



Weekly Briefing

Lithuania Political briefing:

The strengthening of state powers and rejuvenating the idea of national unity

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The strengthening of state powers and rejuvenating the idea of national unity

Lithuania has entered the summer season with three major political developments which have been shaping the domestic politics since the early spring. First, the Government has pushed through the Parliament the adoption of a legislative package entitled as “Six Structural Reforms” with the aim to increase the living standards of people on lower incomes and to boost the electoral support before the upcoming municipal and the presidential elections due early next year. Second, both the President and the Government have taken a hard stance on weeding out corruption in political parties, denouncing the attempts to influence the political process by large businesses which resulted in the ongoing prosecution of some of the high-profile politicians. Thirdly, the Government has rallied the population behind the idea of national unity through a series of mass events bringing together Lithuanians from around the world to celebrate their national identity while at the same time clearing the way for holding a referendum on dual citizenship in order to include in the state-building process the diaspora of more than 0.5 million people who emigrated from the country over the last decade. Below is a more detailed explanation of the ongoing three political developments as outlined above.

Six Structural Reforms

The legislative initiative of “Six Structural Reforms” have been announced at the end of April when the Prime Minister Saulius Skvernelis presented the first drafts of the legislation which encompassed the plans for the increased accessibility to education, the improved provisions for public health care, a reduction in taxation, the increase in pensions, the measures against corruption and tax evasion and the support for innovation activities of businesses through the new law on innovation and technology. This broad package of reforms

builds upon the electoral programme of the governing center-left party the Lithuanian Farmers and Greens Union (Lietuvos valstiečių ir žaliųjų sąjunga – in Lithuanian) in coalition with one of two social democratic parties, the Lithuanian Labour Social Democratic Party (which was established this year after the split had occurred in the Lithuanian Social Democratic Party with the majority of the party going into opposition where they share the opposition benches with the Conservative and the Liberal parties). The Farmers and Greens Union came into power after the landslide victory in the 2016 Parliamentary elections (held in October 2016) when it got 54 mandates from the total number of 141 Members of the Parliament. During 2017 several patchy, though partly impactful, initiatives have been introduced with a mixed response. They were mostly related to public health (such as the shortening of the time for retail of alcohol or banning the advertisement of alcohol and tobacco) and labour relations (a new Labour Code was introduced to allow a more flexible arrangement while also strengthening the representation of employees by legislating that each public institution would need to setup a Labour Council or a trade union). Yet until June 2018 the Government was keeping the society in dark as concerning the implementation of its actual electoral programme. This also affected the dwindling support for the Farmers and Greens whose approval ratings initially were stable and kept them ahead of other parties. The latest poll (conducted on 28 April by the Baltic Surveys) showed that the approval rate for the governing party in April dropped to the new low (currently standing at 13.2 percent), while the main opposition party (the Conservatives) have maintained a minor lead with 15.7 percent. Facing the declining support of the popular vote for the governing party which could eventually translate into the erosion of the electoral base (the population in rural areas and smaller towns) and the loss in the upcoming elections, it was the imperative for the Government to roll-out a major reform package (all at once) before the end of the spring session of the Parliament which ended on 30 June – just in time before the autumn session of

the Parliament when the national budget is going to be discussed and, eventually, approved.

While the opposition parties both from the political right and the political left have criticized the Government for pushing the reform legislation without a broad consultation and without giving it enough considerations, the governing majority in the Parliament have ensured that all the proposed legislation was adopted in time. This has demonstrated that the Government is fully in control of the decision-making process not only in the executive but also in the legislative branch of power. President Dalia Grybauskaitė, who is serving her second and last term (according to the Constitution, only two terms are allowed for the holders of the President's office) raised no objections to the legislative initiatives of the Government and by the end of June signed into effect the major legislation acts as related to tax and pension reforms. There is little doubt that the rest would be subsequently approved by the President and the "Six Structural Reforms" would enter the stage of the policy implementation planning to be reflected in the state budget for the next year.

Without going into much detail, it is important here only to emphasize what the Government aims to achieve with the new legislation. First and foremost, it wants to increase the incomes and the pensions of the large number of population in order to increase consumer confidence and, with it, consumer spending which is vital for the economic and social development of the country. Though the planned increases might seem not very significant at an individual level (on average the monthly salaries are foreseen to increase by some 50 EUR, while pensions by meagre 23 EUR), yet every increase in income, as is expected, can positively result in consumer spending and boost the domestic demand for goods and services on aggregate. The Lithuanian population is not very consumer spending-oriented which explains while households keep large savings in banks. According to the latest report of the Lithuanian National Bank, at least two-thirds of the households keep their savings in banks and more than a quarter of them keep their savings on long-term saving accounts.

