LITHUANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 65 286 km^2
Population: 2.848 million inhabitants (2017), a decrease of 1.3% per year (2010-2015)
Density: 44 inhabitants / km^2
Urban population: 66.1% of national population
Urban population growth: -1.4% (2017 vs 2016)
Capital city: Vilnius (19.0% of national population)

ECONOMIC DATA

GDP: 93.3 billion (current PPP international dollars), i.e. 32 764 dollars per inhabitant (2017)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 7.1% (2017)
Foreign direct investment, net inflows (FDI): 1 191 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 18.8% of GDP (2017)
HDI: 0.858 (very high), rank 35

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Republic of Lithuania is a semi-presidential republic, with a President as Head of State and a Prime minister as Head of Government. The President is elected by direct universal suffrage for a five-year term. The country declared its independence in March 1990 and the Constitution of the Republic of Lithuania came into force in 1992. Legislative power is vested in the Parliament (*Seimas*), which is composed of 141 members, among which 70 members are elected through an open-list proportional representation system, whereas the remaining 71 members come from individual constituencies. The country became a member of the European Union in May 2004.

Lithuania is a decentralised unitary state, with a single-tier of subnational governments, made up of municipalities. Local government is enshrined in the Constitution whose Chapter X is dedicated to "Local Self-Government and Governance". Article 119 states that "the right to self-government shall be guaranteed to the administrative territorial units of the State" and article 120 that "municipalities shall act freely and independently within their competence defined by the Constitution and laws". More precise provisions are specified in the 1994 Law on Territorial Administrative Units and their Boundaries (LTAUD and the 1994 Law on Local Self Government (LLSG). The LLSG defines municipal functions and ensures their autonomy. It was amended in 2002 and 2014, which empowered municipalities with more competencies.

There is no regional level in Lithuania, although it was envisaged in 2001 to create five self-governing regions that would replace and assume the functions of the 10 counties representing the central government at territorial level. After several years of talks, the project was shelved and, instead, it was decided in 2010 to abolish the State counties and redistribute their functions among the municipalities and the central government. Counties have been replaced by regional development councils composed of municipal councillors, but which are not self-governing entities. They serve as statistical units and deconcentrated entities, in the form of regional development councils composed of municipal councillors, which remain under the direction of the Ministry of Interior and whose administrative capacities and functions remain limited. Since 2010, the Law on Regional Development has been amended several times to develop the role of the Regional Development Council, in a context of significant regional disparities. However, there is now a new discussion on a deeper transformation of the regional development councils. According to a White Paper published in December 2017, the reform could lead to increasing their responsibilities and resources, providing them with legal personality and autonomous powers, together with a modification of the regional borders. This could result in creating a new subnational tier of government.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	60 municipalities *(savivaldbyés)*			
	Average municipal size: 47 140 inhabitants			
	60			60

OVERALL DESCRIPTION. Lithuania has a single-tier of local self-government composed of 60 municipalities (*savivaldbyés*). The number of municipalities results from the mergers of 581 local governments in 1994 into 56 municipalities. Since the creation of four new municipalities between 1994 and 2000, the number of municipalities has remained stable. The municipal level comprises seven city municipalities (miestas), 43 district municipalities (rajonas), and 10 "common" municipalities. Following the amalgamation process, Lithuanian municipalities are now among the largest in Europe and the OECD. The average size of municipalities is around 47 000 inhabitants (vs 9 700 in the OECD and 5 900 in the EU) while the median size is around 28 500 inhabitants. Only 3% of all municipalities have fewer than 5 000 inhabitants (to be compared to 47% in the EU28 in 2016) while 75% have more than 20 000 inhabitants (vs 26% in the EU28). The demographic change has been uneven across the country. Since 2000, the population has declined by more than 20% in 70% of municipalities as a result of emigration, and increased in only four municipalities, including the three largest cities (Vilnius, Kaunas and Klaipėda). Vilnius, the capital city, has around 550 000 inhabitants and does not have a special legal status.

They have the same organisation, status and competences. The local council (*savivaldybés taryba*) is the municipality's legislative and decision-making body and is made up of members elected by direct universal suffrage for four years. Since the municipal elections in 2015, mayors (meras) are directly elected by popular vote at the same time as municipal councils, for four years. He/she is the head of the municipality and local civil service, and chairs local council meetings. The local council also elects a director of administration who is in charge, for up to four years, of all executive tasks.

The local council has the power to establish smaller territorial units (*seniūnija*) that, acting in a certain territory of the municipality, provide daily local services to citizens in a given municipality area. There are around 545 wards (called "elderships" and which derive from former municipalities), each headed by a civil servant appointed by the director of municipal administration. Vilnius has 21 elderships. From 1 January 2017, municipal councils can give districts that meet certain criteria set by law the ability to manage their own budgets.

