LITHUANIA

Lithuania’s economic freedom score is 74.2, making its economy the 21st freest in the 2019 Index. Its overall score has decreased by 1.1 points, with declines in judicial effectiveness, monetary freedom, and government integrity exceeding modest improvements in business freedom and government spending. Lithuania is ranked 12th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

Lithuania’s economic growth has gained momentum, driven by higher domestic and external demand, but more reforms are needed to improve the business environment and competitiveness. In addition, a steady outflow of young and highly educated people has caused some shortages of skilled labor. However, an improving labor market has spurred private consumption, and investment inflows from the EU have risen. Adoption of the euro has reduced the systemic risks related to euro-denominated debt. The country’s relatively sound legal framework generally sustains the rule of law.

ECONOMIC FREEDOM SCORE

74.2

WORLD RANK: 21
REGIONAL RANK: 12

ECONOMIC FREEDOM STATUS: MOSTLY FREE

RELATIVE STRENGTHS: Fiscal Health and Tax Burden
HISTORICAL INDEX SCORE CHANGE (SINCE 1996): +24.5
CONCERNS: Government Integrity and Judicial Effectiveness

FREEDOM TREND

QUICK FACTS

POPULATION: 2.8 million
GDP (PPP): $91.2 billion
3.8% growth in 2017
5-year compound annual growth 3.0%
$32,299 per capita

UNEMPLOYMENT: 7.1%
INFLATION (CPI): 3.7%
FDI INFLOW: $595.4 million
PUBLIC DEBT: 36.5% of GDP

BACKGROUND: Lithuania regained independence in 1991, joined the European Union in 2004, and acceded to the Organisation for Economic Co-operation and Development in 2018. President Dalia Grybauskaitė was reelected to a final five-year term in 2014. Prime Minister Saulius Skvernelis of the centrist Lithuanian Peasants and Green Union, in office since 2016, heads a minority coalition government with the Lithuanian Social Democratic Labor Party. Privatization of most state-owned enterprises has helped the economy to rebound and become one of the fastest growing in the EU, although many younger workers have emigrated for jobs elsewhere in Europe. Lithuania’s reliance on Russian natural gas has declined notably since the opening of an offshore liquefied natural gas terminal at Klaipėda.

2017 data unless otherwise noted. Data compiled as of September 2018.
Private property is respected, and protection of intellectual property rights has been upgraded in recent years. EU membership strengthened judicial independence. Anticorruption measures, steadily improved since 2014, were further bolstered when a law was passed in June 2018 making public officials criminally liable in corruption-related crimes. The judiciary reacted swiftly and firmly when a major banking scandal erupted in 2018.

Lithuania’s top individual and corporate income tax rates are 15 percent. Other taxes include inheritance and value-added taxes. The overall tax burden equals 30.2 percent of total domestic income. Over the past three years, government spending has amounted to 34.1 percent of the country’s output (GDP), and budget surpluses have averaged 0.2 percent of GDP. Public debt is equivalent to 36.5 percent of GDP.

The overall entrepreneurial framework has become fairly streamlined and efficient. Business formation and operation take place without bureaucratic interference. New labor regulations intended to enhance labor market flexibility have come into force. Lithuania scrapped its fuel subsidies after connecting to Poland and Sweden’s electric grid to import electricity at a lower cost, saving consumers tens of millions of euros.

The combined value of exports and imports is equal to 160.6 percent of GDP. The average applied tariff rate is 2.0 percent. Lithuania implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. The relatively sound regulatory framework facilitates foreign investment flows. The competitive financial sector offers a full range of services, and the banking system is stable.