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## ANALYSIS OF FISCAL COMPETITIVENESS IN LITHUANIA'S MUNICIPALITIES

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### ABSTRACT

Nowadays municipal revenue management and administrative issues are more important and problematic. It is noted that in Lithuania's separate municipalities collected budget revenues, formed budget expenditure, set borrowing limits, allocated from the state budget financial resources (grants) are significantly different. In order to determine reasons for these differences, it is appropriate to analyze the municipal fiscal competitiveness and identify fiscal competitiveness factors of individual Lithuanian municipalities. Understanding municipal fiscal competitiveness factors helps to explain why some municipalities more successfully than others increase tax revenue level and financial - social opportunities of their populations.

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**Key words:** Municipality, Fiscal competitiveness, Budget revenue, Expenditure, Surplus value per person.

### INTRODUCTION

In Lithuania municipal distribution of tax revenues is always assessed, but scientific studies are fragmentary involving only a few municipali-

ties, not enough focus on the causes and effects on the country's economic growth. R. Civinskas, and L. Tolvaišis (2006) estimated the municipal financial autonomy and interbudgetary redistribution of funds, but did not evaluate its impact on municipal fiscal competitiveness. J. Baltušnikienė (2004); G. Davulis (2006) analyzed theoretical and methodological aspects of the fiscal decentralization, but their works were declarative. R. Balvočiūtė, and A. Makauskaitė (2012) assessed the regional differentiation of municipalities' finances; however, it lacked a deeper assessment of causes and problems' solutions. A. Žalevičienė (2012) analyzed the regional policies related to foreign investments, J. Baltušnikienė, and A. Astrauskas (2009) emphasized competence of municipal competitiveness, A. Misiūnas, and Z. Svetikas (2003) studied the socio-economic problems with municipalities and they used average index (by comparing to state average) and MIN/MAX index (by comparing municipalities minimum and maximum values) methods. To sum up, in the scientific literature authors usually analyse several municipalities or fiscal decentralization in the context of tax collection. So there is a lack of complex evaluation revealing opportunities of the municipal fiscal competitiveness that are geared to the country's economic growth.

Foreign authors fiscal competitiveness analyzed in Belgium (Gerard, & Van Malderen, 2012), Czech Republic (Sedmíhřadská, & Čabla, 2013), Spain (Delgado, & Mayor-Fernández, 2009), USA (Hendrick, Wu, & Jacob, 2007), Canada (Brett, & Tardif, 2005), Portugal (da Silva Costa, & Carvalho, 2013), France (Charlot, Paty, & Piguet, 2010), Finland (Lyytikäinen, 2011), Switzerland (Bessard, 2008), Germany (Janeba, & Osterloh 2012), and other countries (The Kosovo municipal competitiveness index report, 2013). In the scientific literature authors also analyzed all tax revenues (Bessard, 2008) or usual revenues from property tax (Brett, & Tardif, 2005; Sedmíhřadská, & Čabla, 2013, da Silva Costa, & Carvalho, 2013). A. Monten, and M. Thum (2010); E. Janeba, and S. Osterloh (2012) focused on fiscal competitiveness modeling.

The study of originality reflects the fact that in Lithuania authors usually do not analyze municipal fiscal competitiveness. Created municipal fiscal competitiveness indices are either very common (e.g. municipal competitiveness index created by Lithuanian Free Market Institute) or covering only a separate part of activities. Municipal community index analyzed S. Nefas (2013), other authors (Domarkas, Laukaitytė, & Mačiukas, 2012) set out the ranking of municipalities by the development of e-government index; A. Misiūnas, and Z. Svetikas (2003) justified the use of integrated index to determine Lithuanian problematic regions. Foreign scientists and institutions (e.g. National Competitiveness Council of the Philippines, U.S. Agency for International Development, European Commission) applied different municipal rating methodologies as well as areas for the evaluation of the municipality. From this originality and relevance of the research we highlight a scientific problem - there is no municipal fiscal competitiveness assessment methodology. Because of this, we decided to reveal problematic issues: how to describe municipal fiscal competitiveness, what factors determine the fiscal

competitiveness and how Lithuanian municipalities distribute into groups in accordance with the surplus value in production costs and budget revenues and expenditures? That is why the aim of our research is to find out how we can analyze and what is the situation in Lithuanian municipalities' fiscal competitiveness. In the article we used ranking and average index methods (comparing to state average value). These methods will help us to make an analysis and to rank each municipality according to the surplus value and budget revenues and expenditures.

