2. Main development gaps between Lithuania and the EU in the area of R&D resources

| Indicator | Year | Lithuania | EU average |
|---|------|-----------|------------|
| 25–34 aged population with higher education (percent) | 2004 | 35 | 24.8 |
| Number of researchers per 1 000 employees | 2003 | 4 | 5.4 |
| Number of researchers employed in business, percent | 2003 | 6.7 | 49 |

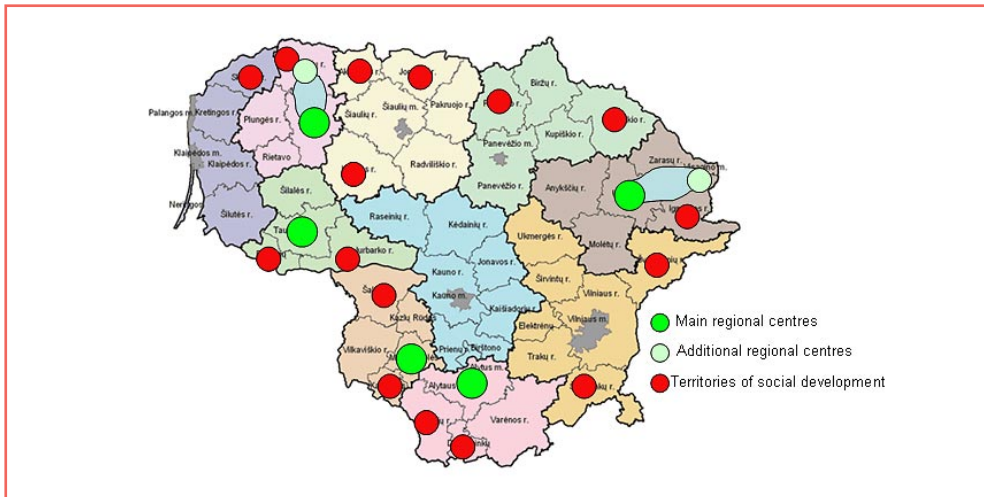
Source: Eurostat, 2006

Figure: Dynamics of regional development in 2003-2005: GDP per capita compared to the national average, per cent



Source: Statistics Lithuania

Figure: Territorial units of the Lithuanian regional development policy



Source: Lithuanian Ministry of Interior, 2006

Table: Breakdown of EU Structural Funds according to the territorial units of the Lithuanian regional policy in the 2004-2006 programming period

| Territorial unit of regional policy | Total project value, % | Total project value per one inhabitant in LTL (% of the national average) |
|---|------------------------|---|
| Alytus county | 7 | 1 783 (133) |
| Kaunas county | 16 | 1 072 (80) |
| Klaipėda county | 12 | 1 440 (108) |
| Marijampolė county | 6 | 1 603 (120) |
| Panevėžys county | 10 | 1 589 (119) |
| Šiauliai county | 11 | 1 382 (103) |
| Tauragė county | 3 | 1 177 (88) |
| Telšiai county | 4 | 970 (72) |
| Utena county | 7 | 1 766 (132) |
| Vilnius county | 24 | 1 264 (90) |
| Main regional development centres (five municipalities) | 7 | 1 128 (84) |
| Ignalina Nuclear Plant region (three municipalities) | 3 | 2 166 (162) |
| Problem territories of social development (14 municipalities) | 16 | 1 659 (124) |
| Total: | 100 | 1 339 (100) |

Source: Public Policy and Management Institute 2008

Table: Financial absorption of EU structural funds in the new EU member states, 10 September 2008

| Member State | Payment rate (%) | | | | |
|----------------|------------------|-----|-------|------|-----------|
| | ERDF | ESF | EAGGF | FIFG | All Funds |
| Estonia | 95 | 81 | 95 | 95 | 92 |
| Malta | 92 | 90 | 95 | 91 | 92 |
| Lithuania | 90 | 91 | 95 | 95 | 91 |
| Slovenia | 95 | 77 | 89 | 93 | 89 |
| Hungary | 94 | 66 | 95 | 86 | 88 |
| Poland | 91 | 82 | 93 | 61 | 88 |
| Czech Republic | 88 | 65 | 95 | 95 | 82 |
| Slovakia | 84 | 69 | 95 | 86 | 82 |
| Latvia | 79 | 79 | 95 | 95 | 82 |

Source: DG REGIO Infoview 10/09/2008

Table: Financial absorption of EU cohesion funds in the new EU member states, 10 September 2008

| No | Country | Final committed €m | Paid €m | Ratio paid/ committed % |
|--------------|----------------|--------------------|--------------|-------------------------|
| 1 | Malta | 22 | 17 | 77% |
| 2 | Latvia | 714 | 481 | 67% |
| 3 | Lithuania | 825 | 537 | 65% |
| 4 | Slovakia | 766 | 493 | 64% |
| 5 | Estonia | 427 | 261 | 61% |
| 6 | Czech Republic | 1 228 | 750 | 61% |
| 7 | Slovenia | 254 | 150 | 59% |
| 8 | Cyprus | 54 | 30 | 56% |
| 9 | Hungary | 1 483 | 766 | 52% |
| 10 | Poland | 5 635 | 2 620 | 47% |
| 11 | Romania | 2 043 | 878 | 43% |
| 12 | Bulgaria | 880 | 330 | 37% |
| Total | | 14 331 | 7 314 | 51% |

Source: Infoview 10.09.2008

Other publications of the OSI European Policies Initiative:

- *Not Your Grandfather's Eastern Bloc
The EU New Member States as Agenda Setters in the Enlarged European Union*
 - *Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World*
- available at: <http://eupi.eu>
-

“The Unfinished Business of the Fifth Enlargement Countries” publication is comprised of ten national reports and a comparative analysis. The national reports describe and analyze the post accession state of affairs in the ten new member states (NMS) from CEE. The comparative analysis identifies that five years (or two and a half, in the case of Bulgaria and Romania) following accession, the ten central and eastern European states of the fifth enlargement continue to deal with the “unfinished business” from their transition agenda in the context of EU membership and the global economic and financial crises. The biggest challenges in the post accession period concern the political systems, which are characterized by fragmentation of existing political parties and temptation to employ populism and nationalism. The fragmented political parties with short-term political lives are unable to commit to long-term and consistent reforms in the policy spheres that are of crucial importance for the citizens (health, education, social protection etc.) thus leaving those structural reforms largely incomplete. This lack of progress further increases the mistrust in the political establishments thus diminishing the already low citizens’ trust in the institutions of representative democracy, which might cause already fragile political systems to become increasingly vulnerable.