The 2014-2020 National Development Programme highlights the lack of co-ordination and inter-municipal co-ordination between municipalities, which hinders their effectiveness. In fact, there is no tradition of inter-municipal co-operation. The LLSG enables municipalities to enter into contracts to perform services jointly with other municipalities. It also allows them to delegate some administrative or public services to other municipalities; but there are no specific organisational arrangements for inter-municipal co-operation and little past experience to draw on.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Municipal competences were set by the 1992 Constitution and by the article 5 of the 1994 Law on Local Self Government (last amended in 2014). The abolition of state counties in July 2010 led to the transfer of their competencies to municipalities (eight functions primarily in healthcare, education and social services) and to the central government (22 functions).

In 2012, a pilot project of decentralisation of social assistance was launched in five cities, giving municipalities full management responsibility. In 2015, following the success of the pilot project, municipalities were also transferred responsibilities. For instance, the funding of social assistance became an independent municipal function.
Municipal competences are divided into either independent or delegated responsibilities. Independent competences include responsibilities in many areas while delegated competences comprise the participation in labour market policy, agriculture and rural development, among others. Despite this classification, the assignment of responsibilities across levels of government lacks clarity. Despite the wide range of areas over which municipalities exercise some responsibilities, municipalities carry out primarily an implementation role, and have relatively limited regulatory powers.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Establishment and maintenance of municipal establishments; Public registry services (delegated)
2. Public order and safety	Civil protection and fire protection (delegated)
3. Economic affairs/transports	Local economic development and tourism (independent); Local roads and public transport (independent); public areas (independent); Administration and registration of agriculture (delegated); Local labour market measures (delegated)
4. Environmental protection	Environment (independent)
5. Housing and community amenities	Territorial planning (independent); Waste and sanitation (independent); Supply of potable water (independent), supply of heat (independent); Housing, Cemeteries
6. Health	Primary Health care and public health services (independent); Organisation of secondary health care (delegated)
7. Recreation, culture & religion	Libraries, Local cultural centres and museums ((independent); Management of local archives (delegated)
8. Education	Pre-school, primary and secondary (partly independent and delegated); Adult education (vocational training)
9. Social protection	Social services (independent); Calculation and payment of social benefits and compensations (delegated); Protection of children's rights (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, budgetary organisations (schools, kindergartens, social care institutions, local museums, libraries), enterprises controlled by local government (Vilnius City Housing, Vilnius Development Company) and public health care institutions established by municipalities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. According to the Constitution, municipalities draft and approve their budgets, have the right to establish local levies and provide for tax and levy concessions at the expense of their own budgets within the limits and according to the procedure provided for by law (article 121). The national budgetary system consists of an independent state budget as well as independent municipal budgets (Art. 127). The major legal acts ruling the budgetary autonomy of local governments are the Law on Methodology for the Establishment of Local Government Budgetary Revenues, the Law on Budget Structure and on Local Government, the Law on the Methodology of Municipal Budget Income Estimation, and the Law on State and Local Government Budget. The law gives municipalities the right to freely use over 60% of their financial resources for the exercise of independent functions assigned to them by law. Up to 40% of the financial resources are made up of special targeted subsidies, which are allocated either for state-delegated functions or for municipal investment projects financed according to the State Investment Programme.

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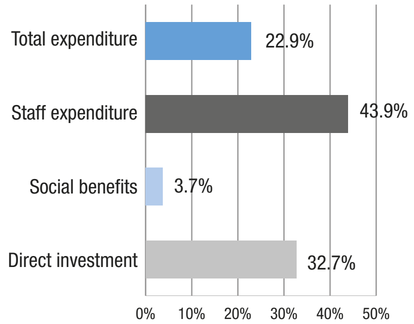
SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**2 341**	**7.8%**	**100%**
Inc. current expenditure	2 041	6.8%	87.2%
Staff expenditure	1 290	4.3%	55.1%
Intermediate consumption	525	1.8%	22.4%
Social expenditure	139	0.5%	5.9%
Subsidies and current transfers	84	0.3%	3.6%
Financial charges	3	0.0%	0.1%
Others	1	0.0%	0.1%
Incl. capital expenditure	300	1.0%	12.8%
Capital transfers	6	0.0%	0.2%
Direct investment (or GFCF)	294	1.0%	12.6%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