## LITERATURE REVIEW

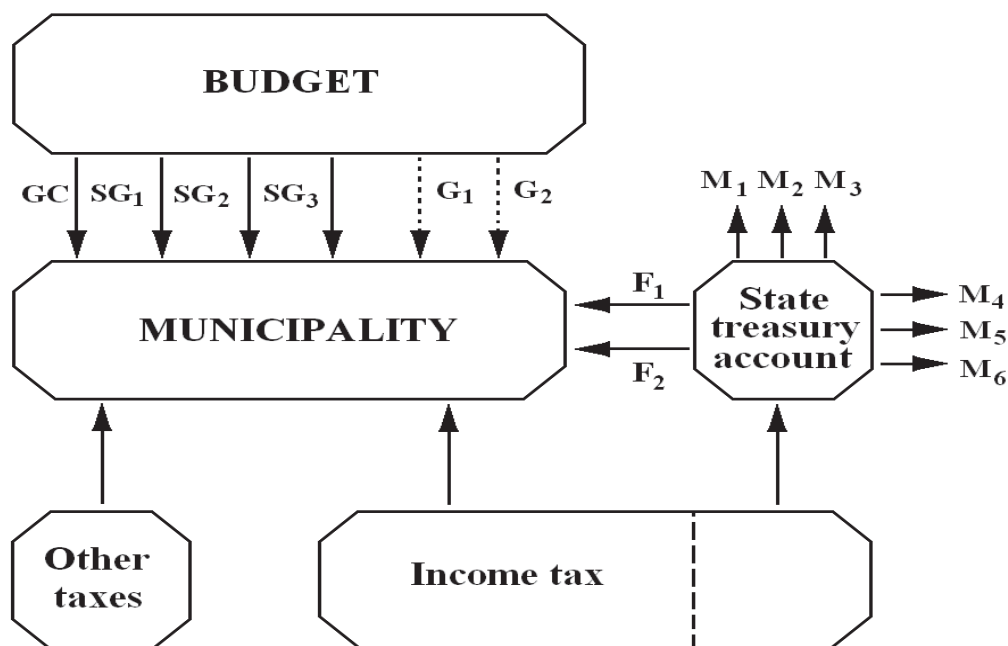
The scientific literature suggests that the purpose of municipalities is to meet citizens' (as well as business enterprises) societal needs by producing and (or) organizing public goods. And the mission can be defined as within public administration entities to create, develop and reform the economic, social, cultural and ecological controlled territory structure by combining public and private levels of the government (Baltušnikienė, & Astrauskas, 2009). We notice that in Lithuania's separate municipalities collected budget revenues, formed budget expenditure, set borrowing limits, allocated from the state budget financial resources (grants) are significantly different. In order to determine reasons for these differences, we will appropriately define a conception of *municipal fiscal competitiveness*.

In the literature there are debates on the definition of the concept of *competitiveness* (especially, fiscal competitiveness). According to J. Šeputienė, and K. Brazauskienė (2013), competitiveness can be attributed both to the country's well-being (higher income, better quality of life) as well as with local conditions that promote economic growth (cheaper resources, stable labor costs). Also, competitiveness can be analyzed at different levels: company, industry, region or country. J. Bruneckienė (2010) argued that some authors paid more attention to the competitiveness of macro factors such as macro-economic environment, the level of infrastructure, other authors emphasized business impact on competitiveness or "intangible" factors (tolerance, diversity, creativity level).

We can say that the municipal *fiscal* (redistributive) function reveals the fact that the budget of income is based on taxes, and received taxpayer funds are redistributed between the municipal citizens, business companies and sphere of activities. A. Novošinskienė (2013) notices that for each municipality it is very important to collect more tax revenues, otherwise it will be difficult to perform its functions. According to the recent version of The Law on the Budget Structure, municipal budgets' accumulated funds are necessary for statutory functions (e.g. education, culture, health, social welfare programs, and others) and for state delegated functions, so because of this each municipality tries to make an independent budget, which is approved without a deficit (The Law on the Budget Structure, 2014).

