

LITHUANIA



Polity: Parliamentary democracy

Economy: Mixed capitalist

Population: 3,700,000

GNP per capita at PPP \$ (1999): 6,093

Capital: Vilnius

Ethnic Groups: Lithuanian (80.6 percent), Russian (8.7 percent), Polish (7 percent), Byelorussian (2 percent), other (2 percent)

Size of private sector as % of GDP (mid-2000): 70

NATIONS IN TRANSIT SCORES

	1997	1998	1999-2000	2001
Democratization	2.15	↑ 1.95	↓ 2.00	↑ 1.94
Rule of Law	na	na	2.88	↑ 2.75
Economic Liberalization	2.50	↓ 2.58	↓↓ 2.83	↑ 2.75

KEY ANNUAL INDICATORS

	1994	1995	1996	1997	1998	1999	2000
GDP per capita (\$)	1,143.0	1,623.0	2,129.0	2,588.0	2,904.0	2,874.0	3,045.0
Real GDP growth (% change)	-9.8	3.3	4.7	7.3	5.1	-4.2	2.9
Inflation rate	72.1	39.6	24.6	8.9	5.1	0.8	1.0
Exports (\$ millions)	2,029.0	2,706.0	3,413.0	4,192.0	3,962.0	3,147.0	3,933.0
Imports (\$ millions)	2,234.0	3,404.0	4,309.0	5,340.0	5,480.0	4,551.0	5,006.0
Foreign Direct Investment (\$ millions)	31.0	72.0	152.0	328.0	921.0	478.0	355.0
Unemployment rate	3.8	17.5	16.4	14.1	13.3	14.1	15.4
Life Expectancy (years)	68.7	69.2	70.4	71.2	71.5	72.1	72.0

INTRODUCTION

Lithuania is a parliamentary democracy with secure political rights and civil liberties. The country has a solid track record of press freedom and protection of minorities. There continues to be momentum for reform, but weaknesses in the judicial system and the rule of law remain. Corruption is a serious concern. There is widespread political consensus and support for strengthening the country's institutional and economic structures.

Lithuania has established a solid foundation for a market economy and has made significant progress in the areas of macroeconomic stabilization, privatization, and economic liberalization. The country's currency board arrangement guarantees currency stability and contributes to the credibility of the banking system. Although privatization is ongoing and encompasses the country's strategic infrastructure, openness and transparency are lacking. Substantial enterprise restructuring is still required. Government expenditures and borrowing have been reduced, but further reforms are necessary. Business growth is impeded mostly by high taxes and excessive regulations.

The social security system has been under tight budgetary constraints, and private pension insurance has not yet evolved. An economic slowdown and difficulties with the state's finances point to the need for a fundamental revision of government expenditures, extensive business deregulation, and thoroughgoing tax and pension reform. Integration into the European Union (EU) has provided significant impetus for reform through the removal of barriers to the free movement of goods, services, capital, and labor and through the adoption of general EU principles. Lithuania has concluded membership negotiations with the World Trade Organization (WTO) and must ratify the main membership documents and agreements by May 1, 2001.

In 2000, Lithuania held municipal and legislative elections that resulted in the entrance of a profusion of relatively new players onto the political scene. Transfers of power after the elections were smooth and effective. Lithuania's new government and parliament are led by the Liberal Union and the New Union (Social Liberals). The government is of center-right orientation. Before the parliamentary elections, the election law was amended by abolishing the second round of elections in single mandate constituencies. The Social Liberals, the Peasants Party, and the Liberal Union dominate municipal governments.

There were several legislative developments in 2000. These included the passage of a new law on charity and support that simplified the procedures for private giving and amendments to the law on labor contracts that legitimated non-paid voluntary activity. The adoption of a new law on public information that provided for the creation of an ombudsman's office to oversee the media was

later amended, thus securing reliance on a self-regulating principle for mass media. One of the most significant changes in the legal system was the adoption of a new civil code that is in accord with EU laws and other international legal acts.

DEMOCRATIZATION

Political Process

1997	1998	1999-2000	2001
2.00	1.75	1.75	1.75

The political system in Lithuania is stable, and transfers of power have been smooth and effective. On October 18, 2000, the country held national legislative elections, which the Supreme Electoral Commission of Lithuania acknowledged as free and fair. The Organization for Security and Cooperation in Europe (OSCE) decided at an early stage not to send election observers because public confidence was high and the conditions for democratic elections were well established. The OSCE and the EU officially ceased observing Lithuanian elections in 1997.

The leftist Social Democratic Coalition of former President Algirdas Brazauskas won 51 mandates in the 141-seat parliament. The right-of-center Liberal Union finished second with 34 seats. The center-left New Union (Social Liberals) won 29 seats, and the Conservative Party 9. Many parties failed to cross the threshold of 5 percent in proportional voting, but another seven parties won seats in single-mandate constituencies. Among these were the Peasants Party, 4 seats; the Center Union, 3; and the Modern Christian Democrats, 3.

After the elections, the Liberal Union, the New Union, the Center Union, and the Modern Christian Democrats signed a coalition agreement. With 67 members of parliament, this New Policy bloc secured support from several more candidates who were elected in single-mandate constituencies in order to have a 71-vote parliamentary majority. The Liberal Union and the New Union were entrusted with the formation of the new government and parliament's leadership. The New Union's leader, former Prosecutor General Arturas Paulauskas, was elected parliament's speaker. (Paulauskas narrowly lost the 1998 presidential election.) The Liberal Union's leader, Rolandas Paksas, who led the cabinet as a member of the Conservative Party after the Vagnorius Administration resigned in spring 1999, was appointed prime minister.

For the first time since Lithuania restored its independence, the country has a coalition government in which no single party enjoys a majority. The new government is of center-right orientation. The Conservatives and the leftist parties are the main opposition forces. Dominated by the left-leaning New Union and the right-of-center Liberal Union, the new government may prove to be rather un-

stable. The New Union, a party that was established around one leader rather than driven by ideology, leans to the right on matters pertaining to property ownership but favors leftist views on social issues. The Liberal Union is committed to classical right-wing principles.

The most recent presidential election took place on December 21, 1997. American émigré and environmentalist Valdas Adamkus was elected by a majority vote in the second round of balloting. Adamkus defeated his rival, attorney Arturas Paulauskas, by a margin of less than one percentage point. Voter turnout reached 73.78 percent. Since the election, Adamkus has been one of the most popular figures in Lithuania. The next presidential election is due in 2002.

Any person who is a citizen of Lithuania by birth, who has lived in Lithuania for at least the past three years, who has reached the age of 40 prior to election day, and who is eligible for election to the parliament may be elected president of the republic. Presidential candidates must collect the signatures of at least 20,000 voters to be registered as a presidential candidate.

