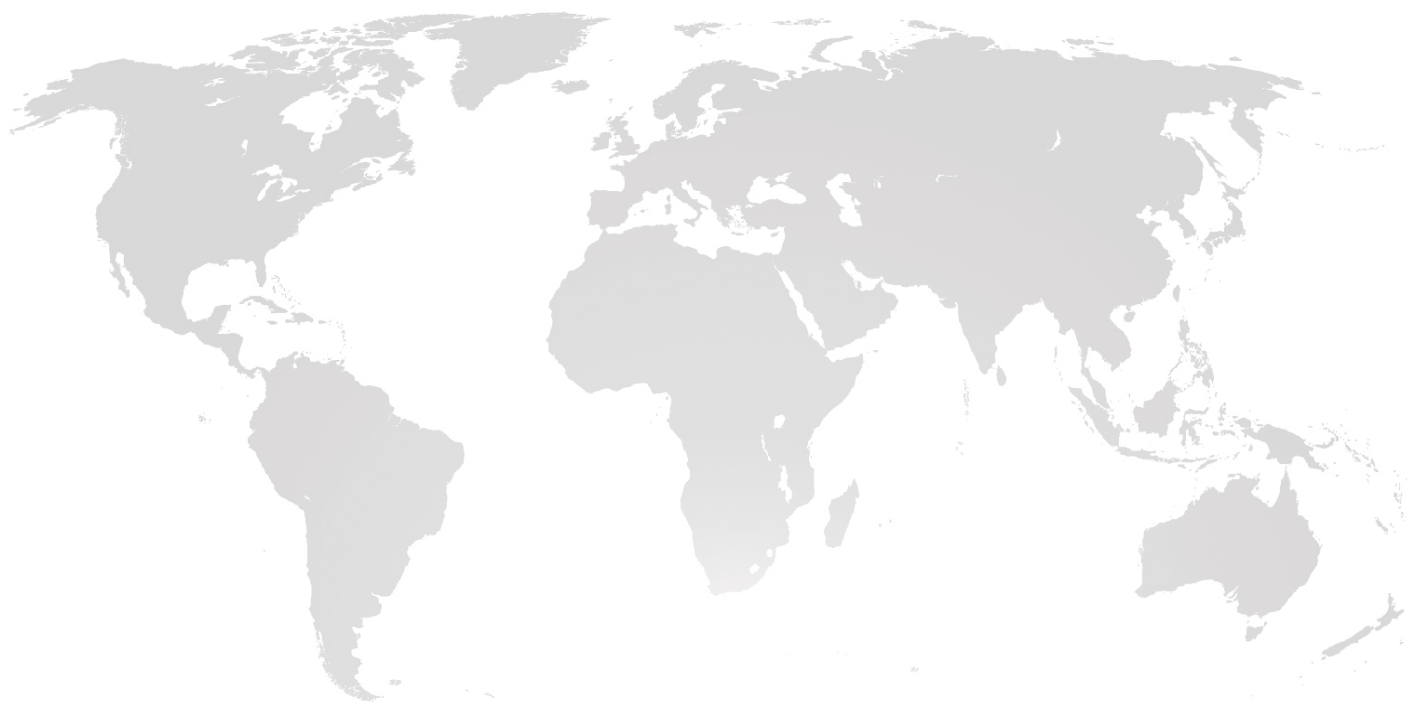




D&B Country Insight Snapshot: Lithuania

November 2014





Overview

Overall Country Risk Rating : DB3b



Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Rating Outlook: Stable →

Core Outlook

- + Lithuania’s degree of internationalisation is high and the economy is expected to see positive rates of expansion over the forecast horizon.
- + National income levels have increased significantly over the past few years.
- Unemployment remains very high: in H1 2014 it reached 11.5%.
- Over the past 20 years, the population has shrunk by an alarming 20%.

Key Development

Economic sentiment declines further as a result of the significant impact of the Russian ban on food products, along with the long-term effects of a rapidly-shrinking population.

Credit Environment Outlook

Key Development has had a neutral impact on the outlook.

Supply Environment Outlook

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

Key Development has had a neutral impact on the outlook.

