

Lithuania/Lietuva*

INTRODUCTION

General

<i>Capital/Other major cities:</i>	Vilnius/Kaunas, Klaipeda
<i>Area:</i>	65,200 km ²
<i>Population:</i>	3.59m
<i>Language:</i>	Lithuanian
<i>Currency:</i>	Lithuanian litas (LTL)
<i>Country telephone code:</i>	370
<i>National holidays:</i>	
2006 –	1 Jan, 16 Feb, 11 Mar, 16–17 Apr, 1, 7 May, 14, 24 Jun, 6 Jul, 15, 23 Aug, 8 Sep, 25 Oct, 1 Nov, 25–26 Dec.
2007 –	1 Jan, 16 Feb, 11 Mar, 8–9 Apr, 1, 6 May, 14, 24 Jun, 6 Jul, 15, 23 Aug, 8 Sep, 25 Oct, 1 Nov, 25–26 Dec.
<i>Business hours:</i>	08:00–17:00 or 09:00–18:00 (Mon–Fri)
<i>Banking hours:</i>	09:00–17:00 (Mon–Fri)
<i>Stock exchange:</i>	Vilnius Stock Exchange
<i>Leading share indices:</i>	BALTIX (Baltic index) OMX Vilnius index

Government

Legislature

- Parliamentary republic with a unicameral parliament (Seimas).
- Seimas – 141 members, of whom 71 are elected by simple majority voting and 70 of whom are elected via proportional representation for four-year terms.
- The president is elected every five years.
- Lithuania joined the EU in May 2004.

Head of state

- Valdas Adamkus, president since 12 July 2004.

Political leader

- Gediminas Kirkilas, PM since 4 July 2006.
- Head of a four-party minority coalition government dominated by the Lithuanian Social Democratic Coalition.

* Please note that rules and regulations and market practice are evolving rapidly. As a result, they may diverge from the formal regulatory framework described in this country profile and their interpretation may differ accordingly. If you are planning any business activity in the country, we would recommend that you seek independent advice on the latest market and regulatory developments as well as legal and tax advice.

Economy

	2000	2001	2002	2003	2004	2005			2006	
						Q3	Q4	YEAR	Q1	Q2
Exchange rate* (LTL/USD)	4.000	4.000	3.677	3.061	2.781	2.829	2.901	2.774	2.871	2.752
Interest rate* (MMR) (%)	3.60	3.37	2.21	1.79	1.53	2.00	2.05	1.97	2.30	2.60
Consumer inflation** (%)	+ 1.0	+ 1.3	+ 0.3	- 1.2	+ 1.2	2.3	+ 2.9	+ 2.7	+ 3.4	+ 3.7
Unemployment (%)	12.6	12.5	11.3	11.3	6.8	4.3	4.0	7.1	NA	NA
GDP volume growth** (%)	+ 4.6	+ 6.4	+ 6.8	+ 10.6	+ 6.9	+ 7.9	+ 8.8	+ 7.5	+ 8.9	NA
GDP (LTLm)	45,848	48,563	51,948	56,772	62,440	-	-	71,084	-	-
GDP (USDm)	11,462	12,141	14,128	18,547	22,452	-	-	25,625	-	-
GDP per capita (USD)	3,275	3,489	4,071	5,376	6,527	-	-	7,471	-	-
BoP (goods/services/ income) as % GDP	- 8.0	- 6.8	- 6.7	- 8.5	- 9.7	-	-	- 9.4	-	-

* Period average. ** Year on year.

Source: International Financial Statistics, IMF August 2006.

Sectoral distribution of GDP (% of GDP)

- Agriculture 5.5%
- Industry 32.5%
- Services 62% (2005 estimate)

COUNTRY CREDIT RATING

Fitch Ratings rates Lithuania's issuer credit as:-

Term	Local Currency Rating	Foreign Currency Rating
Short	-	F2
Long	A	A -
Long term rating alert	Outlook Positive	

Source: www.fitchratings.com September 2006

LEGAL AND REGULATORY

Central bank

- Lithuania's central bank, the Bank of Lithuania, is a government-independent institution which operates in accordance with the 2001 revised version of the Law on the Bank of Lithuania.

