country essentials

Spring 2014

coface

Lithuania

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Country Risk Assessment

The Country Risk Assessment for Lithuania is A4, while the Business Climate is rated A2. This assessment is stable since 2010.

Strengths and weaknesses of Lithuania

Lithuanian economy has been growing steadily in the last years again. Main strengths are the skilled labour force and the countrys' favourable geographic position. The economy is modernizing rapidly and the per capita income growth was strong in recent years. Furthermore, the downward trend in unemployment (rate of about 10% forecast for 2014 after peaking at 18% in 2010) will increase consumer confidence.

On the other hand, Lithuania is highly dependent on foreign capital and shows high foreign debt (particularly bank debt). The country has not introduced the Euro yet but the decision to join Eurozone in 2015 is approved. Therefore borrowers' are exposed to exchange risk. Moreover there are not enough jobs in the export sectors. This combined with the shortage of skilled workers, linked in part to massive emigration of young workers to the rest of the EU poses problems and threatens the further development of Lithuania.

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GENERAL INFORMATION

Lithuania declared its independence in 1990 and joined the European Union in 2004. Together with Latvia and Estonia, it forms the Baltic States - whereby Lithuania is the largest of these three countries. Lithuania borders to Baltic, Latvia, Belarus, Poland and the Russian enclave of Kaliningrad.

Form of government:	Parliamentary republic	
Administrative organisation:	10 administrative districts, 60 self-governments	
Area:	65,300 km^2	
Population:	3,007,758; density: 46,6 inhabitants / km^2	
Official language:	Lithuanian	
Local currency:	1 Litas (LTL) = 100 Centas LTL 1 = approx. EUR 0.28962	
Capital:	Vilnius: 534,056 inhabitants	
Major cities and population:	Kaunas Klaipėda Šiauliai Panevėžys	311,148 inhabitants 160,361 inhabitants 107,875 inhabitants 98,612 inhabitants
Ethnic groups:	83.7% Lithuanian, 6.6% Polish, 5.3% Russian, 1.3% Belarus	
Religion:	79% Catholic, 4% Orthodox, 7.6% other, 9.4% no religious affiliation	
Natural resources:	Limestone, peat, quartz and gypsum, amber	
Most important sectors:	Industry, manufacturing, construction, agro food	
Membership in international organisations:	UNO, IMF, EBRD, World Bank, NATO, EU, Council of Europe, WTO	

RISK ASSESSMENT

Coface Country Risk Assessment

A4

Faster growth in 2014

Growth slowed slightly in 2013, with exports, particularly of capital goods, transport equipment, foodstuffs and chemical products hit by the recession in the eurozone as well as the Russian economic slowdown. The recovery of activity in the main developed economies is expected to reverse this trend in 2014. The significant fall in unit labour costs since 2009 will continue to improve the country's price-competitiveness and therefore its export prospects. On the domestic demand side, household consumption will benefit from recent rises in the minimum wage to €285 (+18% in January 2013). The downward trend in unemployment (rate of about 10% forecast for 2014 after peaking at 18% in 2010) will also increase consumer confidence. Moreover, though investment is still suffering from relatively difficult access to credit for companies and households, due to a still high proportion of non-performing loans (12% in the second quarter 2013), it is expected to climb gradually in 2014. Moreover public investment will remain support by EU cohesion funds. Finally, inflation is expected to remain contained but to edge up in 2014, particularly due to the high VAT rate on heating tariffs.

Energy imports will still strain the trade balance

Whereas the previous government made cutting the fiscal deficit its priority, the current one was elected on a promise to ease the austerity mea- sures introduced and to reduce to reduce the na- scent threat to living standards. But Lithuania hasis committed to joining the eurozone in a few years' time (not before 2015) and therefore has to con- form to the convergence criteria. The government therefore has very little room for fiscal manoeu- vre. In this context, the budget deficit is expected to remain close to 3%, with higher spending relat- ed to the rise in the minimum wage and reduced VAT on certain products balancing the increase in revenues from corporation tax and income tax.

Meanwhile, Lithuania is the most energy-dependent country in Europe (84% of energy consumed is imported). To diversify sources of energy, the sea-port of Klaipeda will host a regasification unit supply in December 2014 at the latest. The European Commission has granted €448 Mn for this project. Despite this, the current account balance will remain in deficit, insofar as transfers from European structural funds fail to cover the trade balance and the income balance (wages of cross-border workers). Futhermore, the current account deficit should widen slightly because of stronger domestic demand. But foreign direct investments covered only half of this deficit. Moreover the Central Bank applies a fixed parity between the euro and the litas at LTL 3.45 of EUR 1. But, the country's foreign exchange reserves are declining and now represent only three months of exports.