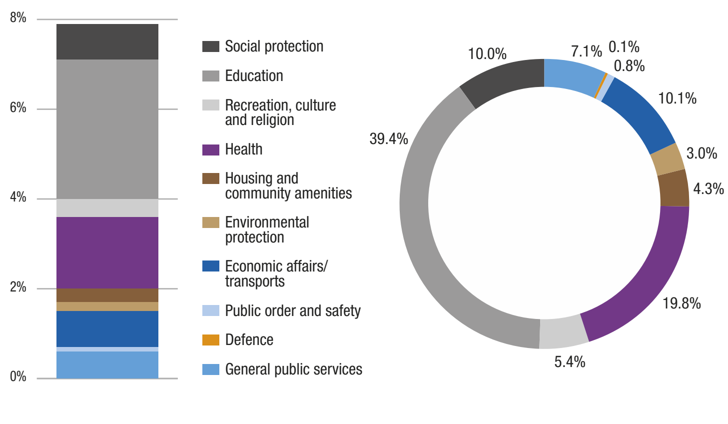


EXPENDITURE. Lithuanian SNG spending as a percentage of GDP and public expenditure is below the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure) and the EU28 average (respectively 15.5% and 33.4% in 2016). The share of SNG staff expenditure in subnational expenditure is the highest in the OECD and in the EU28 (it was 36% in the OECD and 32.9% in the EU28 2016). The share of SNG staff spending in total public staff spending is also high but at the same level of the OECD average for unitary countries (43.0%) and lower than in the EU28 (50.9%). One explanation is that SNGs in Lithuania have significant competences in the health and education sectors and are responsible for the payment of teacher salaries and those of health administrative staff. As such, at the country level, 44% of the public labour force is employed at the SNG level. On the other hand, municipalities play a minor role regarding current social protection expenditure (3.7% of total public current social spending vs 13.5% on average in EU28 countries in 2016).

DIRECT INVESTMENT. SNGs are responsible for around one-third part of the general government direct investment, which is significantly below the OECD average for unitary countries (50.7% in 2016) as well as the EU28 average (51.6%). The share of SNG investment in GDP is low compared to the OECD average for unitary countries (1.7%) and the EU28 average (1.4%). SNG investments are dedicated primarily to economic affairs and transport (74.1%), education (19.3%), and others such as health. In order to boost public investment the Public Investment Development Agency (VIPA) was established in April 2013. Municipalities are also entitled to receive EU funds to improve their infrastructure, and the National government encourages them to invest in such projects through the VIPA.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

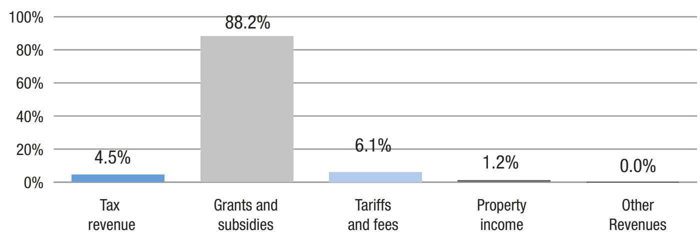
The largest category of SNG spending in Lithuania is by far education, which represents more than 39% of total SNG expenditure (vs 19.6% in the EU28 on average), as municipalities have extensive responsibilities in this area. In 2016, municipalities carried out around 60% of total public spending in the education sector. Health is the second main item of SNG expenditure (19.8% to be compared to 13.1% in the EU28). Municipalities own a large share of the primary care centres, polyclinics and small-to-medium size hospitals, and they are responsible for delivering numerous public health activities. Municipalities are also progressively setting up and running or contracting Public Health Offices (there are currently 47 across all the municipalities). Other major categories of spending include, economic affairs and transport, and social protection, a growing area for municipal intervention since 2012. However, despite the important social programmes that have been put in place in order to deepen the decentralised scheme of social welfare, responsibility transfers have not been fully accompanied by an increase in local finances, which might create fiscal and social problems in the long term.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**2 490**	**8.3%**	**24.2%**
Tax revenue	112	0.4%	2.2%
Grants and subsidies	2 197	7.3%	
Tariffs and fees	151	0.5%	
Property income	30	0.1%	
Other revenues	0	0.0%	

% SNG REVENUE



OVERALL DESCRIPTION. Municipalities are highly dependent on central government transfers and subsidies, which represent almost 90% of their revenue (compared to 48.8% on average in the unitary countries of the OECD and 44.1% in the EU28). Taxes and other own-source revenues (tariffs and fees and property income) accounted for less than 12% of SNG revenues in 2016. Taxes, in particular, play a small role in municipal budgets, accounting only for 4.5% of SNG revenues (vs 38.7% on average in the unitary countries of the OECD and 41.1% in the EU28). The budget of the Vilnius municipality is the largest of all the municipal budgets in Lithuania; however, in terms of financial independence, its situation is analogous to other Lithuanian municipalities.

It is important to note that since 2014, and the implementation of the SNA 2008 accountability system, personal income tax (PIT) proceeds redistributed by the central government to SNGs are no longer considered to be 'tax revenue' in the form of a shared tax but rather considered 'transfers', hence the drop in ratios related to tax revenue since 2013 in Lithuania.