Bank supervision

- The Bank of Lithuania is responsible for maintaining a stable, safe and efficient banking system, through bank licensing, supervision and, if necessary, acting as the lender of last resort.

Resident/Non-resident status

- A resident company is a company that is registered in Lithuania's company registry.

Bank accounts

- Foreign currency accounts can be held by residents domestically and abroad, and the opening and closing of these accounts must be reported to the tax authorities. Accounts in domestic currency (LTL) are convertible into foreign currency.
- Non-resident bank accounts are permitted in Lithuania, denominated in either domestic or foreign currency, although approval is required for foreign currency accounts if the parent's country requires approval. Accounts in domestic currency (LTL) are convertible into foreign currency.
- Interest can be offered on current accounts, overnight deposits and time deposit accounts in local or foreign currency.

Reporting

Reporting regulations

- All transactions between resident and non-resident accounts must be reported to the Bank of Lithuania by all banks, for the compiling of balance of payments statistics, on a monthly basis for companies with significant levels of resident/non-resident transactions and on a quarterly basis for more domestically-focused enterprises.

Reporting method

- Banks undertake the reporting on behalf of their corporate clients.
- Banks send the necessary forms to their clients and, once filled out and returned by the client, forward them to the Bank of Lithuania.
- Ultimately, the reported information and its accuracy are the resident's responsibility.

Anti-money laundering / Counter-terrorist financing*

- Lithuania has implemented legislation in line with the relevant EU anti-money laundering Directives ('Law on the Prevention of Money Laundering' of 1997, as complemented by various resolutions and orders).
- Lithuania is a member of the Council of Europe's MONEYVAL Select Committee, which in turn is a member of the Financial Action Task Force (FATF). It observes most of the FATF-49 standards.
- Lithuania has established a financial intelligence unit (FIU), the Financial Crime Investigation Service (FCIS), which is a member of The Egmont Group.
- Financial institutions in the broadest sense are required to report suspicious transactions to FCIS.
- Financial institutions must keep a record of customers who engage in a single transaction or several related transactions exceeding LTL 50,000 or the equivalent in foreign currency.
- Individuals are required to declare to customs authorities the carrying of cash exceeding LTL 10,000 into or out of the country. Amounts exceeding LTL 50,000 must be reported.
- Where customers perform a single cash currency exchange transaction with a value exceeding LTL 20,000.00 the transaction must be recorded and reported.
- Insurance companies must identify customers and report details about premiums received if the sum of the premiums received annually or from an earlier communication under one or several insurance contracts is in excess of LTL 10,000 or the foreign currency equivalent thereof.
- Account opening procedures require formal identification of the customer as well as the presence of the customer or their agent. Legal entities are required to provide evidence reflecting their formation and status.

- Where a customer acts on behalf of a third party, financial institutions are required to establish the identity of both the customer and the third party, together with evidence of the authority to act.
- Insurance companies must identify customers and the insured person if the annual periodic insurance premium payments of a customer exceed a total of LTL 3,500 or a single insurance premium payment exceeds LTL 8,500.
- Records must be kept for a period of ten years from the date of execution of the transaction.

*Supplied by BCL Burton Copeland (www.burtoncopeland.co.uk for background explanatory article). Data as at July 2006.

Exchange controls

- The Lithuanian litas (LTL) is Lithuania's official currency.
- A currency board arrangement has existed since 1 April 1994, and the litas was pegged to the US dollar at LTL 4:USD 1 until 2 February 2002 when the dollar peg was swapped for a fixed exchange rate against the euro of LTL 3.4528:EUR 1.
- Lithuania has participated in ERM II* since 27 June 2004 and intends to join the EUR on 1 January 2008.
- Parliament is responsible for legislation with regard to foreign exchange and trade matters, while the Bank of Lithuania is responsible for regulating foreign exchange transactions.
- All foreign exchange transactions in the forward exchange market must be effected via authorised banks, subject to approval from the Bank of Lithuania.