Voter turnout for the national legislative elections rose from 53 percent in October 1996 to more than 56 percent in October 2000. As a rule, voter turnout is higher in presidential elections. In the 1997 presidential election, more than 70 percent of eligible voters cast their ballots. In municipal elections, voter turnout was 45 percent in 1995 and 40 percent in 1997.

Lithuania's electoral system is multiparty-based. Half of parliament is elected in multi-mandate proportional balloting; the other half is identified through polling in single-mandate constituencies. The threshold for legislative representation is 5 percent. Three months before the October 2000 parliamentary elections, the ruling Conservative majority amended the election law. President Adamkus issued a veto, but parliament overrode it. Previously, a candidate running in a single mandate constituency had to receive 50 percent of the vote to be declared the winner in the first round. Otherwise, a second round had to be held with the two front-runners. The amended law, however, establishes a first-past-the-post system. That is, a candidate only needs to receive a plurality in the first round to win. The new amendments were expected to benefit the most popular parties (especially the Conservative Party), which have rather disciplined electorates, but the election results showed the opposite.

Until the 2000 parliamentary elections, the largest and most influential parties were the Homeland Union—Lithuanian Conservatives, the Christian Democratic Party, the left-of-center Social Democratic and Labor Democratic Parties, and the Center Union. The relatively new players on the Lithuanian political scene—Paulauskas' New Union, the leftist Peasants Party, and the Liberal Union—came out on top in the municipal elections in March 2000. The Liberal Union and the New Union have reinforced their positions since the parliamentary elections. Led by young, charismatic leaders, they are considered to have brought a

breath of fresh air to the stale political arena of the past decade.

Citizens are free to form political parties and associations, provided their goals and activities do not contradict the constitution and laws of Lithuania. To register, a party must have at least 400 members. There are 39 registered parties in the country. One extreme nationalist party, the Lithuanian Union of National Social Solidarity, was recently been refused registration for the tenth time on the grounds that articles in the party's bylaws on the superiority of the Lithuania nation contradict both the constitutional principles of democracy and equality and the law on political parties and organizations.

Out of a population of more than 3.7 million, roughly 1 to 2 percent are registered members of political parties. Many small political parties have membership problems. The former Women's Party, led by former Prime Minister Kazimiera Prunskienė, has been renamed the New Democracy Party. Five political parties have women's divisions. The proportion of female members of parliament has decreased from 17.4 percent (24 seats) in the previous parliament to 10.6 percent (15 seats) in the newly elected parliament. In 1996, due to low voter turnout, the parliamentary elections failed in three constituencies that traditionally have comprised the bulk of the Polish and Russian electorate. The Union of Russians joined the Brazauskas Social Democratic Coalition in the 2000 parliamentary elections. The Polish Electoral Action won two seats in single-mandate constituencies.

Civil Society

1997	1998	1999-2000	2001
2.25	2.00	2.00	1.75

In July 2000, parliament passed a new law that simplifies the procedures for granting charity and support. The law is seen as an important step forward in the promotion of the third sector and private giving. In late 1999, the Commission for NGO affairs was founded to advise the government on issues related to nongovernmental organizations (NGOs) and to initiate or evaluate relevant legislative amendments. The commission also seeks to identify major NGO concerns and to formulate a systematic package of proposals for resolving these concerns. Members of the commission are representatives of NGOs.

The NGO sector has been developing steadily in recent years, but public awareness about it remains rather low. According to the NGO Information and Support Center, there are more than 3,000 nongovernmental organizations in Lithuania. Every year approximately 200 new NGOs are established. Volunteerism remains a rare form of NGO support because Lithuanian laws did not provide for voluntary activity and unpaid labor relationships until recently. Unpaid voluntary activities were legitimated by amendments

to the law on labor contracts that were adopted in July 2000. The task of establishing provisions for regulating voluntary activities has been delegated to the government. The Center for Volunteerism is lobbying for necessary legislative changes on volunteerism. NGO Information and Support Centers in the largest cities (Vilnius, Kaunas, and Klaipeda) represent the main efforts to increase philanthropy.

According to the Women's Information Center, there are about 60 women's organizations in Lithuania. Among them are 20 regional organizations, 23 nationwide organizations (including five multi-interest groups, six interest groups, two organizations engaged in service provision, and ten professional interest groups), ten branches of international women's organizations, and four women's studies centers. The Lithuanian Women's Association unites twelve organizations. The Lithuanian Society of Women in Business unites 200 women entrepreneurs and managers from 13 towns and regions.

At the national level, NGOs are registered with the ministries of justice and economy. Regional NGOs are registered with municipalities. According to the new law on charity and support, nongovernmental organizations are not required to approve grant programs in order to carry out and receive financial assistance for their activities. This amendment is expected to significantly facilitate the giving and administration of assistance funds.

The new law removes ambiguities regarding the distinction between charity and support. Charity is now defined as help extended to people who are in a difficult financial situation. Support is defined as assistance to an organization that carries out cultural, scientific, health care, educational, or other activities. The legalization of anonymous support was another important change.

One of the most controversial amendments states that support or charity can be given only to organizations that are included in an official register of NGOs. The task of formulating criteria for support and charity recipients has been delegated to the government. Although this provision is expected to help prevent abuse of concessions applicable to private giving, critics charge that the register is unnecessary and unjustified. They also argue that it will create conditions for abuse of official power and increase bureaucratic paper work. The main weaknesses that remain in Lithuania's legal framework for NGOs pertain to detailed regulation of the structure and management of NGOs, burdensome statistical reporting requirements, and prohibitions for certain types of NGOs (associations and foundations) to carry out commercial activities. Likewise, accounting regulations applicable to NGOs are rather complicated and require professional handling.

According to the NGO Information and Support Center, the U.S.–Baltic Foundation, and the Open Society Fund–Lithuania, the operational and managerial capabilities of NGOs have increased considerably in recent years. The quality of operation and management of about 200 NGOs is comparable to that of leading businesses. How-

ever, their overall capacity is estimated to be low. A number of organizations provide a number of technical, consulting, and training services, as well as manuals, to enhance the effectiveness of Lithuanian NGOs. For example, the NGO Information and Support Center, with support from the Netherlands and Poland, has trained 20 professional NGO consultants to assist groups in improving their operations.

The tax regime for NGOs is similar to that of for-profit companies, but NGOs pay a 5-percent income tax instead of the regular 24 percent. Donations from companies are tax-exempt. NGOs do not pay the stamp duty for registration services. Most Lithuanian NGOs are not financially viable because they lack permanent sources of income. Most of their funding comes from international foundations. Although the trend is toward increased fundraising from local sources, donations from private firms and individuals still only constitute about one-fifth of NGO revenues. NGOs also receive public funding, which is mostly provided by the ministries of culture, education and social security, and labor. Government procurement opportunities are available only to nonprofit providers of social services. A government-adopted price directory for social services is expected to enhance these opportunities. The operational and organizational weaknesses of regional NGOs seriously hinder cooperation with local governments.