I. Hawkesworth, R. Emery, J. Wehner, and J. Saegert (2010) emphasize that Lithuania has separate budgets for the state (central government), municipalities (local government) and social insurance funds. The state budget and main financial indicators of municipal budgets are approved in the Law on Approval of the Financial Indicators of the State Budget and Municipal Budgets. The state budget, as approved by parliament, covers the revenue and expenditures of the government ministries and other budgetary institutions, including state transfers to municipalities. The municipal budget is approved by the municipal council and covers municipal revenues and funds transferred from the state for delegated functions.

The Law on the Methodology of Determination of Municipal Budgetary Revenues establishes the municipal budget as well as determines three local revenue sources: tax revenues, non-tax revenues and grants. Tax and non-tax revenues are allocated to perform municipal independent functions. Another income group is the state budget grant for reducing disparities of income and expenditure between municipalities. Grant rates for municipalities are approved by law. According to this, we notice that the biggest part of the revenue a municipality gets is not from taxes (as it should be), but from grants, so this fact reduces the municipal financial autonomy or as we call "fiscal competitiveness".



**Fig.1.** The municipal financing from taxes and grants.

Source: Authors created.

where:  $M_1, M_2, \dots, M_n$  - funds from the state treasury account for each municipality ( $F_1 + F_2$ );  $F_1$  - funds from the state treasury account to the municipality for equalization of personal income tax;  $F_2$  - funds from the state treasury account to the municipality for equalization of differences in cost structures;  $SG_1, SG_2, SG_3$  - special purpose grants to the municipality for implementation of public functions ( $SG_1$ ), general education ( $SG_2$ ), programs ( $SG_3$ );  $G_1, G_2$  - grants to the municipality if there is lack of  $F_1$  or  $F_2$ ; GC - the general grant compensation.

As we see from Figure 1, the income tax of inhabitants is distributed through the budget, because one of the main Lithuanian Development Goals is to reduce social and economic disparities between regions and within regions, to maintain the identity of these regions, but also to promote the sustainable development of the whole of Lithuania. The Law on the Methodology on Determination of Municipal Budgetary Revenues does not allow municipalities to collect in their budgets more money than it was planned. The first two kinds of income (tax revenue and non-tax revenue) may be called as own income, while the last one – grants – are state designated funds for municipalities to deliver their functions. Unfortunately, the unutilized balance of the latter is to be returned to the state budget at the end of a year (Davulis, 2009). According to R. Ginevičius, N. Slavinskaitė, and D. Gedvilaitė (2014), these revenues enable municipalities to dispose of their budget: they can independently use revenues allocated by the state and acquire some financial resources to ensure the fulfillment of assigned tasks. However, we emphasize that the municipal financial management is very complicated and governed by various laws that restrict the autonomy of local government.

The municipal personal income tax and cost structure alignment does not encourage municipal-donors to increase their income, hampers their natural development. Economically weaker municipalities depend on grants, and this discourages possibility for the improvement of the economic situation. Municipal politicians usually active in preparing the budget, publicly express dissatisfaction with the lack of funds, which municipalities really need, i.e. they seek to attract more funds to municipalities (Civinskas, & Tolvaišis, 2006). In order to make financial support for economically weaker municipalities and not to hamper the financial autonomy of economically stronger municipalities, we suggest equalizing differences of personal income tax and cost structures not at the expense of other municipal income, but on general grants from the state budget.

After the evaluation of literature review, we could highlight that the municipal fiscal competitiveness could be defined as the *ability of the municipality to redistribute budget revenues* whereby the residents, business companies and all spheres of activity could be *able to pay more taxes to the municipal budget*.

## ASSESSMENT METHODOLOGY

To accomplish an analysis we used statistical data from the Lithuanian statistical system and from the Association of local authorities in Lithuania. Lithuanian municipal fiscal competitiveness we analyzed through budget revenues, expenditures and created surplus value in manufacturing prices.

**Research sample:** in this article we will analyze 60 Lithuanian municipalities.

**Time period:** 2005-2014. This choice of investigation period was due to aspiration to reveal Lithuanian municipal financial situation after admission to the European Union (from 2004).

**Methods:** comparative analysis of statistical data, ranking and average method.

A. Lazauskienė (2008) emphasized, that in the scientific literature authors paid a lot of attention on the problem of the size of municipalities. Larger municipalities can perform more functions; provide more services; larger capacity of realization of various development projects and collection of more tax revenue for the municipal budget. What is more, larger municipalities have cheaper costs of public service delivery, administrative machinery and infrastructure maintenance. Because of this, we decided to apply a *ranking method* in accordance with municipal size, population, budget revenues (tax, non-tax revenues and received grants) and budget expenditure by functions. J. Krumplytė, and A. Rimkevičienė (2004) noticed, that ranking in accordance with each individual indicator's value estimates municipalities from best place (first rank) to worst (last rank). This method allows for disclosure of certain municipal dimension of fiscal competitiveness.