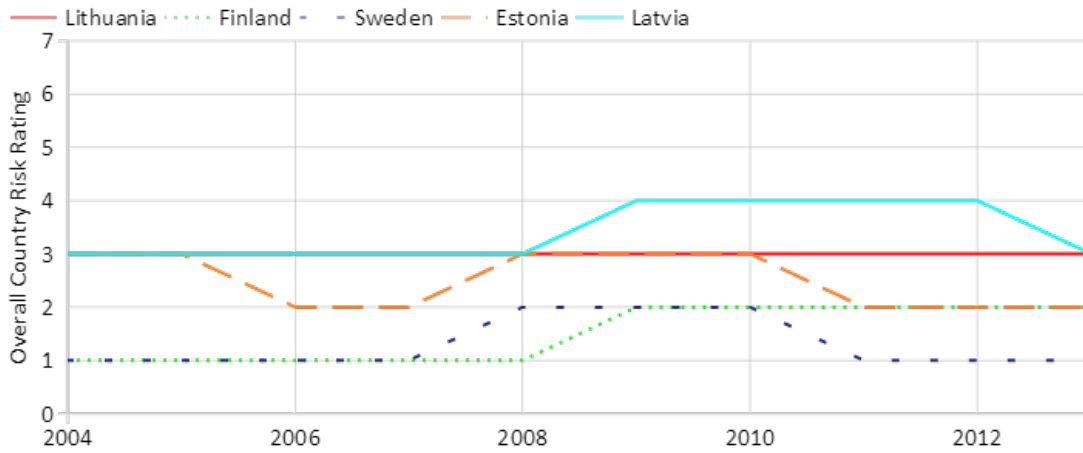
Political Environment Outlook

Key Development has had a neutral impact on the outlook.