According to the Department of Statistics, the amount of charity and support increased by 61.6 percent in the first half of 2000 when compared to the same period in 1999. Eighty-four percent of charity and support came from abroad, and the remaining 16 percent came from Lithuanian citizens and firms. The amount granted by Lithuanian legal entities increased by more than 29 percent, and individual giving rose by 69 percent. The bulk of charity and support is granted in kind.

The Lithuanian Alliance of Trade Unions, the Center of Trade Unions, the Lithuanian Labor Federation, and the Employees' Union unite trade union and labor groups. Industrial restructuring, privatization, and bankruptcies of large state-owned enterprises have adversely affected the trade union movement. Nonetheless, the number of workers belonging to trade unions is steadily increasing. There are about 80 professional organizations with a total of 200,000 members. The activities of individual trade unions and the percentage of workers belonging to them differ significantly across areas of activity. The trade unions with the highest levels of membership are in the chemical industry, construction, the energy sector, and the food industry. Trade unions in the educational sector are also quite effective. The biggest problem unions face pertains to the degree of democratization in their management structures. Trade unions must sign collective agreements with employers on behalf of all employees.

There are about 800 associations in Lithuania and more than 300 business organizations. Small business associations unite an overwhelming majority of small enterprises. The Lithuanian Association of Agricultural Companies, for

example, unites 300 enterprises. The Journalists Union, the Public Relations Association, and the Journalists Center are the most prominent journalistic organizations.

In July 2000, parliament adopted a law that allows individuals and legal entities to engage in paid lobbying activities aimed at influencing the legislative process. To do so, a person or a company must be registered on an official list of lobbyists that the Central Commission of Service Ethics maintains. The law bans former politicians and state officials from engaging in lobbying activities for a year after leaving their posts. Although the law is aimed at regulating the influence exerted on the legislative process and curbing corruption, it is feared that the powers of well organized, narrowly focused interest groups may expand.

Interest groups may take part in the political process through policy advocacy, counseling, and other activities. Business associations and trade unions are the most active and influential participants in the political process. The Lithuanian Industrialists Confederation is the leading lobbying group in the country. Trade unions are becoming increasingly influential because they have large membership and organizational structures. In most cases, the government is attentive, but not always responsive, to the opinions of interest groups. The policy-making process increasingly relies on joint task forces and policy initiatives that draw together officials, businesspeople, specialists, and independent policy analysts. This approach has been used to develop pension fund legislation, new tax laws, and budget reforms. For example, the Sunrise Commission that was set up in 1999 to formulate proposals for improving business conditions in many vital areas comprised 12 mixed task forces. Public hearings on draft laws are another new initiative that is expected to invigorate the policy-making process.

Independent Media

1997	1998	1999-2000	2001
1.75	1.50	1.75	1.75

Mass media in Lithuania continue to enjoy the highest degree of public confidence (over 70 percent of the population) of all institutions. However, the year 2000 has been marked by several legislative attempts to introduce statutory provisions that threaten to curb the self-regulating principle in mass media and to undermine their financial stability. In mid-July, parliament adopted a new law on public information that provided, among other things, for the establishment of a new ombudsman's office to control the media. This was seen as a move away from the Western-style principle of self-regulation that has been in place until now. A month later, following a presidential veto, the provision on the office of the ombudsman was removed from the law. Instead, the functions of the existing commission on the ethics of journalists and publishers and of the inspector of journalists' ethics will be expanded. Notably, most influen-

tial media representatives act professionally in accordance with the ethical code of journalists and publishers. Another amendment to the law that the president vetoed would have tightened significantly the norms of broadcasting commercials, but the newly elected parliament upheld the veto and removed the restraints.

The vast majority of Lithuania's mass media is privately owned. The state owns part of the ELTA news agency and the National Radio and Television public broadcasting company. The major national dailies are *Lietuvos Rytas*, with a circulation of 76,000; *Kauno diena*, 56,000; and *Respublika*, 55,000.

The most popular television stations are the LNK television, which captures 28.6 percent of viewership; TV3, 29.9 percent; and Baltijos TV, 17.1 percent. The national television broadcaster, with 9.1 percent, ranks fourth. The national radio broadcaster still enjoys the largest audience and captures about 44 percent of listening time. The other most popular radio stations are M-1 (17 percent) and Radiocentras (12 percent).

The leading private media are financially viable. National Radio and Television, however, has been sinking into arrears for the past several years and owes approximately 15 million *litas* to its creditors. When its bank accounts were frozen in 2000 because of excessive debt to the Radio and Television Center, its broadcasting company, National Radio and Television announced plans to sue the state and to appeal to international media organizations. A subscriber's fee that is designed to shift funding away from the state budget will be introduced in January 2001.

Lithuania's newspaper distribution system is privately owned. The Lithuanian Post, which holds a negligible share of the market, is the only exception. It distributes small periodicals and targets a mostly rural audience. The largest periodicals have their own subscription services. *Lietuvos Spauda* (Lithuanian Press), the largest press distribution company, was formed from a former Soviet monopolistic company. It operates 600 kiosks all across the country. The *Lietuvos Rytas* operates its own subscription service. Several private companies conduct press trade through a chain of gas stations, groceries, and hotels.

The media in Lithuania are editorially independent. Publications may be closed and journalists may be penalized only by court decisions. On occasion, state institutions have attempted to restrict access to information. The Defense Ministry and the Internal Affairs Ministry refuse to allow their officials to communicate with journalists or to publicize information. State-owned radio and television remains under considerable pressure from the government, which controls budget allocations.

The Lithuanian constitution guarantees the freedom to "pursue, receive and disseminate information and ideas." Yet, the same article states that this freedom may be limited by law if it is necessary to "protect a man's health, honor, dignity, private life and morals or to protect the constitutional order." Article 131 of the criminal code provides for

two years of imprisonment, two years of penitentiary labor, or a fine for libeling or disseminating false information that defames a person. Drawing on the civil code, the court can mandate indemnities of 500 litas (\$125) to 10,000 litas (\$2,500) for doing moral harm to persons by publicizing false information that dishonors them or for publishing information about their personal lives without prior consent. The law provides no particular penalties for libeling officials.

In April 1998 the editor-in-chief and an editor of the newspaper *Europe* were sentenced to one year in prison for libel. In July 1997, Valery Ivanov, a Russian citizen and the former leader of the pro-Soviet Yedinstvo organization in Lithuania, was sentenced to one year of penitentiary labor on charges of defaming the victims of the Soviet coup on January 13, 1991.