Scientific literature (Bruneckienė, 2010; Gardiner, Martin, & Tyler, 2004; Martin, 2003) notices that the competitiveness can be analyzed at different levels: company, industry, region or country, but municipal economic competitiveness and fiscal aspects are not sufficiently studied. Municipalities act freely and independently in their defined territory, establish and approve its budget; the municipal council has the right to the law within the limits and procedures to establish local levies and levies' concessions. The state supports municipalities - there is a grant scheme and a borrowing mechanism, which shows municipal financial autonomy and the opportunity to decide financial issues, but within the borrowing limits. In order to reveal the municipality's economic competitiveness we also adapted the ranking method based on the surplus value in manufacturing prices per capita. Surplus value indicator was chosen due to the fact that in the literature authors usually relate competitiveness to productivity, which reflects the surplus value per capita.

We used the *average method* because our survey sample was relatively high (60 municipalities) and analysis period was long (2005-2014). The average method showed what was the Lithuanian municipality's rank, compared with the average rate of all Lithuanian municipalities. A. Misiūnas, and Z. Svetikas (2003) showed the formula of average method:

$$I_{ij}(t) = \frac{x_j(t)}{x_{E,j}(t)} \quad (1)$$

where:  $x_{ij}(t)$  – the municipality's value of the index for a period of time (t);  $x_{LT,j}(t)$  – the country's average value of the index during the analysis period (t).

In summary, the assessment methodology of municipal fiscal competitiveness emphasizes that there are many indicators which show the economic and financial situation of municipalities, but the most important is the surplus value and budget indicators (income and expenditure). According to this, we will analyze Lithuanian municipal fiscal competitiveness.

## ANALYSIS OF FISCAL COMPETITIVENESS IN LITHUANIA

In the Republic of Lithuania administrative units are counties and municipalities. At present, the Republic of Lithuania has 10 counties and 60 municipalities. Distribution of municipalities by territory and population is shown in Table 1 and Table 2. According to A. Lazauskienė (2008), an administrative unit size is almost always defined by two parameters: size of territory and population.

We ranked into five groups Lithuanian municipalities according to the size of territory. The first group had the three largest municipalities in Lithuania: Varėna district, Panevėžys district and Vilnius district. The second group consisted of 10 municipalities (rank from 4 to 13). The third group was the largest and consisted of 25 municipalities (rank from 14 to 38), the fourth group consisted of 10 municipalities (rank was from 39 to 48) and the last one – fifth group – consisted of 12 municipalities (rank was from 49 to 60). All Lithuania territory is 65,3 thousand sq. km. Ranking was performed of every 500 sq. km. Small municipalities have a flexible administrative apparatus, and public affairs are less bureaucratic. In addition, the smaller territorial unit strengthens the competition between areas and promotes local government dynamism and development of new ideas.

According to average population, we ranked Lithuanian municipalities into eight groups (Table 2). Ranking was performed of every 10000 inhabitants. The first group consists of 7 the most important Lithuanian municipalities. The largest group is sixth and it consists of 17 municipalities. The smallest group is the last one (only four municipalities rank from 57 to 60).

Lithuanian major cities' municipalities are largest according to population. The biggest part of the local budget tax revenue consists of revenue from personal income tax, so population of municipalities is an important indicator. Larger population means greater tax revenue received by the municipality.

Based on scientific studies, which analyze development and trends of fiscal policy and taxation, it can be emphasized that both the state and municipal financial efficiency is important for economic productivity. It is important to shape the financing of the budget - the tax structure - to ensure the collection of tax revenues and can be beneficial for competitiveness growth (Stankevičius, 2014).

**Table 1. Lithuanian municipalities' ranking by the size of the territory.**

Source: Own research.