Key Indicators

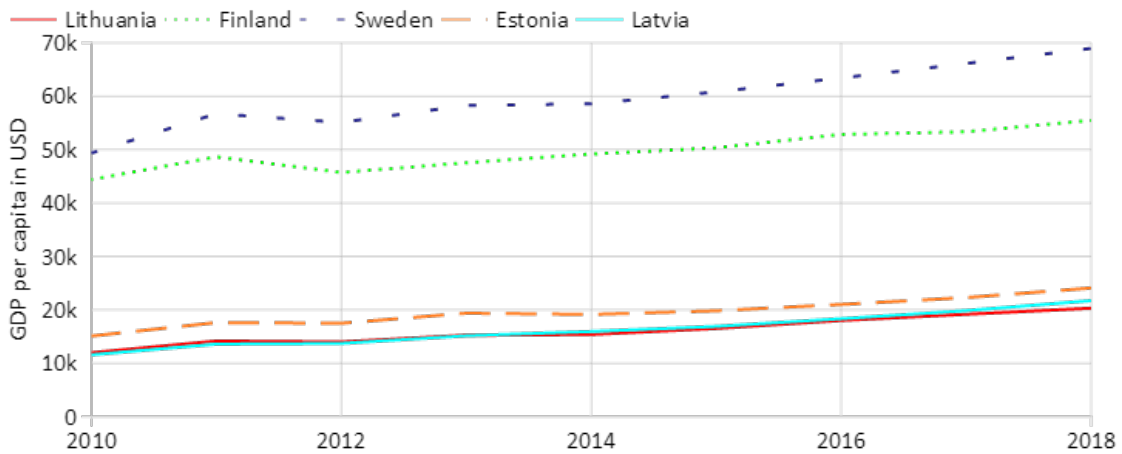
Rating History and Comparison



Source : D&B

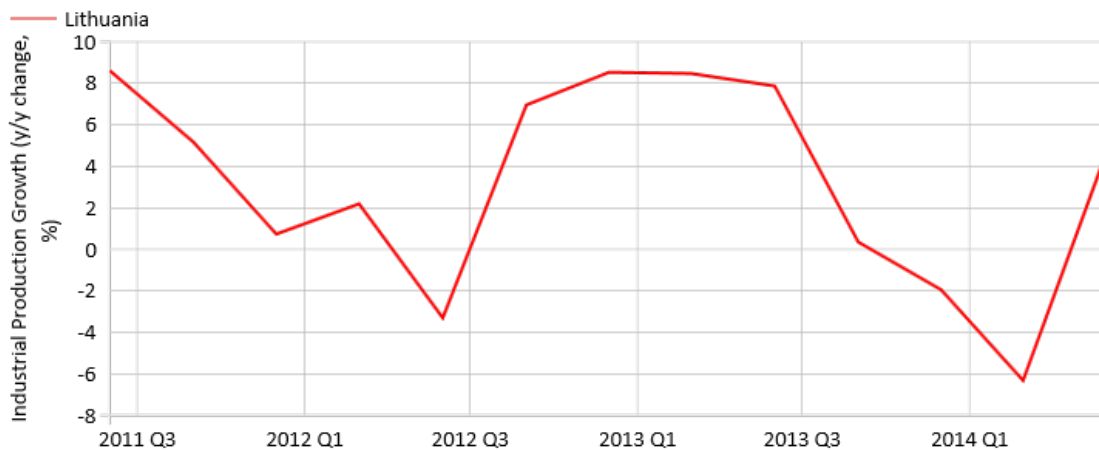
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Chart of the Month



Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2011	2012	2013	2014f	2015f	2016f	2017f	2018f
C/A balance % GDP	-3.7	-0.2	1.5	0.7	-0.1	-0.3	-0.6	-0.5
Govt balance, % GDP	-5.5	-3.2	-2.2	-2.4	-2.1	-1.5	-1.0	-1.2
Inflation, annual avge %	4.1	3.1	1.2	0.8	2.6	2.4	2.4	2.2
Real GDP Growth, %	6.0	3.7	3.3	2.1	4.4	3.5	3.7	3.2
Unemployment, %	15.4	13.4	11.8	10.1	9.3	8.8	8.2	7.8

Source : Haver Analytics/D&B

Selected Economic Indicators

Trade and Commercial Environment

Our generally positive outlook with respect to economic developments in the country during 2014 and 2015 took a severe hit when the situation with Russia became tense; we still believe that economic growth will register satisfying levels over the forecast horizon, but clearly lower than the ones seen in the past three years. Note also that the share of non-performing loans (expressed as a percentage of the total loan portfolio) remains at a high level of 9.6% in Q2 2014 and is expected to decline only gradually. Furthermore, credit to non-financial firms continued to contract in H1 2014. We note, however, that the rate of this contraction eased in the first six months of 2014: credit to non-financial corporations went down by 1.5% year on year in H1 2014, while it declined by 4.4% in full-year 2013.

Trade Terms and Transfer Situation

Minimum Terms: SD

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 15-30 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

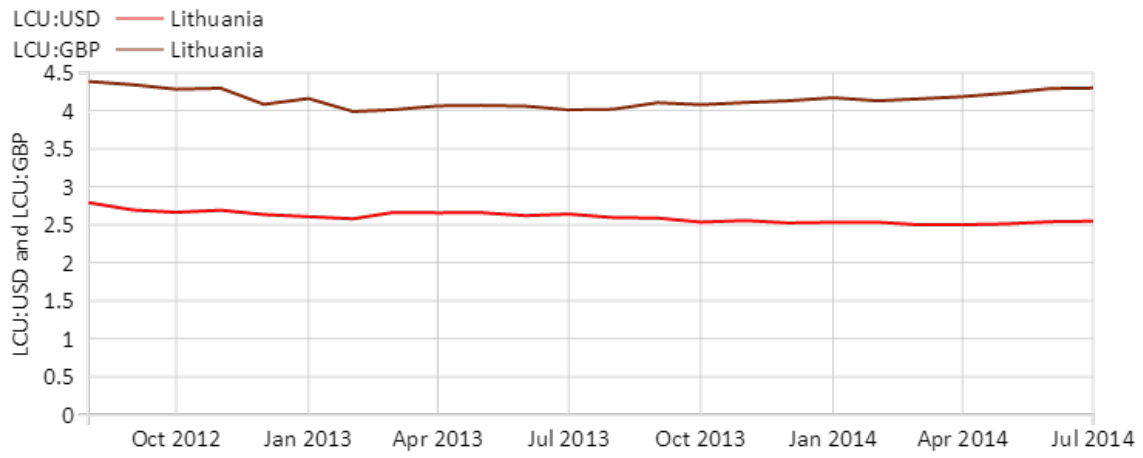
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