It is estimated that 2 percent of the population is connected to the Internet. Internet users, however, comprise 5 percent of the population. There are approximately 25 Internet service providers. The companies that release information on the number of clients have from 50 to 6,000 customers. The provision of Internet services is a rapidly developing market. There are no restrictions or regulations on the use of the Internet. However, the telecommunications law that grants Lithuanian Telecom a monopoly on terrestrial communications until 2003 has affected the Internet market.

Freedom House's annual *Survey of Press Freedom* rated Lithuania "Free" from 1994 through 2000.

Governance and Public Administration

1997	1998	1999-2000	2001
2.50	2.50	2.50	2.50

Lithuania's system of checks and balances between legislative and executive authority provides for a proper separation of functions, independent enforcement, and legislative oversight. There are also provisions for the disclosure of government documents, sanctions such as no-confidence votes and impeachment, and self-policing mechanisms such as ethics committees. The state ombudsman's office strengthens external monitoring of the state's behavior.

The legislature is the effective rule-making institution, but it is frequently criticized for over-regulation and interventionism. Rather than defining rules, laws frequently express sentiments and, in many cases, are quite ambiguous and inconsistent. Although both the legislative and executive authorities are becoming increasingly open, in many cases draft legislation submitted for governmental consideration is not easily accessible to the public. Cabinet sessions take place behind closed doors. Ministries and other executive authorities often adopt new regulations without prior notice or public scrutiny. According to 1998 regulations, all draft laws prepared by the government must be

announced on the Web site of the responsible ministry. Parliament's work is more transparent than the government's. However, draft legislation is not always available on the Internet, and parliament has no obligation to inform the public and the media.

Lithuania has one level of local government that includes 60 municipalities. Most municipalities have 30,000 to 50,000 inhabitants. There are ten regional administrations, or territorial units of the central government, which are headed by centrally appointed governors. Local governments are largely dependent on the national government. The responsibilities of local governments are divided into independent functions and functions delegated by the government. The main independent functions include municipal development, management of municipal enterprises, the establishment and supervision of protected areas and objects, and responsibility for setting sanitary requirements.

The main responsibilities delegated by the central government comprise primary and secondary education, primary health care and disease prevention, culture and sports, development of the leisure and tourist industry, environmental protection, social assistance, garbage collection, fire protection, heating, water supply, and sewerage. In areas such as health care and education, both central and local authorities are involved. Ambiguities in the division of power are impeding the process of decentralization and the establishment of a stable fiscal structure for municipalities. They have also led to intergovernmental tension, inefficient provision of services, and unclear accountability.

At the municipal level, subnational officials are chosen in free and fair elections for three-year terms. Elected councils appoint mayors. It is widely believed that mayors, heads of territorial administrations, and governors of regional administrations should be elected rather than appointed.

Lithuania's municipal system was established on the basis of the 1992 constitution and the Law on Local Government. A new Law on Civil Service was adopted in July 1999. Civil servants are now divided into politicians (ministers and elected officials), political appointees, career civil servants, and civil servants engaged in the provision of governmental services. Previously, the latter group was not included in the category of civil servants.

The adoption of the Law on Civil Service has had a twofold effect. On the one hand, it has conferred a greater degree of independence on civil servants. On the other hand, it appears to pose a hindrance to reforms and administrative changes. Some groups, including the police and custom officers, are statutory civil servants who are subject to regulation by particular laws or statutes. Labor laws are applicable only to civil servants who work in governmental services. Local civil servants are employees of local governments.

Municipal governments generally lack the funds needed to meet their expenditure obligations. This may be attributed to mismanagement and the expansion of local governmental authority. Municipalities are free to allocate funds

between expenditure categories, with the exception of functions delegated by the central government. The central government raises and transfers municipal revenues. The composition of local revenues is defined by law. Municipalities and the central government negotiate changes, and parliament approves them, every three years.

Local authorities are not authorized to introduce or collect taxes, but they may levy some local charges and user fees. They can also lower tax rates at the expense of their own revenues. More than 70 percent of municipal revenue comes from personal income taxes and subsidies from the central budget (roughly 20 percent). The fiscal capacities of local governments are balanced through revenue equalization, which based on expenditure-need assumptions. For example, only 51 percent of personal income taxes collected in the city of Vilnius go to the municipality's budget, but most rural municipalities retain 100 percent of their receipts from the tax.

The professional skills and managerial abilities of local officials vary significantly across municipalities. In most municipalities, local leaders and civil servants lack skills and experience and are inclined toward excessive interventionism. Political connections and cronyism play no small part in hiring civil servants, but their influence on professional activities is less.

RULE OF LAW

Constitutional, Legislative, and Judicial framework

1997	1998	1999-2000	2001
2.25	2.00	2.00	1.75

During the period covered by this report, the most t event was the adoption of a new civil code. Approved on July 8, 2000, the new code is in accord with EU law and international legal acts. It comprises six volumes: general provisions, regulation of the legal status of natural and legal entities, legal relations for families, execution and defense of material rights, legal rights of inheritance, and legal regulation of different kinds of contracts and agreements.

The Lithuanian constitution was adopted by referendum in October 1992. It divides the powers of the government along the French model. The constitution may be applied directly as law, but this rarely occurs in practice. The constitutional court, which resolves conflicts between the constitution and legal acts, has proved to be an independent, powerful, and reliable guardian of constitutional rights. It has found many laws to be in conflict with the constitution.

In late 1998, the constitutional court ruled that the death penalty, which was stipulated in the criminal code, contravened the constitution. In October 2000, it ruled that some provisions of the legislation related to the privatization of the Mazeikiai oil refinery contradicted the

constitution. According to the court's decision, parliament did not have the right to pass laws that enabled the government to accept significant property liabilities and commit itself to covering losses incurred by Mazeikiai's investor, Williams International.

Under current law, OECD and NATO members may buy agricultural land, but they must obtain the government's approval. In 2000, the cabinet proposed an amendment to Article 47 of the constitution that would eliminate all restrictions on the purchase of agricultural land by foreign citizens and legal entities. To date, the amendment has not been adopted. Another proposed amendment would grant supremacy to international treaties ratified by Lithuania over Lithuanian legislative acts and laws. The constitution stipulates that there must be an interval of at least five months between the presentation of draft amendments to the constitution and a vote on them. Debates on these issues are underway.

Although Latvia adopted a new criminal code in September 2000, it will not come into effect for a two years. The existing criminal code and criminal procedural law have been reformed through more than 300 amendments. A number of activities, including homosexuality, have been decriminalized. Capital punishment has been abolished. The court system has been modernized, and criminal prosecution has been subjected to stricter procedures. And, yet, criminal penalties in Lithuania remain rather strict.