Municipality	Territory (2014), km <sup>2</sup>	Rank	Municipality	Territory (2014), km <sup>2</sup>	Rank	Municipality	Territory (2014), km <sup>2</sup>	Rank	Municipality	Territory (2014), km <sup>2</sup>	Rank	Municipality	Territory (2014), km <sup>2</sup>	Rank
Varėna district	2218	1	Jurbarkas district	1507	13	Pakruojis district	1316	25	Kupiškis district	1080	37	Druskininkai	454	49
Panevėžys district	2179	2	Kaunas district	1496	14	Lazdijai district	1309	26	Prienai district	1031	38	Kalvarija	441	50
Vilnius district	2129	3	Salčėminkai district	1491	15	Pasvalys district	1289	27	Kretinga district	989	39	Vilnius city	401	51
Rokiškis district	1807	4-5	Biržai district	1476	16	Vilkaviškis district	1259	28	Jonava district	944	40	Kaunas city	157	52
Siauliai district	1807	4-5	Sakiai district	1453	17	Utena district	1230	29	Skuodas district	911	41	Birštonas	124	53
Anykščiai district	1765	6	Ignalina district	1447	18	Mažeikiai district	1220	30	Sirvintos district	906	42	Klaipėda city	98	54
Silutė district	1706	7	Telšiai district	1439	19	Trakai district	1208	31	Akmenė district	844	43	Neringa	90	55
Kelmė district	1705	8	Alytus district	1404	20	Silalė district	1188	32	Marijampolė	755	44	Siauliai city	81	56
Svenčionys district	1692	9	Ukmergė district	1395	21	Tauragė district	1179	33	Rietavas	586	45	Palanga city	79	57
Kėdarniai district	1677	10	Molėtai district	1367	22	Joniškis district	1152	34	Kazlų Rūda	555	46	Visaginas	58	58
Radviškis district	1635	11	Klaipėda district	1336	23	Plungė district	1105	35	Pagėgiai	537	47	Panevėžys city	50	59
Raseiniai district	1573	12	Zarasai district	1334	24	Kaišiadorys district	1087	36	Elektrėnai	509	48	Alytus city	40	60



**Table 2.** Lithuanian municipalities' ranking by the population (2005-2014).

Source: Own research.

Municipality	Average population	Rank	Municipality	Average population	Rank	Municipality	Average population	Rank	Municipality	Average population	Rank	Municipality	Average population	Rank
Vilnius city	540298	1	Telšiai district	48628	13	Raseiniai district	38605	25	Alytus district	28974	37	Skuodas district	21238	49
Kaunas city	326506	2	Jonava district	47530	14	Rokiškis district	35928	26	Svenčionys district	28544	38	Kupiškis district	20986	50
Klaipėda city	167406	3	Silutė district	46840	15	Salčiūmukai district	35183	27	Silalė district	27326	39	Zarasai district	19021	51
Siauliai city	113552	4	Siauliai district	45979	16	Trakai district	34937	28	Joniškis district	27116	40	Ignalina district	18982	52
Panevėžys city	102864	5	Tauragė district	45429	17	Kaišiadornai district	34464	29	Varėna district	26298	41	Sirvintos district	17994	53
Vilnius district	94859	6	Utena district	44331	18	Kelmė district	33778	30	Elektrėnai	25611	42	Palanga city	16030	54
Kaunas district	85450	7	Radviškis district	44155	19	Sakai district	33443	31	Pakruojis district	24627	43	Kazlų Rūda	13558	55
Marijampolė	62903	8	Vilkaviškis district	43762	20	Jurbarkas district	31455	32	Akmenė district	24470	44	Kalvarija	12351	56
Alytus city	62313	9	Kretinga district	42408	21	Prienai district	30760	33	Visaginas	23645	45	Pagėgiai	9948	57
Mažeikiai district	59910	10	Ukmergė district	41500	22	Anykščiai district	29573	34	Lazdijai district	23061	46	Rietavas	9017	58
Kėdarniai district	55752	11	Panevėžys district	39874	23	Biržai district	29406	35	Druskininkai	22416	47	Birštonas	4688	59
Klaipėda district	50868	12	Plungė district	39160	24	Pasvalys district	29283	36	Molėtai district	21329	48	Neringa	2489	60

**Table 3.** Lithuanian municipalities' ranking by the surplus value per capita (2005-2014).

Source: Own research.