*** ERM II**

The Exchange Rate Mechanism II (ERM II) aims to ensure exchange-rate stability between the eurozone and the EU Member States which have not introduced the single currency. Participation in ERM II is voluntary and there are currently eight participants in ERM II - Cyprus, Denmark, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia.

ERM II is a fixed-exchange-rate system whereby each participating country's currency is fixed at a central rate vis-à-vis the euro within a fluctuation band. Should a participating country's exchange rate exceed the margins of the fluctuation band the ECB and the ERM II member's central bank are obliged to hold the exchange rate within the fluctuation band through foreign-exchange market intervention. The intervention obligation may be suspended, however, should this be in conflict with the ECB's or the relevant central bank's primary object of price stability.

TAXATION*

Resident/Non-resident

- A company is considered resident if it is registered in Lithuania. Non-resident companies are also required to register in Lithuania as permanent establishments, in order to undertake business in Lithuania. Such non-resident companies are, therefore, effectively subject to the same rates of taxation as residents on their Lithuanian profits.

Tax year

- The Lithuanian tax year generally corresponds to the calendar year. However, companies may seek permission to use a tax year that does not correspond to the calendar year. Companies are required to file annual financial statements and tax returns before the first day of the tenth month of the next tax year. Companies must also file quarterly advance returns if their taxable revenues exceed LTL 100,000 (approx. EUR 29,000).

Corporate taxation

- Residents – corporate entities, partnerships, and private (individual) enterprises – and permanent establishments are subject to tax on their worldwide income, at a standard rate of 15%. A special rate of 13% applies to small companies with less than ten employees and an annual turnover below LTL 500,000 (approx. EUR 145,000). Alternatively, small companies with less than ten employees and an annual turnover below LTL 1 million (approx. EUR 290,000) can opt to exempt the first LTL 25,000 of taxable profits.
- Additionally, in 2006 and 2007 a temporary social tax is also applicable to the profits of legal persons at rates of 4% and 3% respectively.

Advance tax ruling availability

- It is possible to obtain non-binding advance rulings from the Lithuanian tax authorities. Such advance rulings serve as consultations only and thus do not prevent the tax authorities from changing their minds upon a tax audit. However, the taxpayer may be relieved from tax fines upon assessment if he has based his actions on the advance ruling.

Thin capitalisation

- Lithuania has introduced thin capitalisation rules which disallow interest paid to controlling entities or individuals where the debt/equity ratio exceeds 4:1. Interest is also disallowed on profit-participation (or turnover based) loans or convertible bonds. However, disallowed interest is not reclassified into a dividend for tax purposes.
- A controlling entity/person is defined as an entity/person that directly or indirectly holds 50% or more of the controlled entity's shares (or otherwise participates in equity). Close relatives and group members are automatically presumed to be controlling entities/persons.
- Thin capitalisation rules do not apply to financial leasing institutions. The rules are also not applied when the entity proves that the transaction complies with the arm's length principle despite a special relationship with the creditor.

Transfer pricing

- Transfer pricing legislation was introduced by the Income Law which came into effect as of 1 January 2002. The transfer pricing provisions took full effect on 1 January 2004. The Lithuanian Revenue Authority is granted the right to adjust the value of transactions between related parties where the transactional value does not reflect the true market price. The true market value is deemed to be the amount that could be realised upon an exchange of assets between unrelated parties entering into a direct transaction.
- The Revenue Authority will apply transfer pricing methodologies, which are set by the enabling legislation. It is expected that the transfer pricing regulations will be based on OECD guidelines.