The number of prisoners in Lithuania is among the highest in Europe. Public prosecutors authorize searches. Judges issue warrants. Prisoners and other detainees are sometimes beaten while imprisoned or under interrogation. Abuse and violence among prisoners and the living conditions of prisoners and other detainees are growing causes of concern. Investigations of criminal cases are often very slow.

The constitution provides for human rights and their protection, including the rights to own property and to own and work in business. Lithuania has ratified major international conventions on human rights, including the European Convention of Human Rights. The Framework Convention on Protection of National Minorities has also been signed and ratified. All citizens are treated equally by law and in practice. There is, however, some evidence of discrimination against women and sexual minorities. The War Academy applies certain restrictions to female applicants. In March 1999, a law on equal gender opportunities came into effect. The law defines and prohibits gender discrimination as well as regulates relationships in the areas of employment and education. A controller's office for equal gender opportunities has been established.

Minorities are free to establish their own educational, cultural, and religious institutions. As of the writing of this report, the daily *Lietuvos Aidas* faced criminal prosecution for inciting ethnic discord by publishing anti-Semitic articles that question the necessity to prosecute war criminals. The president and the prime minister, as well as the Lithuanian Jewish community and some pro-

fessional organizations of journalists, strongly criticized the daily's anti-Semitic attacks.

Even though most judges rule fairly and impartially, opinion polls indicate that the public has little confidence in the court system. Bribes to solicitors and judges reportedly account for a significant part of legal costs. Large companies are more likely to initiate lawsuits than small businesses and ordinary citizens, both of which find the expense in time and money too great. Judicial decisions are enforced effectively in the criminal sphere, but there are some concerns about the enforcement of decisions in civil cases. In March 2000, Lithuania agreed with other Baltic countries to establish a witness protection and relocation program.

The Ministry of Justice has no formal control over court decisions, except in matters of technical support, but it wields considerable influence. Most lawyers and businesspeople claim that the state exerts pressure on judges, particularly in cases against state institutions. This influence is more evident in economic, rather than in political, matters.

Judges on the supreme court and the court of appeals are nominated by the president and approved by the legislature. The president appoints district court judges. All judges are appointed for life. The constitutional court has proved to be immune to political pressure. The chairman of the legislature, the chairman of the supreme court, and the president each nominate one judge to the constitutional court.

By law, the state must provide public defenders. Since there has been a dramatic decline in the number of available lawyers, the government now requires private lawyers to provide a certain amount of service to the state. Remuneration remains very low.

Corruption

1999-2000	2001
3.75	3.75

According to the Law on Civil Service, civil servants may not sit on enterprise boards, represent enterprises, or make contracts with related entities. And, yet, the press has featured numerous stories about political ties to businesses. The worst situation is in state-owned sectors in which old nomenklatura-type appointees have close connections with the central government and municipal authorities. There are ethical standards concerning relationships between businesses and politicians, but they are frequently ignored. Public opinion does not exert much pressure on politicians to obey these standards. However, the public is often suspicious about businesspeople in politics, even if there is no evidence of the abuse of official power.

The law on coordination of public and private interests at state service requires that a person employed at state ser-

vice cannot for one year represent any interest in institutions he was related to in his former employment at state service. The law prohibits conflicts of interest and requires financial disclosures by politicians, managers of companies, and their spouses. Presidential, parliamentary, and local council candidates must declare their property and income publicly before elections. Elected politicians, political appointees in the civil service, and directors of companies must make annual declarations of their income and property.

The criminal code includes provisions against, and prescribes severe penalties for, racketeering. Executive and legislative bodies operate under audit and investigate rules, but in many cases these rules are applied in a rather formal or fragmented manner.

Official anticorruption initiatives were launched in 1997 together with the establishment of a specialized division of the Interior Ministry called the Special Investigation Bureau. In 1999, the Bureau exposed 83 state officials, including five investigators and prosecutors and four attorneys. In May 2000, parliament passed a law on increasing the self-dependence of the Special Investigation Bureau in fighting corruption. The new law stipulates that the Bureau reports to the president and parliament. The director of the Bureau will be appointed and dismissed by the president on parliament's proposal.

The government is pursuing a "clean hands" policy, and an insider commission has been set up to investigate corruption cases and abuses of official power. However, the commission's activities have been fairly ineffective and have not brought any tangible results.

Most of the anticorruption cases pursued by prosecutors have involved the police and customs and tax officers. Several judges, lawyers, and investigators have been sentenced to prison for accepting bribes. In 1999, Audrius Butkevicius, a member of parliament, was sentenced to prison for accepting bribes. There was concern, though, that this case may have been more political than anti-corruption in nature. In March 2000, when Butkevicius was released on parole, he promptly returned to parliament. Even though parliament rejected a request by President Adamkus to revoke Butkevicius' mandate, Butkevicius was unable to run in the fall parliamentary elections since he was still on parole.

Corruption and bribery are entrenched in many areas. According to the Special Investigation Bureau and opinion polls, businesspeople think that corruption is the most widespread in customs, public procurement, the road police, courts, health care, and tax inspections. The mass media, schools, and the army are considered the least corrupt institutions. Bribes are usually paid to receive more favorable treatment or to hasten the provision of government services. An investigation of public procurements suggests that corrupt practices occur in at least 75 percent of public procurements. Still, the 251 complaints that were filed in 1999 accounted for a mere 3.5 percent of all public procurements. The customs department is a well-known center for corruption. Bribes are used widely to lower the cost of cus-

toms duties. Bribery is also widespread in tax inspections and hospitals.

Pervasive corruption has been one of the leading complaints against regulatory authorities. Lithuania's regulatory system is extensive and comprises more than 70 controlling institutions. The biggest cause for concern is the inconsistency and indiscretion that regulatory authorities exercise in interpreting, applying, and enforcing regulations. The leading complaint is related to the issuance of permits such as licenses, registrations, certificates, approvals, consents, warrants, etc., which is predicated on vague rules and involves excessively complex procedures. In many cases, permits must be obtained not only for entities to operate in the marketplace but also for particular products, professional activities, or processes. Most regulatory obligations change frequently and are vague, repetitive, and even retroactive. Companies are subject to extensive employment, sanitary, and statistical reporting requirements. The decision making process and the performance of routine administrative procedures are frequently and unnecessarily protracted. Regulatory authorities have the right to perform on-site inspections (labor safety, fire prevention, hygiene, etc.) and to impose large penalties in cases of noncompliance without court proceedings. All of this creates ample opportunity for corruption.

