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Lithuania Economic briefing:

Lithuania's membership of OECD marks a new opportunity in economic policy

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Lithuania's membership of OECD marks a new opportunity in economic policy

Lithuania‘s economic policy has been traditionally and predominantly built around the consensus-building between the Bank of Lithuania, the Ministry of Finance and the President‘s Office. President Dalia Grybauskaitė, a former European Commissioner for Financial Programming and the Budget (2004-2009) and a former Minister of Finance (2001-2004), has been a proponent of fiscal discipline and the budgetary restrain. This reflected also in the economic policy, which has been for almost a decade more about fiscal rather than pro-growth policies.

The economic policy has started to open up to a broader field of policy actions with Lithuania's entry into the Eurozone (as of 1 January 2015). This has given an additional impetus to refocus the activities of the Bank of Lithuania (which lost the sovereign powers over currency) as the national bank became the main actor in defining rather than executing the economic policy as a think tank and the regulatory authority not only for financial and banking institutions but also for financial IT services (Fintech). The national bank has broadened the economic policy framework to incorporate a more pro-active and indeed more interventionist vision especially as related to the framework conditions for foreign direct investment and, more recently, in relation to Fintech. The regulatory sandbox approach was adopted following the example of the similar initiatives introduced in 2017 by the Royal Bank of England and, earlier, by the Monetary Authority of Singapore. The economic policy has started to move towards the investment promotion agenda, thus making Lithuania's economic policy more proactive and growth oriented. The next step in re-defining the policy remit of the country's economic agenda came with the entrance to the Organization of Economic Cooperation and Development (OECD). It was approved on 3 May and formally signed in a form of a deposited accession to the Convention of the OECD with the French government on 5 June.

Why one can argue that the joining of the OECD has made an impact on Lithuania's economic policy and can mark a new direction in a more growth oriented evidence-driven policy planning approach incorporating both the principles of a free market and stringent controls through a more corruption-prone regulation?

There are at least three aspects which could be attributed to the potential impact and they are briefly outlined below.

Firstly, the integration into the OECD which has taken more than 3 years to accomplish (from April 2015 until May 2018) has impacted the governmental policies in the key areas which were identified as problematic by the OECD and which kept Lithuania outside of organization for more than 7 years after the accession of Estonia to OECD (2010) and for less than 2 years after the accession of Latvia (2016). The problematic areas have been the following: corruption, a poor management or mismanagement of state resources and state-owned enterprises. In 2017 Lithuania has signed the OECD Anti-Bribery Convention (Officially the Convention on Combating Bribery of Foreign Officials in Connection with International Business Transactions) and has made the fight with shadow economy one of the tenets for the current Government and the Presidency. The policy actions were followed by the prosecution cases of public officials and high-level politicians which rallied the mass opinion around this point. The strengthening of the security apparatus in charge of investigating financial crimes and public sector misdeeds has been notable and was widely publisized in media. Also, the tax authority has strengthened its resolve in extracting or recovering unpaid taxes. The anti-corruption measures have certainly become th unseparable part of the country‘s economy policy.

Secondly, the OECD assessment of the key sectors and governance areas have generated a number of binding recommendations which the country had been obliged to implement. The Action Plan of the current Government has been significantly impacted by the OECD conclusions especially in the areas of investment, education, innovation. The full and the first report of OECD on Lithuania‘s economy was published after Lithuania joined the organization (the report appeared on 10 July 2018 covering the economic situation in June 2018), yet most of the analysis and the recommendations included in the report have been already reported through the negotiations and the individual expert meetings (the recommendations for the negotiations were made in 2017). The impact of the OECD membership can be ascribed to the new approach in economic policy planning where following the OECD example the economy experts rather than just public servants have become engaged in the planning and the discussion of the individual policy measures responding to the criticisms of OECD. The Bank of Lithuania, Investment Lithuania and industry associations have become the stakeholders of the process helping to define to reformulate the existing economic priorities in a broader sense of societal challenges and responsibilities to society that economic policies have to be bounded to.

Thirdly, by joining the OECD Lithuania has opened up to the policy influences coming outside of the European Commission or the bodies governing the Eurozone; the OECD constitutes a broad forum of countries which belong to different economic and trading blocks and whose shared vision is to support the free trading societies globally. This gives Lithuania‘s economic policy a global angle and creates a possibility to both learn and influence the economic policies conducted by the member countries of the OECD. More so, the Organisation has opened up to non-aligned countries such as China, Brazil, India, Indonesia and South Africa by inviting them to become the key partners through the OECD Engaged Enhancement programme which involves them in different working groups. Thus, the membership of Lithuania in OECD can expose the country‘s economic policies not only to the OECD members but also provide some mutual learning experience with the developing countries.

In more practical terms the OECD membership creates a number of indirect benefits for Lithuania‘s economy. Since the membership is wildely perceived as an indicator of quality and reliability of government, it will most likely generate a more favourable approach of investors and financial markets. The emphasis on reforms and responsibility to implement the obligations of a transparent state and businesses in fighing corruption which characterized the negotiations of Lithuania with the OECD, would certainly create more credit for governance in the country.

These benefits have been acknowledged by President Dalia Grybauskaitė, who was the prime mover behind the joining of OECD. The President noted, as was reported in the media, that „when the world is on the brink of trade wars, the role of the OECD paramount. The future of a stable and economically sound state lies only in free trade, transparency as well as in fair competition and income distribution. To this end, Lithuania, together with the OECD, is ready to seek the best solutions in facing global economic challenges“.

The Government has also lined up behind this point of view. Prime Minister Saulius Skvernelis has used the opportunity to emphasize that Lithuania‘s strategic goal is to become the most competitive country in the region by creating the most favourable conditions for investment, labour taxation and quality of life. At the same time he has signalled the Government‘s willingness to continue implement the reforms based on the OECD recommendations.

Though the OECD has acknowledged that Lithuania has achieved a major progress in stepping up its fight against corruption and reforming the management of state-owned enterprises, yet the OECD has emphasized the need to make efforts to reduce growing social disparities and to manage the societal challenges related to the aging population and emigration. These are the key challenges which, as of now, will be addressed in Lithuania not only by politicians but also by the economic policy planners. Lithuania‘s economic policy has come of age.