Municipality	Average surplus value per capita, thousand EUR	Rank	Municipality	Average surplus value per capita, thousand EUR	Rank	Municipality	Average surplus value per capita, thousand EUR	Rank	Municipality	Average surplus value per capita, thousand EUR	Rank	Municipality	Average surplus value per capita, thousand EUR	Rank
Vilnius city	7,658	1	Kėdainiai district	3,229	12	Ukmergė district	2,055	24	Kupiškis district	1,367	36	Anykščiai district	1,068	48
Klaipėda city	6,026	2	Palanga city	3,207	13	Trakai district	2,031	25	Šiauliai district	1,342	37	Sakiai district	1,061	49
Mazeikiai district	4,908	3	Utena district	3,176	14	Rokiškis district	1,952	26	Biržai district	1,341	38	Vilkaviškis district	0,973	50
Kaunas city	4,795	4	Alytus city	3,075	15	Tauragė district	1,810	27	Molėtai district	1,325	39	Širvintos district	0,955	51
Neringa	4,174	5	Kazlu Ruda	2,759	16	Rietavas	1,784	28	Birštonas	1,287	40	Pagėgiai	0,946	52-53
Panevėžys city	4,083	6	Manjampole	2,665	17	Kaišiadorys district	1,633	29	Varenā district	1,280	41	Alytus district	0,946	52-53
Šiauliai city	4,011	7-8	Druskininkai	2,504	18	Kretinga district	1,623	30	Panevėžys district	1,276	42	Ignalina district	0,911	54
Klaipėda district	4,011	7-8	Kaunas district	2,267	19	Šilutė district	1,619	31	Joniškis district	1,231	43	Kelme district	0,887	55
Visaginas	3,727	9	Vilnius district	2,201	20	Radviliškis district	1,597	32	Prienai district	1,188	44	Zarasai district	0,865	56
<b>LITHUANIA</b>	3,638		Plunge district	2,154	21	Raseiniai district	1,594	33	Jurbarkas district	1,142	45	Kalvanija	0,779	57
Elektrėnai	3,551	10	Akmene district	2,132	22	Pakruojis district	1,478	34-35	Pasvalys district	1,119	46	Lazdijai district	0,773	58
Jonava district	3,450	11	Telšiai district	2,116	23	Švenčionys district	1,478	34-35	Šilalė district	1,085	47	Skuodas district	0,748	59
												Šalčininkai district	0,743	60

**Table 4.** Lithuanian municipalities' ranking by the budget income per capita (2005-2014).

Source: Own research.

Municipality	Average budget revenue per capita, thousand EUR	Rank	Municipality	Average budget revenue per capita, thousand EUR	Rank	Municipality	Average budget revenue per capita, thousand EUR	Rank	Municipality	Average budget revenue per capita, thousand EUR	Rank	Municipality	Average budget revenue per capita, thousand EUR	Rank
Neringa	2,870	1	Pasvalys district	0,677	12	Sakiai district	0,645	23-24	Rokiškis district	0,623	36	Kaunas city	0,597	48-49
Birštonas	1,365	2	Pakruojis district	0,676	13-14	Telsiai district	0,643	25	Ukmergė district	0,621	37	Kazlu Ruda	0,597	48-49
Palanga city	1,017	3	Varėna district	0,676	13-14	Jonava district	0,641	26	Vilkaviškis district	0,619	38	Panevėžys district	0,580	50
Akmene district	0,770	4	Kelme district	0,675	15	Kėdainiai district	0,639	27	Šiauliai city	0,616	39	Alytus district	0,577	51
Pagėgiai	0,753	5	Trakai district	0,674	16	Elektrėnai	0,638	28	Kaišiadorys district	0,615	40	Šiauliai district	0,574	52
Druskininkai	0,724	6	Skuodas district	0,665	17	Širvintos district	0,637	29	Prienai district	0,614	41	Marijampole	0,573	53
Zarasai district	0,700	7	Visaginas	0,664	18	Molėtai district	0,635	30	Plunge district	0,612	42	Kretinga district	0,571	54
Joniškis district	0,696	8	Anykščiai district	0,661	19	Mažeikiai district	0,633	31-32	Utena district	0,609	43-44	Panevėžys city	0,558	55
Kupiškis district	0,690	9-10	Rietavas	0,660	20	Alytus city	0,633	31-32	Tauragė district	0,609	43-44	Radviliškis district	0,553	56
Ignalina district	0,690	9-10	Šilutė district	0,651	21	Biržai district	0,631	33	Klaipėda city	0,603	45	Klaipėda district	0,529	57
Šilalė district	0,687	11	Lazdijai district	0,649	22	Raseiniai district	0,630	34	Šalčininkai district	0,602	46	Vilnius city	0,521	58
LITHUANIA	0,685		Jurbarkas district	0,645	23-24	Kalvarija	0,627	35	Švenčionys district	0,600	47	Vilnius district	0,505	59
												Kaunas district	0,484	60