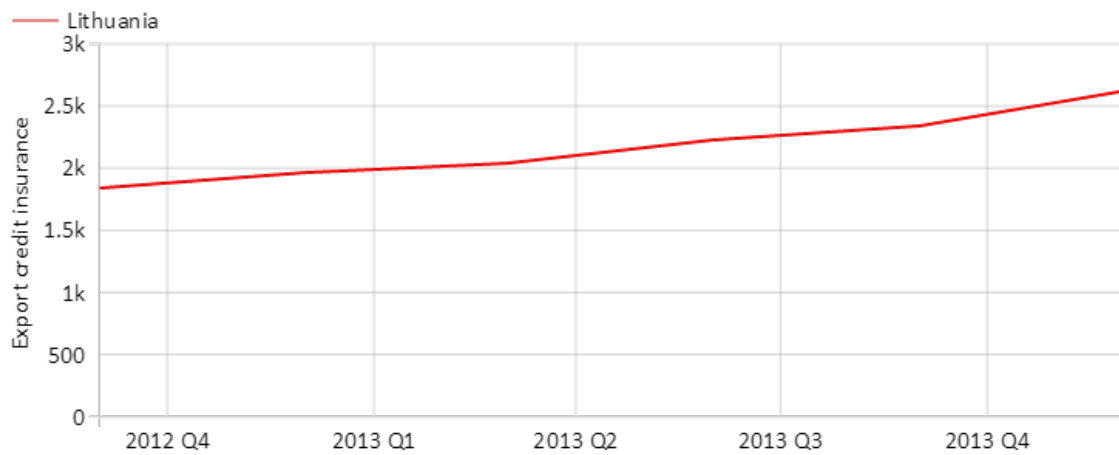
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

Short-Term Economic Outlook

Economic sentiment declines further

Economic sentiment continued to decline further in the past weeks (see for instance the Economic Sentiment Index, published monthly by the European Commission, which reached its lowest level in more than two years in September). We think that the fall-off in sentiment levels is mainly due to the difficult situation with Russia and in particular to the Russian ban on food products which was imposed at the beginning of August. Given these developments we continue to expect a significant weakening in economic activity in H2 2014. The first signs of this weakening can already be spotted in recent economic data releases (although we do not want to over-emphasize single data points): the industrial production index showed some contraction on a monthly basis in August, as did the retail trade index.

Separately, at the beginning of October, the International Monetary Fund concluded its visit to Lithuania where it discussed economic developments and government policies with the Lithuanian authorities. The overall assessment is positive, however the IMF points out that the 2015 budget (authorities plan an increase in spending on national defence) might be unrealistic and that a broadening of the revenue base and the cutting back on some expenses might be needed. Note that this comes also at a time when Finance Minister Rimantas Sadzius had to admit that the initial plan of having a balanced budget in 2016 was impossible to achieve. Luckily, these bits of information cannot reverse the decision by EU-officials that Lithuania will be the next country to introduce the euro (at the beginning of next year) any more. Nevertheless, an increase in the likelihood of changes to the tax system over the forecast horizon can be derived from the newsflow.

Business Environment Quality

Insolvency cases increase

It seems that, despite the comparatively satisfying economic performance seen so far this year, the number of initiated insolvency cases is on the rise in Lithuania. According to information by the Department of Enterprise Bankruptcy Management, the number of initiated bankruptcy procedures registered around 1050 in January to September 2014, up by a significant amount of around 250 cases compared with the same period last year (a detailed breakdown of the industries in which the bankrupt companies were doing business is not available yet). Note, however, that Q4 2013 saw a very large amount of initiated insolvency cases; it might therefore be that the overall 2014 sum is not very much different from 2013's total. Nevertheless, we think it is well justified to assume that the total sum of initiated bankruptcy cases will be higher in 2014 than it was in 2013. Pay therefore close attention when doing business in Lithuania and make sure that your local business partners are liquid.