In late 1999, the Kubilius administration launched a Sunset Commission to get rid of unnecessary bureaucracies and to reduce the number of controlling institutions. Ten market regulation agencies responsible for food and non-food products, for example, were reorganized into two agencies to eliminate overlapping regulations and to reduce the bureaucratic apparatus. Amendments to the Law on Public Administration that would restrict the discretionary powers of controlling institutions and simplify procedures for obtaining governmental services have been submitted to parliament. One of the proposals is to establish automatic procedures for issuing permissions and approvals. This initiative is seen as a major step toward curbing corruption.

Abuse of official power has been incited by a lack of procedural transparency and fragmented regulation of the privatization process. Privatization authorities are free to select the method of privatization depending on the size of an enterprise, the field of its activity, the quantity of shares, etc. State property may be privatized according to special laws and procedures. Government authorities have the right to create preferential conditions or grant concessions for large investors through public tenders and direct negotiations. The new government has pledged to increase its reliance on the stock exchange for privatizing state property. This is expected to increase transparency.

The salaries of civil servants, both at the national and the subnational levels, are higher than those paid to individuals with comparable qualifications and responsibilities in the private sector. The average net salary is 800 litas for civil servants and 752 litas in the private sector. Remu-

neration for physicians and social servants is particularly low when compared to the national average.

There is considerable public resentment about the scope of corruption in Lithuania. Public opinion surveys conducted since 1994 show that people regard corruption and bribery as a very acute and entrenched problem. Seventy-four percent of the population condemns corrupt behavior, and 49 percent thinks that the scope of corruption has increased since the restoration of independence. Reportedly, some one-fifth of Lithuanian citizens have come across corrupt practices.

Corruption is seen as one of the major obstacles to business development. Half of all businesspeople report they have given bribes to officials. Still, as a survey conducted by the State Security Department showed, about 60 percent of Lithuanians are prepared to give small bribes to avoid unnecessarily complicated and protracted decision making processes or to hasten routine administrative procedures. Some 68 percent of entrepreneurs admitted that they know whom to bribe and for how much. Thus, despite the widespread resentment of corruption, people are unable to resist it. The press and the president are considered to play the most important role in curbing corruption. State institutions are seen as particularly ineffective. Inconsistent and frequently changing laws, the discretionary powers of controlling institutions, the incompetence of public servants, and low culture and morals are regarded as the main causes of corruption.

Transparency International gave Lithuania a ranking of 43 out of 90 countries surveyed for its 2000 Corruption Perceptions Index. Lithuania received a score of 4.1 on a scale of 0 to 10 in which 10 indicates the lowest level of corruption and 0 the highest. Lithuania's ranking in 1999 was 50 and its score 3.8.

ECONOMIC LIBERALIZATION & SOCIAL INDICATORS

Privatization			
1997	1998	1999-2000	2001
2.25	2.25	2.50	2.50

Gross domestic product (GDP) in Lithuania fell 4.1 percent in 1999. This followed two remarkable years in which growth was 7.3 (1997) and 5.1 percent (1998). Seventy percent of the country's GDP is produced in the private sector, and almost all small businesses and services are privately owned. According to the Lithuanian Department of Statistics, 68.9 percent of employed individuals worked in the private sector as of mid-2000. The number of self-employed individuals has increased steadily from 13 percent of all employed persons at the end of 1998 to 15.8 per-

cent as of May 2000. Seventy-five percent of ownership rights to land have been restored through restitution.

By expert estimates, the informal sector is believed to account for 23 percent of the country's economy. The main factors at work are a heavy tax burden, excessive regulations, price differences with neighboring countries, and market restrictions. An increase in excise duties has led to the expansion of illegal trade in fuel and tobacco products. Informal economic activities are especially widespread in foreign trade, small businesses, and households.

Lithuania is in the second phase of privatization, which is based on cash sales. Foreign and domestic investors have equal rights in the privatization of state and municipal property. The 1997 Law on Privatization of State and Municipal Property defines several methods of privatization: public auction, public tender, direct negotiations, public sale of shares, rent-to-own, and transfer of control of state-owned enterprises.

When large enterprises are privatized, investors are subject to special requirements regarding future investments and the preservation of jobs. In many cases, these requirements have reduced the transparency and pace of privatization, led to artificial ownership concentration, and resulted in lower proceeds from privatization. When more than half of public shares are sold in transportation, energy, oil, communication, or public utility enterprises, the state has the right to retain a "golden" share that grants extra non-property rights. Foreign investors, rather than the nomenklatura, have enjoyed preferences in the privatization of strategic enterprises. The new government has pledged to expand the use of the stock exchange in the privatization of state property and thus make privatization more efficient and transparent.

There have been no cases of nationalization or reversal of privatization. The public generally supports privatization, as do major political parties. However, certain non-transparent cases of privatization have prompted public discontent and a barrage of criticism from political parties. During the privatization of Lithuanian Telecom, for example, the telecommunication law was amended to grant the enterprise monopoly rights in terrestrial communications until 2003. For the privatization of the Mazeikiu Nafta oil complex, the state pledged to extend and guarantee loans for the investor, to grant concessions on the use of the Klaipeda oil terminal and Lithuania railways, and to raise import duties on fuel. In fall 2000, the Social Democrats registered a citizens' initiative in parliament to preserve state ownership of strategic enterprises. This proposal is likely to fail because the new government is committed to continued large-scale privatization of state property, including strategic infrastructure.

Macroeconomic Policy

1998	1999-2000	2001
2.75	3.25	3.00

The tax burden has increased steadily over the past few years. In 1999, tax revenues accounted for almost 37 percent of GDP, up from 30.6 percent in 1994. Non-compliance is quite widespread. The Lithuanian tax system contains 20 different types of taxes, levies, and contributions. Over 90 percent of tax revenues are collected from value added taxes (VAT), personal and corporate income taxes, and excise and customs duties. The 18-percent VAT is the most effective tax in Lithuania. Personal income tax is charged at a regular rate of 33 percent, but the new government has pledged to reduce it to 24 percent. The corporate income tax rate has been cut from 29 to 24 percent. In July 2000, long-awaited amendments to the corporate income tax law were adopted. In addition to the zero tax rate on invested profits and the exemption for fixed asset acquisitions, bad debts and computer software were made tax deductible. The corporate income tax is set to be abolished in 2002.

Complicated and ambiguous tax rules are a major problem. Continual inquiries from taxpayers add to the workload of tax inspectors. In an effort to reduced contradictions in tax policy, the tax authorities have been prohibited from issuing interpretations of tax rules without the Finance Ministry's consent. However, the existing inaccuracies in tax laws still leave ample room for broadening the tax base at the administrative level.