Capital gains tax

- Capital gains are included in taxable income and are subject to tax at the regular tax rate.
- Capital losses arising from the sale of securities may be carried forward for a three-year period and may only be offset against gains on the sale of securities.

Stamp duty

- No stamp duty is levied on loan agreements.

Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident Companies	N/A	0%/15%	N/A	N/A
Non-resident Companies	10%	0%/15%	10%	N/A

- A withholding tax of 10% is levied on royalties derived from trademarks, licences or business names, and paid to non-resident companies. A withholding tax of 10% is also levied on payments for copyrights and auxiliary rights, patent rights, industrial design, company names and franchises, if this income is paid to non-resident legal entities.
- A withholding tax of 10% is imposed on interest payments to non-resident legal entities. A withholding tax of 10% is also imposed on payments to non-residents upon the sale or lease of immovable property.
- A withholding tax of 15% is levied on dividends paid to residents and non-residents. A participation exemption applies whereby dividends paid are not subject to withholding tax provided that:
 - The shareholding is greater than 10%.
 - The holding period of the shares is at least 12 months.
- Withholding taxes on payments to non-residents may be subject to a lower rate, or entirely exempt, if the recipient is located in a country with which Lithuania has entered into a double tax treaty.

Tax treaties

- Lithuania has over 30 tax treaties in place. Different rates of withholding tax can apply on interest, dividends and royalties, depending on the terms of the agreement with the particular country.

Sales taxes/VAT (incl. financial services)

- The local VAT legislation is harmonised with the provisions of the EU 6th VAT Directive. Except for a number of exempt items, all goods and services are subject to VAT at a standard rate of 18%. A special rate of 5% applies to public transport services provided on certain routes, medicines, books, publications; a 9% rate applies to the construction and renovation of residential premises. There are also special taxation schemes applicable to farmers, tourism services, second-hand goods, works of art, collectors' items and antiques and investment gold.
- Exports and intra-Community supplies are zero-rated.
- A reverse charge applies to services rendered by non-residents.
- EU entities are allowed to register for VAT directly; non-EU entities are obliged to appoint a fiscal agent for the purposes of VAT in Lithuania.

Payroll and social security taxes

- Remuneration paid by a locally registered entity is taxed at a rate of 27%. Tax due on locally paid income is calculated by the employer monthly and withheld at source. A tax-exempt monthly minimum of LTL 290 (approx. EUR 84) applies. In addition, labour-related income paid by a Lithuanian registered entity is subject to social security contributions at the rate of 33.98%, 30.98% of which is paid by the employer and 3% by the employee. Foreign individuals who are tax resident in Lithuania and employed by an entity not registered in Lithuania are subject to tax at a rate of 27% on their foreign-source income. Individuals receiving foreign-source income in Lithuania are required to declare the income and personally pay the tax.

*All tax information supplied by Deloitte & Touche (www.deloitte.com). Data as at 1 May 2006.

BANKING

Major banks

Bank	Total Assets (USDm) 31 Dec. 2005
SEB Vilniaus Bankas	4,548
Hansabankas	3,977
DnB NORD Bankas	1,752
Bankas Snoras	N/A
Sampo Bankas	1,052
Ukio Bankas	806
Siauliu Bankas AB	355

Source: www.bankersalmanac.com

Overview

- There are currently ten banks (including the SEB Vilniaus Bankas-owned VB Mortgage Bank), 65 credit unions (including the Central Credit Union of Lithuania), two branches of foreign banks and three representative offices of foreign banks in Lithuania.
- All major banks in Lithuania use SWIFT, the most widely used means of performing foreign-related banking transactions.
- In 2000, the two largest banks, Vilniaus Bankas and Bankas Hermis, merged to form the second largest Baltic bank after Estonia's Hansapank. Vilniaus Bankas (now SEB Vilniaus Bankas) is controlled by the Swedish banking group, SEB, while the Lithuanian Savings Bank (Lietuvos Taupomasis Bankas, LTB) was acquired by Estonia's Hansapank and incorporated into the Hansapank group as Hansabankas.
- In addition, Lithuanian Agricultural Bank (Lietuvos Zemes Ukio Bankas) was acquired by Norddeutsche Landesbank Girozentrale (NORD/LB) in 2002 and was consequently renamed NORD/LB Lietuva in 2003. NORD/LB Lietuva was then renamed DnB NORD Bankas in May 2006 following the establishment of a joint-venture (DnB NORD Bank) between Norddeutsche Landesbank Girozentrale and DnB NOR Bank in December 2005.
- Virtually all the banking sector is now under foreign ownership.