Country Profile and Statistics

Overview

Lithuania is located on the Baltic coast in Eastern Europe, bordering Latvia, Belarus, Poland and the Russian exclave around Kaliningrad. Since gaining independence in 1991, the small former Soviet republic has swapped communist rule for a market economy and democratic political institutions. However, a stable party system has yet to emerge, and fractious, multi-party coalition governments are the norm. A foreign-policy reorientation towards the West has been part of Lithuania's transition process, culminating in NATO and EU accession in 2004.

The country's overarching economic policy goal is to catch up with Western European living standards. Liberalised investment laws and progress in law enforcement have encouraged investment, which has helped to build up export-oriented manufacturing industries (including textiles, intermediate goods production and oil refining), along with financial services and transport companies. However, economic progress has so far bypassed many rural regions, resulting in rising internal income disparities and prompting emigration. Meanwhile, current economic slowdown have temporarily stopped the country's convergence with Western Europe.

Key Facts

Key Fact	Detail
head of government	AAlgirdas Butkevicius
Capital	Vilnius
Timezone	GMT +02-00
Official language	Lithuanian
Population (millions)	3
GDP (USD billions)	46.3
GDP per capita (USD)	15,381
Life expectancy (years)	72
Literacy (% of adult pop.)	99.9
Surface area (sq km)	65,300

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2009	2010	2011	2012	2013
Real GDP growth (%)	-14.85	1.6	6.05	3.66	3.33
Nominal GDP in USDbn	37.05	36.71	43.08	42.34	45.97
Nominal GDP in local currency (bn)	92	96	107	114	120
GDP per Capita in USD	11,944	11,965	14,153	13,982	15,238
Population (year-end, m)	3.1	3.07	3.04	3.03	3.02
Exchange rate (yr avge, USD-LCU)	2.48	2.61	2.48	2.69	2.6
Current Account in USDbn	1.38	0.03	-1.6	-0.09	0.68
Current Account (% of GDP)	3.74	0.07	-3.72	-0.21	1.47
FX reserves (year-end, USDbn)	6.42	6.34	7.92	8.22	7.85
Import Cover (months)	4.37	3.38	3.18	3.26	3.04
Inflation (annual avge, %)	4.5	1.3	4.1	3.1	1.2
Govt Balance (% GDP)	-9.4	-7.2	-5.5	-3.2	-2.2

Source : D&B

Forecasts

Metric	2014	2015	2016	2017	2018
Real GDP growth (%)	2.1	4.4	3.5	3.7	3.2
Nominal GDP in USDbn	46.3	49.5	53.8	57.1	60.2
Nominal GDP in local currency (bn)	123	131.61	139.32	147.77	155.8
GDP per Capita in USD	15,381	16,507	18,005	19,168	20,298
Population (year-end, m)	3	3	3	3	3
Exchange rate (yr avge, USD-LCU)	2.7	2.7	2.6	2.6	2.6
Current Account in USDbn	0.3	-0.1	-0.2	-0.3	-0.3
Current Account (% of GDP)	0.65	-0.11	-0.31	-0.57	-0.52
FX reserves (year-end, USDbn)	7.9	7.8	7.7	7.6	7.5
Import Cover (months)	2.97	2.65	2.34	2.07	1.84
Inflation (annual avge, %)	0.8	2.6	2.4	2.4	2.2
Govt Balance (% GDP)	-2.4	-2.1	-1.5	-1	-1.2

Source : D&B

Comparative Market Indicators

Indicator	Lithuania	Finland	Sweden	Estonia	Latvia
Income per Capita (USD)	15,381	49,178	58,564	19,139	15,935
Country Population (m)	3	5.4	9.6	1.3	2
Internet users (% of population)	68.5	91.5	94.8	80	75.2
Real GDP Growth (% p.a., 2014 - 2023)	2 - 4	1.5 - 2.5	2 - 2.5	2.5 - 5	0 - 4

Source : D&B

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