Since 1994, Lithuania's currency board system has backed cash in circulation with a 100 percent hard currency and gold reserve. It has maintained a fixed exchange rate with the anchor currency, the U.S. dollar, at 4 litas to 1 US dollar. The currency board arrangement has secured full internal convertibility of the national currency and shielded the monetary system from political pressure. It also brought about a considerable decline in interest rates and curbed inflation, which fell from 35.7 percent in 1995 to 0.3 percent in 1999. The Bank of Lithuania plans to change the peg to the euro in mid-2001.

The Bank of Lithuania is an independent institution the primary goal of which is to secure currency stability. With a currency board regime in effect, the Bank of Lithuania has limited powers to regulate interests rates in order to curb inflation. As of 2002, the central bank's main objective will be to secure price stability. In this way, the Bank of Lithuania will resume classical central bank functions. In September 2000, this plan received rough treatment in parliament.

The banking sector in Lithuania remains stable. In spring 2000, two large private banks, Vilnius Bank and Hermis Bank, merged. In September, the Swedish banking group SEB received the Bank of Lithuania's permission to acquire full control of Vilnius Bank. Privatization of two large state-owned banks, Agricultural Bank and Savings

Bank, is underway. Foreign banks may open branches in Lithuania. The banking sector relies on traditional governmental safety mechanisms. International accounting and risk management standards are being implemented. A mandatory deposit insurance system has been installed.

The Lithuanian securities market has been on the decline since the Russian financial crisis. During the first three quarters of 2000, turnover at the National Stock Exchange slumped by almost 40 percent when compared with the same period in 1999. Trade in shares accounted for 36 percent of the turnover; trade in T-bills accounted for the rest. The general index LITIN G has dropped by 7.4 percent since the beginning of 2000. The LITIN-10 index, which comprises the most liquid ten companies according to turnover and transactions in the central market during a 52-week period, fell by 12 percent. The general capitalization of the NSEL was 13.652 billion litas, or one-third of GDP.

The main reasons for the inertness of the securities market are the absence of investment and pension funds, passive participation of insurance companies on the securities market, and a lack of foreign investors. Overly stringent authorized capital and investment requirements have prevented the establishment of open investment funds. Insurance companies are discouraged by strict investment requirements.

Capital concentration is another major trend. At present, 68 percent of listed companies are controlled on average by three large shareholders. Lithuania's lack of corporate governance traditions has been a major barrier to raising capital through the issue of shares. Large enterprises (e.g., Vilnius Bank, Lithuanian Telecom, Lithuanian Energy, etc.) are increasingly relying on bond issues.

Intense competition has led to a reduction in the number of financial intermediaries. At present, there are 30 financial brokerage firms trading in securities. Three of them account for more than 77 percent of the total NSEL turnover.

Microeconomic Policy

1998	1999-2000	2001
2.75	2.75	2.75

The Lithuanian constitution and laws guarantee property rights and define property protection mechanisms. However, efficiency problems exist, court delays are frequent, and the process of property restitution is protracted. Significant progress has been made in securing intellectual property. Violations of authorship rights and the volume of pirate productions have declined. Computer software, however, remains vulnerable to abuse. These problems are largely due to a lack of experience and technical capacities, inadequate sanctions for offenses, and the insufficient authority of supervisory institutions. Real estate registers are reliable but

not entirely operational. Excessively complex procedures are applied to mortgaging property of partial ownership.

Price regulations are applied to energy resources, agricultural commodities, pharmaceuticals, medicines, and medical and transport services. In May 2000, the government removed price controls on milk that food processors purchase from farmers. Pensioners, agricultural workers, the disabled, and low-income individuals are entitled to heating and transport concessions.

A new competition law, which came into effect in March 1999, prohibits monopolistic practices as perceived under EU law. It defines responsibility for competition violations on the part of the state. The Competition Council has become an independent institution. Government procurements that exceed 30 thousand litas (\$7,500) must be concluded through public tender. However, a range of exceptions makes it possible to evade this requirement. As investigations show, the terms of public tenders are usually adjusted to favor the desired winner.

Lithuania has concluded membership negotiations with the WTO. It must ratify the membership documents and WTO agreements by May 1, 2001. Lithuania's foreign trade is regulated by both tax and non-tax barriers. The average most-favored-nation tariff rate is 2.5 percent for industrial goods and more than 12 percent for agricultural commodities. These tariffs are lower than in most countries in the region, except Estonia. More than 70 percent of total foreign trade is with countries that have free trade agreements with Lithuania. The highest import duty (\$420 to \$440 per ton) is charged on sugar. A 70-percent preferential tariff, but no less than \$200 a ton, is imposed on sugar imported from the EU. Export duties are imposed on certain wood products and leather. In 2000, minimum customs valuation prices were abolished. The country's trade balance remains negative. The authorities are trying to handle the deficit by promoting exports, tightening import requirements, and applying other protective measures.

As of July 2000, foreign direct investment per capita totaled \$597. In the first half of 1997, Lithuania tried to level the playing field for domestic and foreign investors by eliminating corporate income tax relief for foreign companies. Tax breaks that were granted prior to this change remain in effect. Profits can be freely taken out of the country. As of January 1999, a tax was imposed on interest payable to foreign entities. Lithuania has concluded a number of investment protection agreements.

In July 2000, parliament passed a law on electrical energy that is aimed at opening the country's electrical power market to competition and creating a favorable investment environment. In August, the government announced plans to restructure the state-run energy utility, Lithuanian Energy, and to privatize two electricity distribution spin-offs and two power-generating facilities. It is anticipated that the sale of the network and the generating facilities could be completed in the first half of 2001. Under the plan, one electric energy transmission company, two distribution net-

work operators, and several electricity generating companies will operate in Lithuania. Privatization of Lithuania's gas company should be complete by March 2001.

The state controls around 80 percent of Lithuania's power plants. It also regulates the price of electricity. The Ignalina nuclear power plant is state-owned. Lithuania has pledged to decommission the first reactor at Ignalina by January 1, 2005. The country is dependent on gas and oil pipelines from the countries of the Commonwealth of Independent States. The new Butinge oil terminal has provided facilities to import oil. Other facilities include the Klaipeda oil terminal and railways.

Social Sector Indicators

As of May 2000, 85 percent of the workforce was employed. The labor force participation rate (i.e., the ratio of employed to the workforce) was 84 percent for men and 87 percent for women. As the Lithuanian Labor Exchange reported, the rate of official unemployment stood at 11.1 percent in the second quarter of 2000, as compared with 8.1 percent in the corresponding period in 1999. According to a labor force survey conducted by the Lithuanian Department of Statistics, unofficial unemployment was estimated to be 14.7 percent, up from 12.6 percent in 1999. The rate was 16.4 percent for men and 12.9 percent for women. The survey also noted that the unemployment rate was 16.7 percent in urban areas and 11 percent in rural areas. Financial difficulties, declining sales, and bankruptcies at Lithuanian companies have caused large-scale employee dismissals. The rise in unemployment reflects the consequences of delayed structural reforms and excessive employment regulations (the mandatory minimum wage, lay-off benefits, regulation of working hours, etc.), which, in turn, have increased labor costs and impeded labor mobility and job creation.