PAYMENT INSTRUMENTS

Payment statistics

	Millions of transactions			Traffic (LTL million)		
	2003	2004	% change 2004/2003	2003	2004	% change 2004/2003
Cheques	0.01	0.01	∅	18.5	11.6	-37.3
Debit card payments	24.6	35.6	44.4	1,817.0	2,707.6	49.0
Credit card payments	0.69	0.96	39.1	149.3	206.8	38.5
Credit transfers	30.4	46.3	17.7	497,880.9	713,012.0	43.2
– <i>Electronic</i>	14.9	23.1	54.7	158,071.8	258,834.8	63.7
– <i>Paper-based</i>	24.5	23.2	- 5.0	339,809.1	454,177.3	33.7
Direct debits	1.8	2.9	56.3	1,240.4	3,242.4	161.4
Card-based e-money	1.18	1.12	-5.1	145.9	130.6	-10.5
Total	67.7	86.9	28.2	501,198.6	719,310.9	43.5

Source: ECB Blue Book statistical update, March 2006.

Credit transfers

- Credit transfers represent the dominant cashless payment instrument in Lithuania for both small- and large-value transactions.
- Virtually all large-value payments and the majority of retail transactions in Lithuania are effected via credit transfer.
- Both electronic and paper-based credit transfers are used in Lithuania.

Direct debits

- Direct debits were introduced in Lithuania in 1997 and usage remains limited.
- Until mid-2005, there was no interbank system for processing direct debits and they were processed via bilateral agreements between banks. However, direct debits can now be processed by LITAS.

Cheques

- Cheques are not widely used in Lithuania and account for only a very small percentage of transactions.
- Bank drafts are used more frequently than cheques in Lithuania, with foreign suppliers often receiving payment for goods and services via bank drafts.

Card payments

- Payment cards were only recently introduced in Lithuania, most banks offering them only over the past seven years or so.
- The majority of debit cards in Lithuania are international debit cards (i.e. Visa Electron and Maestro cards).
- A number of banks are members of the Visa and Eurocard/MasterCard credit card schemes and have added these cards to their existing products.
- There were 1,056 ATMs and 18,336 POS terminals operating in Lithuania at the end of 2005.
- The eLitoCard is a prepaid payment card, on which an unlimited amount of value can be 'loaded'.

PAYMENT SYSTEMS

Type

- The Bank of Lithuania replaced the old interbank funds transfer and (designated-time) settlement system, TARPBANK, with a new interbank funds transfer system called LITAS on 19 January 2004. Owned and operated by the Bank of Lithuania, LITAS has both a real-time gross settlement (RTGS) and a designated-time settlement (DTS) facility.
- LITAS is scheduled to be separated into two systems - LITAS-MMS (for retail payments) and LITAS-RLS (the RTGS system) - in the near future.

Participants

- LITAS is home to 23 participants: the Bank of Lithuania, nine commercial banks, the Central Credit Union of Lithuania, two foreign bank branches, the Central Securities Depository and nine financial brokerage companies.

Transaction types processed

- LITAS processes the majority of interbank payments in Lithuania.
- Credit and debit transfers in LTL are cleared directly through LITAS.
- Clearing of other payment instruments is effected bilaterally between banks or cleared within dedicated systems before the participants' net positions are settled in LITAS.
- The remaining transactions are intra-bank payments, card payments and payments in foreign currency.