Moderate political risk

Since independence in 1990, the country has had a change of government at each of the elections. Those of October 2012 were no exception. The left (Social Democratic Party) came to power alongside two populist parties of the left and right (respectively the Labour Party and the Order and Justice Party). Algirdas Butkevicius, leader of the LSDP (Lithuanian Social Democratic Party) was appointed to lead the government. This disparate coalition was weakened by the imprisonment of two Labour Party MPs for fraud in 2013, just as the country was taking over the EU presidency for six months. Moreover, business environement remains very favourable.

FOREIGN TRADE & ECONOMIC KEY DATA

Lithuania's Top 5 Trading Partners

Imports in TEUR	2010	2011	2012	2013
EU 28	9.989	12.949	14.240	15.707
Russia	5.758	7.316	8.085	7.770
Germany	1.861	2.278	2.450	2.740
Poland	1.569	2.071	2.437	2.490
Latvia	1.117	1.515	1.517	1.628

Exports in TEUR	2010	2011	2012	2013
EU 28	9.544	12.355	13.963	14.097
Russia	2.450	3.340	4.355	4.870
Latvia	1.465	2.062	2.510	2.451
Estonia	790	1.338	1.805	1.853
Poland	1.210	1.400	1.394	1.813

Source: Lithuanian Statistical Office

Economic Key Data

Key Data	2011	2012	2013 (e)	2014 (f)
GDP growth (%)	5.9	3.6	3.3	3.4
Inflation (yearly average) (%)	4.1	3.2	1.4	2.1
Budget balance (in % of GDP)	-5.5	-3.3	-3.0	-2.7
Current account (in % of GDP)	-3.7	-0.5	-0.3	-1.2
Public debt (in % of GDP)	39.4	41.2	42.0	42.3

(e) estimate
(f) forecast
Source: Coface

INSOLVENCY

Top 5 sectors 👍
Public Administration and Defence; Compulsory Social Security
Education
Human Health and Social Work Activities
Other Service Activities
Arts, Entertainment and Recreation

Flop 5 sectors 👎
Construction
Accommodation and Food Service Activities
Administrative and Support Service Activities
Transportation and Storage
Water Supply, Sewerage, Waste Management and Remediation Activities

Insolvency Laws & Insolvency Procedures

Company Bankruptcy Process Initiation

1. Filling the claim to court (backgrounds for bankruptcy) (Republic of Lithuania Law on Bankruptcy, Art 4):

   - the company is late to pay wages and employment-related benefits;
   - the company does not pay on time for goods, works (services), does not return credits;
   - the company does not pay statutory taxes and other mandatory payments and (or) adjudged amounts on time;
   - the company publicly announced or otherwise notified the creditor(s) it cannot fulfil or or is not meet fulfilling its obligations. Public communication is also considered a disclosure by the Enterprise Bankruptcy Management Department under the Ministry of Economy (hereinafter the Department) website;
   - the company has no assets or income that could be recovered in debt, and for this reason, the bailiff returned execution to the creditor.

2. Persons entitled to apply to court for bankruptcy (Republic of Lithuania Law on Bankruptcy, Art 5):

   - the creditor (creditors)
   - the owner(s)
   - the company's CEO (Director)

   It should be noted that this is a finite list of persons, who can apply to court for bankruptcy initiation.

3. Creditor (creditors) a petition for bankruptcy.

   Creditors, if there is at least one background indicated in the Republic of Lithuania Law on Bankruptcy, Art 4 section 1, 2 and 3, after the end of 30 days from the date of "notification of the intention to apply to the court for bankruptcy", creditors (creditors) may submit a petition for bankruptcy.
   But first, as mentioned above, a creditor (creditors) must contact the company with a notice of their intention to initiate bankruptcy procedures on the company.

   The Republic of Lithuania Law on Bankruptcy Art 6. Section 2, states that (a) creditor(s) must notify the Company in writing by registered letter or by courier or bailiff of its intention to apply to the court for bankruptcy. In the case one of the following methods of notification service fails, creditors must send a message to the company's registered office address. Notification shall be deemed to have been served five days after it was sent. The notification shall include the company's outstanding obligations and a warning that if they do not fulfil them within the period specified in the notice, the creditor (creditors) will apply to the court for bankruptcy. For fulfilling the obligations of the creditor (creditors) have to set at least 30 days from the date of delivery.