To compare Lithuanian municipalities in terms of productivity (the average surplus value per capita), we grouped all municipalities into 6 groups (ranked on every 1000 euro per capita):

- High productivity (with exceptions) (rank from 1 to 2);
- High productivity (rank from 3 to 8);
- The higher-than-average productivity (rank 9 to 15);
- The average productivity (rank from 16 to 25);
- Lower-than-average productivity (rank from 26 to 49);
- Low productivity (rank 50 to 60).

High productivity (with exceptions) has two municipalities: the city of Vilnius and Klaipeda city. These municipalities are called "exceptions", because the surplus value is the highest in comparison with other municipalities. Vilnius is the capital of Lithuania, with a population of more than 0,5 million inhabitants. Klaipeda is a seaport city, which is very important for transportation.

In the next stage of our investigation we ranked municipalities according to budget revenues. Budget revenues consist of tax and non-tax revenues, and grants. Municipal budget revenue analysis will help to clarify what is the local government's financial autonomy in Lithuania. We analyzed Lithuanian municipal average budget income per capita (Table 4).

All municipalities are grouped into five groups from the largest budget revenue per capita to the smallest. The first group consists of 3 municipalities (rank from 1 to 3), the second group consists of 8 municipalities (rank from 4 to 11), and the third group includes 11 municipalities (rank from 12 to 22). The fourth group is the largest group of municipalities – it consists of 27 municipalities (rank from 23 to 49). And the last group consists of 11 municipalities (rank from 50 to 60). We can mention that only first and second groups exceed the average rate of all Lithuanian municipalities (685 euro).

The highest average budget revenue per capita is in these municipalities: Neringa, Birštonas and Palanga city. It became like this, because of high budget revenues (in absolute value) and the low population. These municipalities are identified as centers of attraction for tourists, because these municipalities are Lithuanian health/holiday resort cities. According to average surplus value per capita, Vilnius and Klaipeda cities created the highest average surplus value per capita, but according to budget revenue these municipalities took a rank of 58 and 45).

In terms of tax revenue, it can be said that the largest tax revenues are received by Neringa, Palanga and Birštonas municipalities. During the analysis period (2005-2014), average tax revenue per capita was 2119 euro, 582 euro and 512 euro. The largest non-tax revenues were in Trakai district, Neringa and Palanga town municipalities (229 euro, 201 euro and 126 euro per capita). The largest grants received Birštonas and Neringa municipalities. According to the Association of Local Authorities in Lithuania (2016), since 2016 Lithuania has only four municipalities-donors: Vilnius, Kaunas, Klaipėda and Neringa cities. We have to mention that, municipal-donor means, if the municipality's income tax per capita is higher than the national average.

**Table 5. Lithuanian municipalities' ranking by the budget expenditure per capita (2005-2014).**

Source: Own research.

Municipality	Average budget expenditure per capita, thousand EUR	Rank	Municipality	Average budget expenditure per capita, thousand EUR	Rank	Municipality	Average budget expenditure per capita, thousand EUR	Rank	Municipality	Average budget expenditure per capita, thousand EUR	Rank	Municipality	Average budget expenditure per capita, thousand EUR	Rank
Neringa	2,910	1	Kelme district	0,693	13	Sakiai district	0,657	25	Kalvarija	0,627	37	Alytus district	0,592	48
Birštonas	1,449	2	Skuodas district	0,685	14	Radviliškis district	0,654	26	Prienai district	0,624	38	Marjampole	0,587	49
Palanga	1,039	3	Lazdijai district	0,681	15	Elektrėnai district	0,653	27	Kaunas city	0,624	39	Šiauliai district	0,584	50
Akmenė district	0,791	4	Rietavas	0,680	16	Kėdarniai district	0,651	28	Vilkaviškis district	0,624	40	Kretinga district	0,578	51
Pagėgiai	0,770	5	Telšiai district	0,675	17	Mažeikiai district	0,649	29	Šiauliai city	0,622	41	Pasvalys district	0,574	52
Druskininkai	0,751	6	Visaginas	0,674	18	Molėtai district	0,649	30	Kaišiadorys district	0,622	42	Vilnius city	0,554	53
Zarasai district	0,719	7	Anykščiai district	0,672	19	Ukmergė district	0,636	31	Šalčininkai district	0,619	43	Rokiškis district	0,544	54
Joniškis district	0,717	8	Šilutė district	0,666	20	Trakai district	0,635	32	Taurage district	0,617	44	Biržai district	0,537	55
Šilalė district	0,709	9	Jonava district	0,663	21	Utena district	0,631	33	<b>LITHUANIA</b>	<b>0,612</b>		Klaipėda district	0,536	56
Ignalina district	0,707	10	Jurbarkas district	0,661	22	Širvintos district	0,631	34	Klaipėda city	0,609	45	Vilnius district	0,512	57
Varėna district	0,700	11	Alytus city	0,659	23	Švenčionys district	0,630	35	Kazlu Ruda	0,607	46	Kaunas district	0,502	58
Pakruojis district	0,700	12	Raseiniai district	0,658	24	Plunge district	0,629	36	Kupiškis district	0,605	47	Panevėžys district	0,494	59
												Panevėžys city	0,488	60