Hence, with the approved legislations (which would come into effect as of next year) the Government aims to make slightly more cash available to the population by reducing the social-security contributions of by 2 percent, which would partly be compensated by stopping 2 percent payments that the state had to make to the so-called 2nd pillar pension funds. This now would be stopped as of 2019, according to the new legislation.

The pensions are structured in Lithuanian according to 3 pillars: 1st pillar is the basic pension guaranteed by the state, 2nd pillar pension funds are accumulating pensions in private pension funds with support from the state. The contribution to 2nd pillar pension funds consists of a social-security contribution, currently paid to the Social Security Fund (SODRA), a salary contribution and an additional pension contribution from the state budget. 3rd pillar pension funds are pension funds based on supplementary voluntary pension accumulation.

Fight with political corruption and tax evasion

Together with the reforms approved as regarding the social taxes and pensions, the Government prepared and got approved in the Parliament the legislation to fight the tax evasion by extending the time to 6 months for tax evaders to declare the undeclared taxes without facing additional fines or without facing prosecution. In a separate legislation, the Parliament approved that the state officials would be liable for prosecution in cases of involvement in “trading of influences”, a misnomer for cases of political corruption when business uses financial or other means to directly influence the political process by either bribing the officials or the politicians or by remunerating them otherwise. This initiative was a direct response to the prosecution of the leading politicians from the Liberal Movement (Liberalų Sąjūdis – in Lithuanian) who have been put under prosecution due to the alleged wrong-doings involving the incriminated cases of corruption. Also, few other politicians from the oppositional parties were identified by the State Security Department as having

been allegedly involved in wrong-doings and had to suspend their party memberships earlier this year or leave the politics altogether. A clear signal that the state is toughening its stance on the cases of political corruption came from the President's annual address to the Parliament which was delivered on 12 June. The President's annual report is considered as an important milestone in the Lithuanian domestic politics which provides the set of political imperatives. In this year's annual address the President denounced the "traders in influence" as acting against the state and being a liability to the national security. The President though emphasized the belief in the party system of the country as one of the corner stones of the state and further confirmed the determination of the state institutions to fight political corruption and eradicated it in the end in the same way as tax evasion. The President also emphasized the importance of socially-responsible business in contrast to the oligarchic traditions of certain large businesses. The President voiced her support for the citizen-based vigilance against the corrupted officials and showed as an example the case of the grassroots movement of doctors and patients (which numbers some 43 thousand doctors and 3.5 thousand patients) which has been engaged in fighting against the corruption in health sector by bringing the individual cases to the public fore.

A nation-wide appeal to the citizens and the public office holders in making the fight of political corruption one of the national priorities by the President and the Government indicates that the current governance of Lithuania bears some of the characteristics of the governments such as in France or Singapore where there is a clear top-down approach to introduce rule-driven measures in order to create the political environment based on the rule of law; where politics and policies closely intertwine in policy planning and decision making.

Rejuvenation of the national idea

Lithuania's 100 independent anniversary (officially known as "a Centenary of the Restoration of the State" dating back to the declaration of independency

on 16 February 1918) has given the Government the rare opportunity to use the idea of the national unity which had been adopted by the Farmers and Greens Union as one of their key political slogans and has gained a bi-partisan support. In June the preparations were made for the celebration of the Statehood Day on 6 June (this date was arbitrary chosen in 1990 to commemorate the coronation of Duke Mindaugas, the first and the only King of Lithuania crowned in 1253). The celebrations have created a momentum for raising the issue of dual citizenship. The issue of dual citizenship has been always a thorny issue in Lithuania's politics. The Constitution of the Republic of Lithuania (adopted in 1992) is very clear on this issue – the citizenship is acquired by birth and no dual citizenship is allowed with only few exceptions, as defined by the law. The Lithuanian diaspora abroad has been advocating dual citizenship for quite some time but the popular opinion in Lithuania was against it. The population did not want to keep the social and health services wide open to dual passport-holders residing mostly in wealthier countries. The situation has started to change with the emigration of almost 0.5 million population which affected many families and changed the popular sentiment. The Government, having support of the President, is trying to capitalize on this sentiment by proposing to hold a referendum on dual citizenship. In order to lower the barrier for getting the approval of dual citizenship at the referendum, on 30 June the Parliament that approved in order to approve dual citizenship in the referendum more than half of the participating voters have to vote in favour and their number have to be no less than one third of all registered voters. According to the current legislation, any type of referendum is regarded successful only if more than 50 percent of voters cast their voters. This is becoming increasingly difficult to achieve since a number of voters reside outside of Lithuania. Thus, only 49.9 percent of the registered voters participated in the last parliamentary elections. This number would not be sufficient to get the dual citizenship approved. The successful outcome of the referendum (which is planned to be held together with the

Presidential elections in April-May next year) could be a major boost to the Government and to the idea of the national unity it has been pursuing.