Operating hours

- LITAS operates between 07:45 and 16:30 EET Monday to Friday.

Clearing cycle details

LITAS

- Payment instructions are submitted electronically from 07:45 until 15:00 EET for ordinary payment instructions and until 16:00 EET for urgent payment instructions.
- 'Ordinary' payment instructions are placed in a queue for (designated-time) settlement and are processed at 09:00, 12:00, 15:00 and 16:00 EET. Payments receive same-day value.
- Urgent payments are processed in real-time between 08:15 and 16:30 EET.
- LITAS effects settlements in LTL via its participants' accounts at the Bank of Lithuania.
- End-of-day results can be monitored by LITAS participants at 20:00 EET.

CASH MANAGEMENT

Domestic

Notional pooling

- Notional pooling is permitted in Lithuania, but only offered selectively due to the high costs involved.

Cash concentration

- Cash concentration techniques, such as single legal account pooling (also known as balance netting) or zero-balancing and target-balancing are permitted and, to some extent, used in Lithuania.

Cross-border

- Cross-border cash concentration is permitted but only used by a small number of companies in Lithuania.

Lifting fees

- Funds transfers between resident and non-resident accounts are subject to lifting fees from some banks.
- Cross-border transactions are usually charged on a per-item transaction basis, although a number of urgent payments are charged on a per-mille basis with a cap and floor.

Short-term investments

- Interest can be offered on current accounts, overnight deposits and time deposit accounts in local (LTL) or foreign currency.
- Alongside mutual funds, overnight and time deposits are the most frequent method of short-term investment among companies in Lithuania. Deposits can be held in LTL, USD and EUR. Apart from overnight deposits, time deposits have maturities ranging from one month to over five years. Interest is paid on a monthly or quarterly basis or on the maturity date.
- Treasury bills are issued directly by the Ministry of Finance or via auctions held by the Bank of Lithuania with maturities of one, three, six and twelve months.
- Certificates of deposit are offered by commercial banks, usually with maturities of one month to one year.
- Repurchase agreements are available as a method of short-term investment.
- Mutual money market funds are also a popular method of short-term investment in Lithuania.

ELECTRONIC BANKING

- Electronic banking is increasingly widespread in Lithuania.
- There is no bank-independent electronic banking standard in Lithuania. Most banks offer their own proprietary systems for corporate banking purposes.
- Most of these systems provide companies with balance and transaction reporting and local or international transaction initiation services, while some even offer international cash management services.
- Internet banking is also offered by the majority of the larger banks and uptake is increasingly commonplace among retail and small business clients.

TRADE FINANCE

Trading partners

Import

- Russia 27.9%, Germany 15.1%, Poland 8.3%.

Export

- Russia 10.4%, Latvia 10.2%, Germany 9.4%, France 7%, Estonia 5.9%, Poland 5.5%, Sweden 5%, USA 4.7%, UK 4.7%, Denmark 4.3%.

Imports/Exports

- Lithuania applies the European Union customs code and all associated regulations and commercial policies.

USEFUL CONTACTS

Bank of Lithuania (Lietuvos Bankas)	www.lb.lt
Leading banks	SEB Vilniaus Bankas www.seb.lt
	Hansabankas www.hansa.lt
	DnB NORD Bankas www.dnbnord.lt
Association of Lithuanian Banks	www.lba.lt
Ministry of Finance	www.finmin.lt
Ministry of Economy	www.ukmin.lt
Association of Lithuanian Chambers of Commerce, Industry and Crafts	www.chambers.lt
State Property Fund	www.vtf.lt
Advantage Lithuania - Lithuania Development Agency	www.businesslithuania.com
Lithuanian Development Agency for Small and Medium Sized Enterprises	www.smeda.lt
Vilnius Stock Exchange	www.lt.omxgroup.com

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