We also analyzed the municipal budget expenditures (Table 5). We emphasize that the budgetary costs are divided into general government services, defense, public order, economy, environmental protection, housing and communal economy, health care, recreation and culture, education and social protection.

We ranked municipalities in accordance with the average budget expenditure per capita and grouped them into five groups. Mid-largest budget expenditure per capita was in three municipalities: Neringa, Birštonas and Palanga (rank from 1 to 3). The second group consists of 9 municipalities (rank from 4 to 12), the third group consists of 16 municipalities (rank from 13 to 28), the fourth group is the largest - it consists of 19 municipalities (ranks from 29 to 47). The last group consists of 13 municipalities (rank from 48 to 60) where average budget expenditures are the lowest.

We noticed that, according to the functions, the greatest share of the budget expenditures (48.82 per cent) was given to education. Less money was given to another functions: social protection, general public services, and recreation and culture (14,09 per cent, 12,38 per cent and 11.18 per cent). The minimum share of expenditures was to health protection, public order and defense (0,94 per cent, 0,82 per cent and 0,11 per cent).

After an assessment of fiscal competitiveness in Lithuanian municipalities, we noticed that ranking and average index methods can be useful to show what the situation in fiscal competitiveness is. To sum up the results of our research, Neringa, Birštonas and Palanga city has financial autonomy in Lithuania. These municipalities collect the largest part of tax revenue compared with others, take very high rank in non-tax revenue. But, unfortunately, Neringa and Birštonas receive general grants, which show a not very good situation in fiscal competitiveness. Palanga city ranks at the position 43. What is more, the analysis showed that because of small population in these municipalities, Neringa, Birštonas and Palanga city got very good results in fiscal competitiveness. So we need to make a conclusion of ranking by surplus value per capita as well. In the ranking by surplus value per capita, the first two places are taken by Vilnius city and Klaipėda city, when Neringa is in the fifth place. That means that these three cities really are fiscally competitive.

## CONCLUSIONS

The largest part of the local budget revenues consists of tax revenues and grants. Meanwhile, non-tax revenues, which the municipality has the greatest potential to influence, represent a very minor part of the total municipal income, and the value is not high. Municipalities are unable to adequately respond to economic changes. When costs increase, municipalities are faced with a constant lack of funds, because in the municipalities assigned duty officers do not perform their fiscal (accumulation) function. For this reason,

the municipality is unable to accumulate additional funds, which are needed for unforeseen, temporary difficulties to overcome or improve the quality of service. Therefore, the municipal fiscal initiative and responsibility stay weaker and financial activities are becoming less effective.

In our research, ranking and average index methods were used to analyze and rank Lithuanian municipalities in accordance with the size of territory, population, surplus value per capita, budget revenue and expenditures. In analyzing the situation of fiscal competitiveness in Lithuanian municipalities it was noted that the most fiscally competitive municipalities are Vilnius city, Klaipėda city and Neringa. Vilnius and Klaipėda cities are two of the biggest municipalities according to population; therefore, create much more surplus value per capita than other municipalities. Neringa municipality takes a high rank in surplus value per capita as well. What is more, we ranked Neringa in one of the first positions in accordance with budget revenue and expenditures.

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