TAX REVENUE. Most municipal taxes are own-source taxes, which was a result of the 2014 reform of the SNA. Since the reform, revenues from the PIT are classified as transfers and no longer as tax revenue. Some shared taxes remain however, in particular the tax on pollution (paid by individuals and companies that emit pollutants from stationary and mobile sources) and the tax on state natural resources. For both taxes, a fixed share of 70% of total income is attributed to local budgets.

Municipal own-source tax revenues consist primarily of two recurrent on immovable property, one on real estate and one on land. Overall, these two taxes accounted for 86.1% of municipal tax revenue and 3.9% of their revenue. It amounted to 0.3% of GDP, a level well below the OECD average (1.1% in 2016). The tax on real estate is paid by legal entities and physical persons that own or use the real estate. The annual tax rate is 0.3 – 3% of the taxable value of the real estate; since 2013 however, the exact rate is set by local municipal councils within limits set by law. The tax is calculated on the basis of the market value of the immovable property, set by the state enterprise Centre of Registers. Land tax payers are defined as owners of private land situated in Lithuania, except forestry land. The tax rate varies from 0.01 to 4% of the taxable value of the land and a specific rate has been established by the municipalities since 2013. Other municipal taxes include a land lease tax applied to state-owned land that is leased for companies at a rate established by municipalities as well as tax on inherited properties.

GRANTS AND SUBSIDIES. There are two main categories of transfers: a "general budget grant" and specific targeted grants.
The "general budget grant" is based on the redistribution of revenues from the PIT, collected by state tax institutions. The Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets establishes yearly the percentage of the PIT falling on all municipal budgets from inflows to the National budget and the amount of grants allocated to municipal budgets based on indices for each budgetary year. In 2016, the total PIT share for municipalities increased from 72.8% to 75.5%, representing around one-third of SNG revenues. A mechanism of fiscal equalisation is set across local governments to ensure the transfer of resources to the less wealthy municipalities. The criteria used to allocate PIT to the municipalities changed in 2016. Municipalities receive a percentage of the PIT share based on the municipality's projected revenue from PIT per capita compared to the average projected PIT per capita of all municipalities. Municipalities below the average receive a 100% share of PIT whereas those above are donors. This distribution might generate conflicts, and in 2018, the Vilnius region administrative court ruled in favour of the city of Vilnius. The government committed to hand back a portion of the collected PIT to Vilnius (EUR 55 million by 2018).
Specific targeted grants are assigned to specific competences or for implementing particular programmes. Since 2016, these grants also include the EU and other international financial aid funds. Overall, 91% of grants were current grants in 2016, and 9% were capital grants.

OTHER REVENUES. According to the law on charges, Lithuanian municipalities have the right to determine eleven types of local charges. However, user charges and fees for the provision of municipal services accounted for only 6.1% of SNG revenue in 2016, a level below the OECD average for unitary countries (10.1%) and the EU28 average (11.6%). Other revenues include property revenue (1.2%) e.g. sales of assets and leasing of state-owned land.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**298**	**2.1%**	**4.0%**	**100%**
Financial debt*	244	1.7%	3.6%	81.9%

* Currency and deposits, loans and bonds

FISCAL RULES. The Constitutional Law on the Implementation of the Fiscal Treaty includes the balanced budget principle, which entered into force in 2016 and applies to municipalities.

DEBT. Limits to local government borrowing are set annually by the government via the Law on the Approval of Financial Indicators of the State Budget and Municipal Budgets. Long-term borrowing is restricted to financing investment ("Golden Rule"), and the issuance of municipal bonds on capital markets is not authorised. Short-term loans are allowed in order to finance investment projects, to cover debts, to cover temporary income shortfalls, or to provide guarantees for loans to companies controlled by the municipalities. Municipal total and net borrowing limits are calculated from the approved municipal budget revenues (excluding state-specific grants). In addition, the amount of municipal guarantees cannot exceed a given share of municipal budget revenues (also excluding state-specific grants). In 2015, amendments to municipal borrowing regulations were drafted to reinforce municipal fiscal discipline. The Ministry of Finance must be informed when local governments take out loans or conduct guarantee operations. A pilot-project started in 2018 for the creation of a Local Development Fund is ongoing. It enables municipalities to have more favourable credit conditions. In 2016, total outstanding debt for SNGs accounted for 2.1% of GDP and for 4.0% of the general government debt, two ratios well below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). The financial debt ("Maastricht debt") accounted for 82% of outstanding debt (1.7% of GDP and 3.6% of public debt) while other accounts payable accounted for the remaining part (18%). Financial debt is made up of loans only.

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa,// ILO // Lithuanian Department of Statistics.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Lithuanian Department of Statistics // OECD (2018) Key Data on Local and Regional Governments in the European Union.
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