The state provides unemployment compensation, which cannot be lower than the amount of state supported income (135 litas or \$34) and not higher than the sum of two minimum living standards (MLS). (The MLS is equal to 125 litas or \$31.5). Unemployment compensation, which depends on a person's state social insurance record, ranges from 13 to 23 percent of the country's official average gross wage. Unemployment benefits are paid for no more than six months a year. Seventeen percent of jobless individuals had registered to receive unemployment compensation through the Labor Exchange as of the end of August 2000.

Lithuania's national pension system, which operates on the pay-as-you-go principle, is based on mandatory social insurance contributions. Pensions are paid from a separate social insurance fund. Social security contributions are charged at 34 percent on companies' wage bills, with 30 percent paid by the employer and 4 percent by

the employee. Self-employed individuals are insured for the basic pension. The social insurance fund provides old age, disability, and survivors' pensions. Old-age pensions are paid to individuals who have reached the official retirement age and have a social insurance record of no less than 15 years. The retirement age will be increased gradually until it reaches 60 years for women and 62.5 years for men in 2006. The social insurance pension consists of two components: the basic pension and a supplemental component that depends on a person's wage and insurance record.

In 2000, the average old-age pension was 312 litas or \$78, of which 44.5 percent was the basic pension. The average old-age pension equals 28.4 percent of the country's average wage. Social insurance pensions are paid to 23.6 percent of the population, with 17.5 percent being old-age pension recipients. In addition to social insurance pensions, there are special state pensions. These include pensions for distinguished persons, military and internal affairs officials, victims of Chernobyl or the Soviet occupation, and scholars. Such pensions are paid to 3.8 percent of the population. A widening gap between the liabilities and the financial capacity of the social insurance fund has created a growing deficit. The ratio of the insured to pensioners has worsened and now stands at 1.00 to 1.47. Worsening demographic trends have also affected this ratio. Attempts to balance the budget by raising social security contributions and cutting benefits have failed to produce results.

Pension insurance offered by private companies is not popular. A pension fund law came into effect in January 2000, but strict financial requirements and guarantee schemes have prevented the establishment of pension funds thus far. The law is scheduled for revision in the near future. The government has developed a plan for the introduction of a three-pillar pension system that comprises state pension insurance, mandatory fully funded insurance in pension funds, and voluntary insurance. The launch of the reform is slated for 2002.

The average monthly net wage rose from 361 litas (\$90.25) in 1995 to 778 litas (\$194.5) as of August 2000. The average monthly net wage was 800 litas (\$200) in the public sector and 753 litas (\$188.25) in the private sector in August 2000. In April 1999, the average gross wage was 968 litas (\$242) for women and 1,182 litas (\$295.5) for men. The minimum mandatory wage is 430 litas (\$107.5), or 39 percent of the country's average gross wage. According to a survey conducted by the Lithuanian Department of Statistics, 35.7 percent of employees receive no more than 600 litas (\$125) in gross monthly wages. A total of 16.3 percent of workers receive the minimum wage. A decrease in monthly earnings has been recorded since 1999. This has been due mainly to intense competition, high unemployment, vague prospects of economic recovery, and inadequate government policies that bolster labor costs. In January 2000, the rate of social se-

curity contributions was raised by three percentage points. In the fall of 2000, a guarantee fund was established to meet the wage obligations of insolvent enterprises. The fund will be financed by mandatory contributions in the amount of 0.2 percent of the wage bills of enterprises.

Education in Lithuania is considered a priority area, but the system is bloated, ineffective, and costly. The number of secondary schools is too high relative to the school population. About one-third of all seats are vacant. The size of the primary school population has declined slightly, while secondary and post-secondary school enrollment has increased. The same trends have been observed in the proportion of enrollment by age groups. The proportion of 7 to 10 year olds enrolled in the educational system is 97.7 percent; of 11 to 15 year olds, 94.4 percent; and of 16 to 18 year olds, 87.4 percent. The national student-to-teacher ratio is 11.5 in comprehensive schools, 10.3 in vocational schools, 9.1 percent in vocational colleges, and 8.3 in universities. The aggregate ratio is 10.9. The share of the national budget expended on education increased from 21.8 percent in 1995 to 30.6 percent in 1999. The proportion of GDP spent on education rose from 5.6 percent in 1995 to 6.4 percent in 1999.

The changes in demographic indicators have been significant. Infant mortality decreased from 15.4 per 1,000 live births in 1993 to 8.6 in 1999, but the birth rate fell from 12.7 per 1,000 in 1993 to 9.8 in 1999. One of the most worrying indicators is the large number of abortions (56.9 abortions per 100 births in 1998). Life expectancy for women rose from 75 years in 1993 to 77.8 years in 1999; for men, it fell from 69.1 to 67.4 years. The divorce rate, which is on the rise, was 6.4 divorces per 10 marriages in 1999. The suicide rate, which rose dramatically until 1996 and peaked at 46.4 per 100,000 inhabitants, dropped to 41.9 per 100,000 in 1999.

Lithuania's health care system is costly and inefficient. The requirements for the availability and quality of services are vaguely defined. Patients' choice of doctors or medical establishments is limited. Despite decentralization, many health care establishments remain centrally managed. The scope of, and payment for, medical services is centrally defined. The financing of health care establishments through sickness funds is based on quantitative, rather than qualitative, indicators. This has led to an inefficient use of budget allocations and has discouraged health care providers from increasing the efficiency and quality of their services. The number of doctors and hospital beds is estimated to be too high. The ratio of doctors to the population has remained relatively steady at 39.5 per 10,000 inhabitants. The ratio of paramedical personnel to the population has remained steady as well at 104.4 per 10,000 inhabitants. The number of hospital beds decreased slightly from 108.5 per 10,000 inhabitants in 1995 to 93.9 in 1999. Average monthly gross monthly wages in the health care sector rose from 385 litas (\$96) in 1995 to 793 litas (\$198.25) in 1998. The proportion of GDP expended on health care was 4.8 percent in 1998.

Sixteen percent of the Lithuanian population, half of which only has an elementary education, lives below the subsistence level (50 percent of average consumption expenditures). The main causes of poverty are unemployment and care for dependent family members. The poverty rate among the unemployed and other jobless individuals of working age is as high as 40 percent. Twenty-two percent of pensioners are considered poor. A total of 28.2 percent of people in rural areas live under the poverty line. The same indicator for Lithuania's five largest cities is 7.2 percent.

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