INSOLVENCY

Bankruptcy Proceedings

When an appropriate applicant (i.e. an applicant who meets the necessary legal requirements) prepares a claim for the court, the court assesses the pre-insolvency proceedings and makes a decision to start bankruptcy of the company if at least one of the following conditions occurs:

1. the company is insolvent or the company has delayed payment of employees' (workers') wages and employment-related benefits;

2. Secondly, the company has publicly announced or otherwise notified the creditor(s) that it cannot meet or is not meeting its obligations.

A court's decision to begin bankruptcy proceedings, or not to do so, that was adopted during a hearing on the written evidence, becomes legally binding 10 days after its adoption.

Once a decision to start bankruptcy proceedings is taken, the court must appoint the bankruptcy administrator who has some general tasks until the first meeting of creditors:

1. Report about insolvency proceedings:
   1.1. The commercial register (www.registrucentras.lt/jar)
   1.2. Bankruptcy Management Department under the Ministry of Economy (www.bankrotodep.lt)
   1.3. Company (in the order adopted by written procedure-and creditors)
   1.4. Lithuanian Bank (www.lb.lt)

2. organise the protection of assets and takeover the documents.

3. hire and fire employees.

4. apply to the Court for approval of administrative costs

5. compile a list of creditors of the company and provide it to the Court for approval

6. organise the first meeting of creditors

Lodging the Claim

Creditors' claims application procedures are regulated by the Enterprise Bankruptcy Law. The court, by an order from the bankruptcy proceedings against the enterprise, sets a time limit within which creditors are entitled to lodge their claims. Approval of claims of creditors takes place in two stages, i.e. in the first stage creditors submit their demands within the time limit with supporting documentation to the bankruptcy administrator who shall, within one month, submit them to the court for approval or contests.

Only creditors confirmed by the court get special rights in the bankruptcy process:

1. to attend meetings of creditors and defend their own requirements;

2. to get information from the administrator regarding the bankruptcy proceedings of the case;

3. apply to the court for a determination of fraudulent bankruptcy and resolutions adopted by creditors' meetings.

Sale of the Property

One of the most important steps in bankruptcy process is the sale of the assets, which is organised by the bankruptcy administrator.

When property is sold, all income goes to cover creditor's claims. Usually incomes covers only 1st and 2nd line creditor's claims (Banks, State tax institutions and employees) and if there is enough income it goes to third line creditors.

The end of Bankruptcy

After all property is sold and all incomes are allotted, the bankruptcy administrator applies to the court asking it to finish the bankruptcy and then the company is deregistered from commercial register.

CHECK LIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	■ Share capital for a Lithuanian LLC: LTL 10,000 (approx. EUR 2,896.20) ■ Share capital for a Lithuanian joint stock company: LTL 150,000,- (approx. EUR 43,430) ■ JSC referred LLC
Tax law	■ Corporate tax rate: generally 15% ■ Income tax: 15% (flat rate) ■ VAT: 21%
Investments	■ Foreign investors are accorded equal treatment with domestic investors
Foreign exchange	■ The import and export of foreign exchange by nationals and foreigners is unlimited within the EU ■ A declaration is required for foreign exchange transactions to or from a third country that exceed LTL 10,000 (approx. EUR 2,896.20)
Labour law	■ Lithuanian labour law is aligned with European standards ■ Very inflexible regulations on working hours and contracts ■ Very low private autonomy ■ Minimum 1000, - LTL (approx. EUR290)
Customs	■ The harmonised customs tariff of the EU as well as the rules of the CEFTA, EFTA and WTO apply
Travel and residence	■ EU citizens do not require an entry or transit visa ■ However, a residence permit is required if the duration of stay exceeds 90 days per half-year

Corruption

Lithuania is ranked 43rd in the International Corruption Perceptions Index for 2013. In comparison, Germany is rated 12th and Austria 26th. The corruption index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and is related solely to the public sector.

The Doing Business Index issued by the World Bank expresses the ease of doing business in a particular country. In this ranking Lithuania ranked 17th in 2014, rising 8 ranks compared to 2013 (ranking 25th). It is ranked better than Germany and Austria which take positions 21st and 30th respectively. This index consists of ten different sub-indices that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the formation and closure of companies.

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